

IoT Alliance Australia submission – Chapter 4 Climate-related financial disclosure in Treasury
Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024

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Senate Standing Committees on Economics
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Senate Economics Committee Inquiry into

Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024

[Internet of Things Alliance Australia](#) (IoTAA) thanks the Senate Economics Committee for the opportunity to submit feedback on the Chapter 4, Climate-related financial disclosure (CRFD) arrangements in the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (the Bill).

The IoTAA is the peak body for the Internet of Things (IoT) in Australia. A non-profit industry association, formed in 2016 to enable a data smart Australia, for advancing society through trusted, accessible real-time data. We have a current focus on data necessary for sustainability for both entity reporting and making climate reduction impactful decisions.

IoTAA fully supports the Government mandating climate-related risk disclosures. We believe the transition from estimated data, monitoring and management to quantified methods will require a significant change for most organisations subject to this reporting regime. Reporting on scope 1 and 2 emissions will be one exercise, upgrading reporting to scope 3 emissions will require another level of capability and engagement. Apart from the emissions data, monitoring and reporting requirements, developing trusted data sharing arrangements will also be necessary.

The IoTAA provides the following comments in response to the Bill.

AASB Standards will help but we need better data quality to drive a low carbon economy

Using the AASB standard¹ will be an important step forward to provide a baseline for sustainability and climate disclosure and will clarify business requirements for compliance improving the identification, measurement and disclosure of climate risks and opportunities.

Our concern is the underlying quality of sustainability data provided by businesses will fall short of data quality requirements for many sustainable finance incentives and CRFD, including the base level challenge of moving from estimates to quantified data that can be audited and assured.

The new AASB standard, which we agree is important, will be applied to an immature underlying base of data, without the range of requirements and disciplines developed over many years for collecting financial data for accurate financial monitoring and reporting.

We believe that meeting the necessary data requirements and entity maturity for rigorously complying with the AASB standard for capturing climate data will fall short of data quality requirements for driving effective sustainable finance decisions.

¹ Exposure Draft ED SR1 *Australian Sustainability Reporting Standards - Disclosure of Climate-related Financial Information*

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The IoTAA considers the modifications that have been made to the requirements in the Bill so the sustainability reporting is not applied in the same rigorous manner as annual financial reporting obligations to be reasonable. These modifications include the need for the arrangements to be phased in according to the size of entities captured and to also allow entities to utilise the data available that is unlikely to meet the same standard of accuracy or quantification as financial reporting data, enabling entities to rely on estimates.

These data challenges were recognised by financial and government entities in the Treasury's Climate-Related Financial Disclosure consultation document which also acknowledges data challenges and proposed:

"...From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state..."²

"...By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity..."³

Achieving these 'end states' will be important for achieving the benefits indicated in the Explanatory Memorandum to the Bill for the entities captured under the Bill and regulators:

Efforts to mitigate and adapt to climate change also present opportunities for entities: for example opportunities to gain cost advantages over competitors through improved energy efficiency; to innovate and develop new products and services that improve comparative advantage; or to gain access to new markets as a result of low-emissions credentials. Improved disclosure will help investors understand and finance these opportunities.

Improving climate-related financial disclosures will support regulators to assess and manage systemic risks to the financial system as a result of climate change and efforts taken to mitigate its effects. In-scope entities will be required to disclose information about their climate-related financial risks and opportunities in line with AASB sustainability standards in the annual report.⁴

Achieving these benefits will face challenges the longer entities take moving from estimates to quantified data that can be audited and assured. **The IoTAA is concerned less about the timeframes for reaching the end state, but more about how to get there – and an agreed plan to make this happen.**

The current digital and data sustainability capabilities need to improve considerably and indeed need to be accelerated for Australia to become a highly attractive place for investment.

We believe Australia does not yet have a level of digital and data maturity to provide the necessary carbon transition information to attract the significant level of investment that is moving across the globe to find the most attractive sustainable investments. Australia is not

² <https://treasury.gov.au/sites/default/files/2023-06/c2023-402245.pdf>, page 13

³ <https://treasury.gov.au/consultation/c2023-402245>

⁴ https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r7176_ems_dd1e1136-f342-4dbf-8eae-9db60d977f84/upload_pdf/JC012553.pdf;fileType=application%2Fpdf#search=%22legislation/ems/r7176_ems_dd1e1136-f342-4dbf-8eae-9db60d977f84%22, paragraphs 4.7 and 4.8.

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alone in this, but to stay competitive we will need to accelerate improving our level of maturity. As reported in a recent Deloitte and The Fletcher School at Tufts University report:

*‘...despite the demand for sustainability information, **investors report significant barriers in the clarity, consistency and reliability of data.** While regulations and standards are emerging globally to drive data consistency, they are not yet implemented broadly enough to provide fully reliable data to investors. Therefore, investors are most likely to use the information, data, and sources they trust, which include **in-house data systems and audited or assured disclosures.**’⁵*

An executive from Deloitte further said about the report: “There is considerable room for improvement in how organizations collect, measure, report on, and validate sustainability data to earn investor trust. But, more consistency and dependability in sustainability reporting for measurement and analysis purposes should help enhance confidence for stakeholders throughout the corporate ecosystem.”⁶

The above report said for Australia there are barriers to integrating sustainability data, including lack of clarity on how to integrate it, inconsistency in comparability, lack of clear strategies to achieve sustainability goals and lack of measurable outcomes discernible from corporate disclosures.

The potential impact of Australia not accessing the right digital and data capabilities to become what we consider to be highly investible so it can become a low carbon superpower, Australia needs to unlock an estimated \$385 billion in renewable and clean energy production between 2020 and 2050.⁷ As a country with natural advantages for renewable energy, we have significant opportunities by accelerating meeting this challenge.

The data-related issues for business

With the above constraints in mind, we believe the gaps in data and digital capability are the same for all sectors of the economy and their associated entities. These data issues can be grouped into six key areas.

1. Data requirements for business: Understanding differing data needs across multiple government (international, federal and state) and industry requirements e.g. investors, banks, supply chain and partners.

Climate-Related Financial Disclosures will provide a powerful, annual and individual corporate lens on business plans and strategies which is necessary but not sufficient to drive transition across sectors or to a low carbon economy. Further mechanisms with more precise and timely data available so entities can make necessary decisions about their carbon exposure, will be required for both the finance industry and for material transition at industry and sectoral level.

For example, financial entities will also need to know not just what is in sustainability reports, but how all companies are transitioning to net zero and are performing against comparable

⁵ <https://www.deloitte.com/global/en/issues/climate/earning-trust-with-investors-through-better-sustainability-data.html>

⁶ <https://www.esgtoday.com/80-of-global-investors-now-have-sustainable-investment-policies-in-place-deloitte-tufts-survey/>

⁷ https://igcc.org.au/wp-content/uploads/2020/10/121020_IGCC-Report_Net-Zero-Investment-Opportunity.pdf industry reference panel.

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peers so they can understand the relativities and make effective decisions about where to invest. Data collected and used in ways so that comparisons can be made will also require greater quantifiable granularity and rigor.

2. Data quality: getting and distributing timely, verifiable data at the right level of precision

The right level of quality of data is critical for helping to address the differing data requirements indicated above. This affects the ease and cost of collection as well as the trust and risk in the data and assumptions that can be made about the quality. Key attributes that need to be defined will be the level of precision, timeliness and verifiability of the sustainability data. There are existing frameworks and standards that can set the right foundations for credible and trusted sustainability data, which are also dependent on the scope of data requirement and the destinations for the data.

Addressing our sustainability data challenges will require matching data quality with data requirements based on recognised standards and methods. Some good examples of standards are:

The [Partnership for Carbon Accounting Financials](#) (PCAF), the Global Green House Gas Accounting and Reporting Standard for the financial industry which focuses on measuring and reporting financed emissions. It states that:

“... The Financed Emissions Standard provides guidance on data quality scoring per asset class, facilitating data transparency and encouraging improvements to data quality in the medium and long term...”⁸

And further “...Data quality financial institutions shall ensure that their GHG accounting appropriately reflects the GHG emissions of their loans and investments and serves the decision-making needs of internal and external stakeholders. To safeguard these outcomes, financial institutions should use the **highest quality data** available for each asset class for calculations and, where relevant, **improve the quality of the data over time** [bold added]”

The PCAF further relates data quality with risk and finance instruments. IoTAA has been in discussions with the banking industry that see collection of data at more granular PCAF 2 or better is needed to support differentiated financial incentives.

As a comparison, CRFD reporting in its current estimated state, is at PCAF level 4 or 5.

⁸ <https://carbonaccountingfinancials.com/en/standard> Executive Summary Page 8

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The GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (referred to as the Scope 3 Standard). The parent document to this is a guidance (see below) that offers an internationally accepted method to enable GHG management of companies' value chains. This guidance serves as a companion to the Scope 3 Standard to offer companies practical guidance on calculating their scope 3 emissions. It includes information not contained in the Scope 3 Standard, such as methods for calculating GHG emissions for each of the 15 scope 3 categories, data sources, and worked examples. The following provides access to more information about this Guidance

[The GHG Protocol Technical Guidance for Calculating Scope 3 Emissions](https://www.tcfhub.org/resource/the-ghg-protocol-technical-guidance-for-calculating-scope-3-emissions/)⁹

Author: World Resources Institute, World Business Council for Sustainable Development
Industry Group: All Industry Groups

It provides guidance on data types, levels of granularity and primary and secondary data sources.

3. Cost of data collection and management: Lowering the cost (and complexity) of data collection and management will be critical to adoption of improved data and digital capabilities.

We contend that manual methods that are mostly used at present (and are creating estimates) are costly and will scale poorly while the requirements for higher precision data and multiple data requirements increase. They also suffer from poor transparency as to the methods being used and repeatability of their calculation methods. There is a major challenge for businesses in the cost of people and investment for collection and management of sustainability data necessary for multiple destinations including .e.g. CRFD, sustainability ratings schemes, carbon markets, CBAM, etc. This challenge will be significantly more complex as scope 3 emissions are applied that will require sharing of data across multiple supply chains and sectors.

The opportunity is to take advantage of technology and increasing digitalisation to enable a managed and progressive digitally enabled emissions data capture and management transition.

Digital capture and processing also enables lower-cost re-use and re-purposing of sustainability data to adjust to multiple data requirements and layers of data quality. There are some businesses today that are well down this track, however widespread adoption will depend on a national approach.

We contend that digitally enabled emissions data capture and management at scale will be needed for cost-effective, scalable collection and sharing of sustainability data.

4. Business digital capability, maturity and readiness: The capability of businesses to collect and process sustainability data needs to step up considerably.

In order to realise the benefits of a digitally enabled emission data capture and management, the digital capability and capacity of businesses and the supporting capacity and trust in sustainability data service providers and tools needs to be assessed.

IoTAA recommends there needs to be an analysis of the capability of manual processes and skills versus digital tools for delivery of adequately scaled sustainability data underpinning of

⁹ <https://www.tcfhub.org/resource/the-ghg-protocol-technical-guidance-for-calculating-scope-3-emissions/>

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business for net zero transition with a focus on the capability of organisations to transition away from more manual processes. Without this understanding, it will be a challenge to address the data and digital capability gaps across key sectors and the wider Australian business environment and where the friction points and barriers are for business to meet their climate transition obligations.

5. Trusted sustainability data tools and service models. These tools will be necessary to assist businesses and to lower the cost

In many cases especially for smaller businesses, in-house collection and processing may be difficult or cost prohibitive. In these cases and for larger businesses seeking to streamline or outsource this work, there is a growing digital industry capability to provide tools and services to meet their needs.

A few examples are:

- a. Wollemi.io - a climate reporting platform for the land and agricultural sector that measures financed emissions (bank/insurance/asset management business activities) per the TCFD/PCAF/ISSB ¹⁰
- b. Avarni.co - end to end carbon accounting management software that identifies and calculates scope 1 - 3 emissions ¹¹
- c. IBM Envizi Environmental Suite – capture, consolidation, management, analysis and reporting of environmental data ¹²
- d. The “GLens” solution by Knowledge Lens (a Rockwell Automation Company) - this platform permits real time acquisition, monitoring, reporting and analytics of environmental data

However, businesses will need to know and understand which platforms, tools and sustainability data service providers are appropriate to their needs and the commensurate level of accreditation that the digital tools are capable of providing the right information against the data collection requirements.

6. Trusted data sharing models: To enable scale, inform supply chains, undertake climate scenario assessments, decarbonisation pathways and ultimately to underpin a dynamic low-carbon economy, organisations will need to share their sensitive data and need to trust it will be appropriately used when providing to an external entity.

¹⁰ <https://www.wollemi.io/>

¹¹ <https://www.avarni.co/>

¹² <https://www.ibm.com/products/envizi>

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Charles Sturt University has examined this issue in relation to agricultural data which is a vital part of the food supply chain:

“Yet despite an increasing interest in the future of data economies, the shift from ‘big data’ to ‘shared data’ remains beset by two chronic problems: a lack of trust regarding privacy, security and the appropriate use of data, and a lack of clear, sustainable economics”¹³

Businesses will need have confidence in the data sharing arrangements to move to managing scope 3 emissions and to make the necessary decisions, use their purchasing power and supply chain partnerships to drive emission reductions.

While there are a number instances of shared data platforms, the governance, standards and accreditation of trusted platforms with agreed data sharing rules, principles and practices are not agreed and aligned to enable widespread adoption. Moreover, trust is not yet built with disclosing companies to provide their sensitive data and be confident about confidentiality.

By utilising trusted sustainability data sharing models, businesses will be able to take advantage of developing data sharing arrangements across sectors where trust circles and known parties and relationships for data sharing are already in place. For example, the Australian Farm Data Code aims to promote adoption of digital technology, by ensuring that farmers have comfort in how their data is used, managed, and shared.¹⁴

Priorities and next steps

We believe developing a national program for digitally enabled emissions data capture and management is necessary to address these gaps in capability and to increase the reliability and confidence in climate-related information to:

- Unlock the power of market-based activities that drive sustainability investment to drive the emissions reductions transition
- Accelerate the pace of transition; and
- Advance the digital underpinnings for a thriving low-carbon economy.

To address our comments above we recommend there be an industry-led review of the costs, capability and capacity for digitally enable carbon capture and management undertaken with a view to reduce collections costs, improve data quality, enable transparency, as well as addressing limited capability and understanding. Without this focus to improve climate reporting and management, Australia's shift away from being a carbon intensive economy runs the risk of not accelerating but slowing down and not achieving its targets and ambitions.

¹³ [Potential implications and benefits for the agricultural technology sector from the introduction of the Australian Agricultural Data Exchange — Charles Sturt University Research Output \(csu.edu.au\)](#)

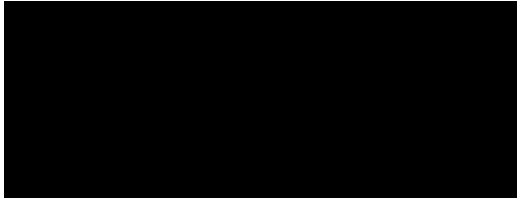
¹⁴ <https://nff.org.au/programs/australian-farm-data-code/>

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The IoTAA would welcome the opportunity to discuss any aspects of our submission in further detail and how the IoT industry may help to achieve a trusted, efficient and forward-looking climate related financial disclosure measurement and reporting system for Australia.

Yours sincerely,



Frank Zeichner

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Appendix 1, About IoTAA

IoTAA is the peak body for the Internet of Things (IoT) in Australia. A non-profit industry association, we formed in 2016 to enable a data smart Australia, which advances society through trusted, accessible real-time data, powered by Internet of Things technologies. Our broad membership of over 300 companies and 1000 participants collaborate to drive adoption through knowledge creation and sharing, building ecosystems and public advocacy.

Our focus

We focus on the three key areas that matter most for Australia:

- Sustainability: defining and promoting how organisations access the data they need to support their pathway to net zero and circularity
- Productivity: identifying use cases, highlighting leaders, codifying good practice, IoT/OT convergence and quantifying the value of IoT adoption
- Trusted technology: demystifying IoT technology, creating design and deployment tools and guides, setting the principles and good practices for trust in IoT and developing an IoT for Good charter.

What is IoT?

The Internet of Things (IoT) is a transformative suite of technologies that, if appropriately and sensitively implemented, can help address the great social and ecological challenges of our time. The Internet of Things encompasses Industrial IoT, which is fundamental to Australia's economy including critical infrastructure, manufacturing, cities and placemaking, construction, productivity and consumer IoT. Consumer IoT is growing exponentially and introducing a seismic shift in data use, trust and the balance in consumer and service provider interactions.