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01 October 2026

Dear Chair,

CONSULTATION PAPER – IMPROVING THE EFFICIENCY OF CLIMATE-RELATED FINANCIAL DISCLOSURES – AUGUST 2026

We appreciate the opportunity to provide comment on Treasury's consultation paper, *Improving the efficiency of climate-related financial disclosures*.

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners National Association offer a wide range of services to our clients, and we are committed to high ethical standards across all areas of our practice. We focus primarily on the middle market, a distinct and differentiated component of the market from that primarily serviced by the "Big 4". Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities and small to medium-sized enterprises.

We support the Government's objective of lowering unnecessary compliance costs while preserving high-quality, credible and internationally comparable climate-related financial disclosures. The first reporting cohorts have made significant investments in systems, governance, controls, scenario analysis, data collection and assurance readiness. Reform should therefore improve efficiency without disrupting implementation already underway or weakening the reliability of information provided to investors, lenders, regulators and other users.

In our view, the most effective reform pathway is targeted refinement rather than wholesale redesign. The mandatory climate reporting framework is new, and reporting entities, directors, preparers and assurance practitioners are still developing the systems, controls, data architecture and capability needed to support reliable reporting. Any amendments should therefore be carefully sequenced, supported by clear and practical guidance, and avoid creating implementation uncertainty immediately before or during reporting periods.

We specifically support introduction of public accountability concepts into sustainability reporting to provide a basis for streamlined and simplified disclosures. We strongly support further proportionality in application of disclosure for Group 2 and Group 3 entities particularly those without public accountability who have fewer external stakeholders. This would include the abandonment of or deferral of the introduction of reasonable assurance for these Groups, and or substantially simplified requirements to ensure the costs are commensurate with any benefits from the disclosures. In our view, current Tier 1 and Tier 2 reporting concepts inherent in *AASB 1053* support an appropriate cost-benefit trade-off for financial reporting disclosure information, driven by the types of users likely to rely upon the reports. In our opinion, similar trade-offs explicitly approved within the standards would significantly improve efficiency of reporting for entities without direct public accountability, while maintaining high-quality and clear disclosures where appropriate and necessary.

We particularly support reforms that clarify reporting boundaries, proportionality mechanisms and the exercise of judgement; reduce duplicative information requests across value chains; and improve access to standardised methodologies, emissions factors and other secondary data. Consistent with our detailed responses, we consider limited assurance to be the appropriate ongoing level of assurance given the nature and maturity of sustainability information.

Efficiency should not be pursued by diluting the core disciplines of climate reporting: governance accountability, entity-specific disclosure, robust and transparent methodologies, clear assumptions and proportionate assurance that builds confidence over time.

The burden of value-chain information requests is a practical issue for the middle market. Entities that are not yet in scope, or may never be directly subject to mandatory reporting, may nevertheless receive climate-related data requests from larger customers, financiers and other stakeholders. Where requests are inconsistent, duplicative or more detailed than necessary, they can impose disproportionate costs without a corresponding improvement in disclosure quality. Clearer boundaries, standardised requests and a risk-based approach would reduce duplication and improve the consistency and usefulness of the resulting information.

Improving efficiency therefore requires clearer distinctions between the financial reporting boundary, GHG inventory boundary and broader value chain; scalable measurement methods; standardised category-level methodologies, emissions factors and data hierarchies; and transparent disclosure of judgements, assumptions and uncertainty. Reporting entities should use primary data where it is reasonably available and reliable but should otherwise be able to apply reasonable and supportable estimates, industry averages, proxies and other secondary data rather than being expected to obtain precise information from every value-chain participant.

Our submission therefore supports practical measures to improve efficiency, including clearer guidance on materiality and boundary questions, proportionate assurance phasing, standardised approaches to value-chain information and an implementation approach that recognises the maturity of Australian entities and the developing assurance market.

We would welcome the opportunity to engage in any further discussion of this topic with Treasury and other interested parties.

Please contact either me, Jack Mackintosh, Tim Nesbitt, Director – Audit & Accounting Technical (03 8612 9596 or tim.nesbitt@pitcher.com.au), or Ronnie Vogt, Director – Audit & Accounting Technical (03 8610 5118 or ronnie.vogt@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours faithfully,



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Submission on Improving the Efficiency of Climate-related Financial Disclosures

1. Executive summary

Australia's climate-related financial disclosure framework is a significant reform that should improve market transparency, capital allocation and accountability for climate-related risks and opportunities. We support the Government's objective of improving efficiency and reducing unnecessary cost while maintaining high-quality, credible and internationally comparable disclosures. The framework should remain anchored in decision-useful reporting, governance accountability, entity-specific information and assurance that increases confidence over time at a proportionate cost to preparers and users.

The most effective reform pathway is targeted refinement particularly for Group 2 and Group 3 entities where the benefits are likely to be outweighed by the costs of assurance. Entities, directors, preparers and assurance practitioners are still developing the systems, controls, data architecture and capability required, including both internal and external resources, to support mandatory sustainability reporting. In particular, improving efficiency should focus on clearer reporting boundaries, scalable measurement methodologies, standardised inputs and transparent guidance on the exercise of judgement, rather than creating expectations that entities obtain precise primary data from every participant across their value chain. Greater clarity is needed regarding the distinction between the reporting entity boundary, value chain boundary and Scope 3 reporting boundary to ensure entities do not inadvertently expand reporting obligations, increase compliance costs or impose unnecessary information requests on suppliers, customers and other value-chain participants.

Efficiency, comparability and assurance outcomes would also be enhanced through the development of standardised methodologies and emissions factors for the 15 Scope 3 categories, supported by accepted data hierarchies, industry benchmarks and estimation techniques. This is particularly important for downstream emissions categories where entities often have limited legal rights, commercial influence or practical ability to obtain reliable information from customers or end users. Guidance that supports the use of reasonable and supportable estimates, while requiring transparent disclosure of methodologies, assumptions and uncertainties, would improve consistency and decision usefulness while reducing unnecessary cost and complexity across the reporting ecosystem.

2. Our proposal for introduction of a public accountability concept and Tier 2 reporting

We acknowledge and welcome Treasury's efforts to improve the efficiency of climate-related financial disclosures. The original goals of the mandatory reporting framework remain valid; enhance consistency and comparability of climate-related information, assist regulators in understanding and managing Australia's climate risk, and setting a framework for future sustainability disclosures. The key question raised is whether the current level of resource allocation required to meet the reporting framework is sustainable and scalable across all companies reporting under Chapter 2M of the Corporations Act, and across future sustainability non-climate reporting requirements.

We acknowledge Treasury's efforts to clarify current proportionality mechanisms embedded within AASB S2. In our experience, they are unclear and difficult to apply. They are reliant on an entity's judgemental assessment of "undue cost or effort" and what would be "commensurate with the skills, capabilities and resources that are available to the entity". These judgements are not given sufficient supporting context, and are heavily reliant on application of internal expertise and judgement. Ironically, the entities with the least internal resources to apply to this issue, are also the least well-equipped to make and defend these judgements to auditors and regulators. The mechanisms significantly reduce implementation certainty for those entities who should theoretically benefit the most.

The proportionality mechanisms also limit the expected level of support and complexity, but do not reduce the extent of disclosures or details to be included. This is fundamentally different to how Australian reporting requirements are applied in relation to Tier 1 and Tier 2 financial reporting. Fundamentally, under current settings, the inclusion of detailed disclosures on all matters inherent in AASB S2 necessitates significant time and investment in external expertise to faithfully discharge an entity's reporting obligations, and support the directors' declaration that "reasonable steps" have been taken toward compliance. This challenge further grows when modified liability settings end.

We strongly support consideration of Tier 1 and Tier 2 reporting concepts to sustainability reporting to materially impact efficiency of climate-related disclosures. We would propose the concept of public accountability is applied, as

already operating under AASB 1053. Tier 2 reporters, defined as those without public accountability, would then operate under a simplified disclosure regime, as already operating under AASB 1060.

The key benefits of this approach would be to bring much-needed clarity to application of judgement on what matters must be addressed, acknowledge differing users and their needs for entities with and without public accountability, and significantly impact the efficiency of adopting and complying by mandatory climate-related financial reporting requirements. We would expect material cost savings across a significant number of businesses that we engage with, as well as across the whole Australian economy of privately-owned businesses.

Current disclosure requirements for privately-owned businesses

In our involvement with entities that are publicly listed, privately owned and owned by foreign entities, we note the disparate reporting burdens associated with application of AASB S2. When considering the largest listed Australian entities, in 2023 (prior to the application of mandatory climate reporting) 70% of the ASX 200 reported under TCFD, with 50% already providing Scope 3 emissions¹. Almost all listed entities, even those not directly reporting climate-related information, would be reporting key governance, strategy and risk management strategies as part of their reporting requirements. The transition from TCFD to AASB S2, or even first-time reporting of climate-related information, would be informed by existing reporting structures and disclosures built up over a number of years.

Non-publicly accountable entities reporting under *Simplified Disclosure General Purpose Financial Reporting* frameworks in Australia have historically had limited requirements for detailed disclosures around governance, strategy and risk management. Reporting under AASB S2 therefore requires significant additional reporting in these areas, well above what is required to meet other business risks or to meet compliance requirements as currently in place.

The concept of a higher level of disclosure in reporting for entities with publicly accountability is an established concept within financial reporting. *AASB1053 Application of Tiers of Australian Accounting Standards* clearly states the entities required to produce Tier 1 compared to Tier 2 reports. Tier 2 reports prepared under *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* are required to meet all the same standards for recognition and measurement of balance, however a significant list of disclosures are not required or simplified to limit the reporting and auditing burden to entities without public accountability. Noting the Basis of Conclusions to AASB 1053, AASB specifically decided not to impose Tier 1 status to entities that could seem “important” based on size without directly public accountability. Their rationale was (extracted from AASB 1053.BC34):

- (a) size thresholds are arbitrary;
- (b) using public accountability (as defined by the IASB) for the for-profit sector in Australia would be consistent with international requirements;
- (c) large non-publicly accountable entities would still be required to prepare high-quality general purpose financial statements under the requirements of Tier 2; and
- (d) keeping size thresholds that identify ‘important’ entities up to date would entail additional maintenance and monitoring costs.

Inconsistency with current settings of AASB S2

There is no similar feature inherent within AASB S2. Entities hold the same level of disclosure requirement under the standard regardless of public accountability status. These differences significantly increase compliance costs for entities without public accountability that still fit the reporting entity concept, cause significant disruption to internal business processes and reporting and impose an undue reporting burden on entities without public accountability. We specifically note that size-related considerations also only factor into the phase-in of climate-related financial reporting. In principle, a privately owned company with \$101m revenue and 101 employees would currently have disclosure settings for AASB S2 the same as an ASX200 company. Similarly, a company with one owner and one material financing arrangement with a major Australian bank would have the same disclosure settings as an ASX 200 company. Current proportionality mechanisms in-built in AASB S2 do not adequately deal with this structural inequity in cost-benefit considerations for mandatory disclosure requirements.

We strongly support consideration of a similar public accountability approach toward sustainability reporting as applied in financial reporting. We note the rationale above from AASB 1053.BC34 appears strikingly different to the approach currently in place under current sustainability reporting and assurance settings. The lack of consideration of public accountability substantially increases compliance costs for non-publicly accountable entities, misaligns our for-profit sector reporting to foreign reporting, and to Australian financial reporting. Where proportionality is sought to address

¹ [ACSI Fact Sheet Climate 2023 V3 APPROVAL](#)

this, we support formal written guidance similar to AASB 1060 to clearly and unequivocally set a minimum baseline for reporting.

Alignment with IFRS S2 and international standards

We note Treasury's concerns with proposals which reduce international alignment with IFRS S2. We note Australia's application of AASB S2 mandatorily to privately held companies is atypical across comparable economies. Utilising public accountability concepts maintains international consistency with IFRS S2 for Australia's publicly accountable entities. It also allows for implementing of common-sense streamlining and simplified disclosures to private entities where the benefit of efficiencies outweigh the compliance costs.

Interaction with other proposed options and questions

This proposal does not change which entities are required to prepare a sustainability report, or the entities required to report under the regime. Every entity currently in scope would continue to prepare a sustainability report and obtain assurance over it. It changes only the extent of disclosure required. Clarity on this point is essential by December 2026 to limit the extent that preparation and assurance costs are incurred.

We would support deferral of Group 2 and Group 3 requirements where significant reforms are being considered. This would provide sufficient time for consultation of reforms and maximise the impact of any reforms aimed at increasing efficiency.

We note and welcome the options raised by Treasury in relation to adjusting assurance settings and application of proportionality concepts. We believe the above concept works in parallel with these changes – further enhancing the intended efficiency gains, without a material loss of information for users reliant on external financial reporting. We present our comments on the specific proposals and options raised below.

Specific responses to Treasury proposals for reform and questions

This section provides our specific response to each of the Treasury reform options and questions. In summary, we support focusing on enhancing the efficiency of climate-related financial disclosures in a proportionate manner.

Proposal 1: Adjusting assurance settings

Option 1A: Maintain the limited assurance requirement

Position: Support

Reason: Consistent with the objectives of the consultation to improve efficiency, reduce compliance costs, and remain aligned with global competitors and minimise disruption for reporting entities, we support maintaining limited assurance for reporting rather than moving to reasonable assurance. As Treasury has noted, few, if any, jurisdictions plan to currently progress toward a reasonable assurance standard for sustainability reporting. Most appear to have stopped at limited assurance and or have significantly increased the thresholds for required reporting, such as New Zealand increasing some of their reporting thresholds from NZ\$60 million to NZ\$1 billion². Further, the most judgemental areas of reporting such as scope 3 emissions and estimation of financial impacts will likely prove highly challenging to issue reasonable assurance on, at an appropriate cost to the entity.

Maintaining limited assurance requirements in addition to any increase in the reporting thresholds for sustainability assurance would reduce the administrative costs for middle market entities. As previously noted by Treasury the sooner these decisions are made the greater the likelihood of costs not being incurred by companies. We note that many Group 3 entities are already incurring costs to ease their transition into their future requirements.

Reasonable assurance requirements hold an inherent tension with Scope 3 emission accounting, quantification of future impacts and scenario analysis disclosures in particular. Existing protocols and emissions accounting methodology strongly preferences usage of more relevant and decision-useful activity level reporting, as compared to more auditable but less relevant spend-based methodologies. A requirement to provide reasonable assurance may promote a retreat toward spend-based methodologies that better align with traditional financial reporting processes and auditing practices, in counter to the purpose and intentions of the standards and GHG protocol.

With respect to users of the sustainability information, reporting completed under a limited assurance scope appears sufficient for users to make appropriate decisions on capital deployment both nationally and internationally.

² Environment.govt.nz

Option 1B: Delay the transition to reasonable assurance until 2035

Position: Do Not Support

Reason: We do not support retaining a mandatory transition to reasonable assurance, whether in 2035 or otherwise, unless and until the underlying information, methodologies, systems, controls and assurance market are sufficiently mature to support that level of assurance on a reliable and proportionate basis. Our concern is therefore not limited to the proposed timing of the transition. Rather, we consider limited assurance to be the more appropriate ongoing assurance model for sustainability reporting at this stage, given the nature of many AASB S2 disclosures, including Scope 3 emissions, scenario analysis, forward-looking information, estimates and qualitative judgements.

A delayed transition may reduce immediate implementation pressure, but it would not address the more fundamental issue that reasonable assurance may be inappropriate for some sustainability information where source data, estimation techniques and accepted methodologies remain immature or inherently judgemental. Any future reconsideration of reasonable assurance should be evidence-based and should only occur where a clearly defined baseline standard has been established for particular information, including data availability, methodology, control maturity, assurance evidence and cost proportionality. That baseline standard would need to be capable of consistent application across affected entities, including middle-market entities, and not be based solely on the capabilities of the largest listed entities. Finally, the baseline standard should be supported by a comprehensive set of supporting standards, regulatory guidance and rigour that would appropriate administration and oversight of the assurance process by internal systems of quality management and external parties.

Option 1C: Require reasonable assurance only for mature sustainability reporting metrics

Position: Do Not Support

Reason: Having differentiated levels of assurance is unlikely to simplify or enhance the understanding of the reported disclosures by users of the accounts. Given the interdependence of disclosures within the sustainability report, application of this principle outside of the simplest example – Scope 1 & 2, as compared to Scope 3 – would be difficult to effectively achieve. This approach is likely to either effectively enhance reasonable assurance procedures beyond the original intention or otherwise risk further increasing the expectation gap of users toward the level of assurance provided on the most complex and judgemental sustainability reporting areas. Both instances would appear to compromise the goals of the stated reforms.

Consequently, we support 1A as the best option, being limited assurance for sustainability assurance reporting due to its nature. The uncertainty as to what a “defined baseline standard” is, creates a further disincentive to move to reasonable assurance. Any proposed baseline standard would need to be proportionate in its definition such that its applicability is appropriate to middle market and non-listed entities specifically and not defined around the capabilities of large ASX entities.

Questions:

1. Which of the options outlined above would help to achieve the four key principles underpinning this reform process? Please explain any impacts on compliance costs, international alignment, disclosure quality, investor information needs and implementation certainty. Why is this your preferred option?

Refer to our response above for option 1A maintain limited assurance requirement, and our position on implementation of Tier 1 and Tier 2 reporting concepts for sustainability.

2. **For reporting entities:** Please provide information on the financial and administrative costs associated with obtaining assurance over your sustainability report. Where possible, please provide detailed information to quantify this impact.

Not applicable to us at this time. We note original treasury estimates note a median ASX300 company with market capitalisation of \$2.4bn having limited assurance costs between \$33,211 and \$66,420³. Our experience as advisors and auditors to listed and unlisted companies suggests this is in many cases an order of magnitude higher for an entity of that size and scale. Limited assurance costs then typically scale down with respect of size, complexity and quality of internal and external expertise and documentation.

³ [Climate-related financial disclosures - Policy Impact Analysis](#)

3. **For assurance providers:** How would changes to assurance requirements affect your firm's costs, investment decisions, workforce capability development and service offerings? Where possible, please provide quantitative estimates. Where possible, please provide detailed information to quantify this impact.

We note Treasury's original estimate of 1.66 multiple on transition from limited to reasonable assurance, while the estimate of the multiple to transition to reasonable assurance may turn out to be accurate, as noted in 2 above the anticipated costs for limited assurance are an order of magnitude higher in practice than anticipated. The investment required to provide limited assurance will be lower than for reasonable assurance however, we do not currently have any detailed information to fully quantify this impact as we are yet to provide reasonable assurance on sustainability disclosures.

4. **For reporting entities:** To what extent are investors, lenders, shareholders or other stakeholders seeking reasonable assurance over sustainability disclosures? Have any stakeholders indicated that the level of assurance influences their decision-making or confidence in reported information?

Not applicable to us at this time. In our experience as advisors and auditors to unlisted companies, we have not encountered any requests from external stakeholders for reasonable assurance at this stage in Year 1 for Group 1 entities. Our opinion is the likelihood of this significantly falls where an entity does not have publicly traded debt or equity instruments.

5. **For users of sustainability reports:** What impacts, if any, would permanently maintaining limited assurance (option 1a) have on investor confidence, access to capital, international comparability or market credibility?

We cannot comment specifically as we are not a user of sustainability reports. In our experience as advisors and auditors to unlisted companies, we have not encountered any concerns with confidence or credibility from limited assurance settings applied in Year 1 for Group 1 entities.

6. **For assurance providers:** What would a "defined baseline standard" look like for data availability and maturity for option 1c to be viable?

Refer to our response above for option 1C on "defined baseline standard".

7. If a transition to reasonable assurance were retained over the longer-term, what conditions would need to be satisfied before implementation? For example, market capability, data quality, methodological maturity, assurance capacity, or other factors.

If a transition to reasonable assurance were reconsidered in the longer term, it should be contingent on clear evidence that relevant sustainability information, methodologies, systems, controls, assurance evidence and market capacity have matured sufficiently to support reasonable assurance on a reliable and proportionate basis. Refer also to our response above for Option 1B.

Proposal 2: Improving consistency in the application of existing requirements

Option 2A: Resources on practically applying the proportionality mechanisms in AASB S2, including “reasonable and supportable information ... without undue cost or effort” and “commensurate with the skills, capabilities and resources that are available to the entity”.

Position: Support subject to the guidance being proportionate for all reporting entities.

Reason:

Please refer to our comments in Section 2 above on our concerns with current proportionality mechanisms included within AASB S2.

What constitutes “reasonable and supportable information... without undue cost or effort”, and “commensurate with the skills, capabilities and resources that are available to the entity” is a highly subjective description. A party who would like the information may consider the cost or effort reasonable and that an entity of a particular size should have sufficient resources to provide that information. However, for privately-owned entities, what constitutes a reasonable cost and what resources should be deployed to provide such information may have markedly different perspectives. Unless there is a clear business case with a commercial return on investment, private businesses may be reluctant to invest to the same degree as a public business even where they might meet certain thresholds.

Therefore, this option is heavily dependent on the nature of the business and its ownership and less on its size. Any guidance would be useful to provide a more comparable or consistent approach to reporting, as forcing an entity to incur additional costs which they do not perceive benefits from is not efficient or effective. Careful consideration of any proposed measures and guidance is required that addresses a range of scenarios, not just considering the size of the entity.

This guidance should also address proportionality in the context of Scope 3 emissions and value-chain information requests. In particular, it should clarify when primary data is expected, when secondary data, estimates or industry averages may be reasonable and supportable, and how reporting entities should document assumptions, limitations and the basis for judgement where information is not available without undue cost or effort.

Option 2B: Resources on practically applying the statement of “no material climate-related risks or opportunities” in accordance with the Corporations Act.

Position: Potentially, support subject to sufficient real examples of where it is applicable being identified.

Reason: Clarity on whether the statement “no material climate-related risks or opportunities” is practically appropriate would be extremely useful. Any guidance should be grounded in real-world scenarios where the statement could reasonably be applied, rather than hypothetical extremes that are unlikely to arise in practice. Resources should be directed to this option where Treasury, regulators and standard setters agree that such scenarios exist and are sufficiently common to warrant practical implementation guidance.

Without clear and publicly available written policy positions, the practical application of this statement is likely to be inappropriately applied – particularly within smaller Group 2 & 3 entities. Well-meaning smaller entities with limited climate exposures are likely to over-report out of concern for regulatory pressures, where other entities with more significant climate exposures are incentivised to seek justifications for exemption. The burden of building appropriate internal positions would also disproportionately impact smaller and privately-owned entities, compared to the largest listed entities.

We note original treasury estimates indicated an estimate that only 5% of Group 3 companies (278 entities) would have material climate risk⁴. In our experience as advisors and auditors of a number of Group 3 companies, the proportion likely to report no material climate risks or opportunities under current settings and guidance is significantly lower than 95% implied by this assumption.

⁴ [Climate-related financial disclosures - Policy Impact Analysis](#)

An investment of time and effort by Treasury, regulators and standard-setters would promote significant potential efficiency gains, but only to the extent guidance is agreed between all parties and issued sufficiently in advance of Group 2 and Group 3 commencement.

Option 2C: Resources on providing assurance in circumstances when an entity elects to apply proportionality mechanisms or makes a statement of “no material climate-related risks or opportunities” in accordance with the Corporations Act.

Position: Support in principle, subject to the guidance being practical, proportionate and aligned with regulatory expectations.

Reason: Similar to our response to Option 2B, resources should be directed to this area where it is expected that a reasonable number of entities will apply proportionality mechanisms or make a statement of “no material climate-related risks or opportunities”. As assurance practitioners, our concern is that even where such a statement is appropriate, the assurance effort may effectively shift to validating the basis for that conclusion. This can create inefficiency and uncertainty for reporting entities, particularly where the assurance effort appears disproportionate to the limited disclosure being made. Clear guidance is needed on proportionate assurance procedures, evidence expectations and documentation requirements in these circumstances.

Option 2D: Additional measures such as workshops and educational seminars could also be utilised to ensure the flexibility that is built into the regime is better understood by reporting entities and their value-chain partners.

Position: Support in addition to written guidance

Reason: Our strong preference is for clear written guidance which has been considered by the regulator as to its application, and which addresses real world scenarios not hypothetical extremes or overly simplified scenarios. Any proposed workshops and seminars are more likely to be a useful outcome when a number of years of reporting have been established, and themes or trends have been identified unless there are specific scenarios where certain outcomes are encouraged or prohibited.

Questions:

9. Would this option help achieve the guiding principles outlined in this paper? Please explain any expected impacts on compliance costs, international alignment, disclosure quality and implementation certainty.

If the scenarios are practical and address real world scenarios this is potentially a useful approach, it will depend on the intention of the preparers and the quality of the scenarios and their practical application. An approach genuinely pursuing efficiency through greater certainty, higher quality disclosures and lower costs, would need to identify likely occurring scenarios in clear language where application of these proportionality mechanisms would be appropriate.

10. **For reporting entities:** What specific practical challenges have you experienced, or do you to expect to experience:
- a. in applying the “undue cost or effort” principle? Please identify your reporting group and provide examples where possible.
 - b. In assessing whether your entity has “no material climate-related risks or opportunities”? Please identify your reporting group and provide examples of evidence, governance processes or judgement areas that would benefit from further guidance.

We are not a reporting entity for this purpose. However, based on our perspective as assurance practitioners working with middle-market entities, we expect practical challenges to arise where proportionality concepts require significant judgement and where available information is incomplete, immature or costly to obtain. Further guidance would assist by illustrating how entities can apply the “undue cost or effort” principle in common fact patterns, including where climate-related information is held by suppliers, customers or other value-chain participants. It would also empower application of appropriate cost or effort toward the most relevant sustainability reporting areas for each entity.

11. **For assurance providers:** What guidance would assist you in providing assurance where an entity applies proportionality mechanisms or concludes that it has no material climate-related risks or opportunities?

Refer to our response above for option 2A-D. The most important element is that the guidance is aligned with regulatory thinking so that applying it does not leave a reporting entity or auditor open to hindsight and different interpretations of what is appropriate and proportionate.

12. What form of guidance would be most useful to support implementation (e.g. fact sheets, educational modules, detailed guidance materials, workshops, webinars, etc.)?

Clear written guidance which can be referenced and relied upon is always preferable to avoid “hindsight” or “perspective” risk where based on a discussion or seminar different positions are assumed only to be revised or re-examined in hindsight by different parties.

13. Are there any additional areas of guidance that should be considered? Please explain why and how this would improve the efficiency of the sustainability reporting framework.

Yes. Additional guidance should address the interaction between proportionality mechanisms, Scope 3 emissions and value-chain information requests. This would improve efficiency by helping reporting entities determine when primary data is required, when secondary data or estimates are appropriate, and how assumptions, limitations and uncertainty should be disclosed.

Proposal 3: Setting clearer boundaries on value-chain information requests

Option 3A: Further targeted guidance and clarity to help determine the boundaries of the types of information required for Scope 3 emissions reporting, including expectations surrounding the exercise of judgement in this context.

Position: Support

Reason: For efficiency, further targeted guidance is needed to clarify the boundaries of Scope 3 emissions reporting and the extent to which entities are expected to obtain information from their upstream and downstream value chains, in particular considering what legal rights the entity has to require or obtain the information from them. While the reporting entity for climate-related financial disclosures is generally aligned with the entity preparing the financial statements, Scope 3 measurement extends beyond that reporting boundary to relevant activities and relationships across the entity's value chain. This creates practical uncertainty about which activities should be included although the 15 categories of the GHG protocols is a good starting point, the extent of information-gathering expected and how entities should exercise judgement where reliable information is not reasonably available.

To improve efficiency, guidance should distinguish clearly between:

1. the **financial reporting boundary**;
2. the **GHG inventory boundary**;
3. the broader **value-chain activities considered in identifying Scope 3 emissions**; and
4. the parties that are themselves subject to statutory reporting obligations.

In particular, guidance should make clear that including emissions associated with a supplier, customer, investee or other value-chain participant does not bring that party into the reporting entity or independently subject it to climate-reporting obligations. The reporting entity remains responsible for identifying and estimating its relevant Scope 3 emissions. This clarification would reduce the risk that entities impose disproportionate information requests on smaller or otherwise non-reporting value-chain participants because of uncertainty about the applicable boundaries, noting that the value chain is both up and downstream.

The guidance should also provide a structured and proportionate framework for exercising judgement. This could require entities to:

- assess each of the 15 Scope 3 categories for relevance;
- identify significant emissions sources and value-chain hotspots;
- prioritise information that could materially influence users' decisions;
- use primary data where it is reasonably available and sufficiently reliable;
- otherwise use recognised estimates, industry averages, proxies or secondary data;
- document exclusions, estimation methods, assumptions and data-quality limitations; and
- progressively improve measurement where better information becomes available.

This would align Scope 3 reporting more closely with the objective of climate-related financial disclosure, which is to provide material information about climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, rather than requiring exhaustive or disproportionately costly data collection across every part of the value chain. AASB S2's focus remains on information that could influence decisions by users of general-purpose financial reports. Given the broad range of potential users and the judgement involved in determining what information may influence their decisions, further guidance on applying materiality to Scope 3 emissions would improve consistency and reduce the risk of overly broad information requests.

Standardised approaches and emissions factors

Efficiency, comparability and assurance would be materially improved through the development of nationally recognised, category-specific methodologies and emissions factors for the 15 Scope 3 categories. These could include:

- preferred calculation methods for each category;
- a hierarchy of acceptable data sources;

- standard Australian emissions factors and industry averages;
- default assumptions where primary information is unavailable;
- guidance on sampling, extrapolation and proxy data;
- standard treatments for common commercial arrangements;
- expectations for reassessing boundaries and methodologies; and
- standard disclosures about estimation uncertainty and data quality.

A central, regularly maintained source of methodologies or approaches and emissions factors would reduce duplication, particularly where multiple reporting entities seek substantially the same information from the same suppliers. It would also support more consistent application by preparers and provide assurance practitioners with clearer criteria against which to evaluate reported information. AASB educational material already recognises the distinction between measurement and disclosure requirements and provides guidance on the application of the GHG Protocol Standards, but further practical, category-level implementation guidance would be beneficial.

Practically, our experience is that Scope 1 and 2 emissions have generally high levels of comparability and understandability, largely due to the level of consistency provided by publicly available and consistent emissions factors.

Downstream information

Particular guidance is required for downstream categories, including processing and use of sold products, end-of-life treatment, downstream leased assets, franchises and investments. Reporting entities may have limited contractual rights, commercial influence or practical ability to obtain information from customers, end users or other downstream parties. In many cases, direct information gathering will be impracticable, particularly where products are sold through intermediaries, used in multiple applications or have long and uncertain useful lives.

The guidance should therefore confirm that an entity is not necessarily expected to obtain information directly from every downstream party. Instead, the entity should be permitted to use reasonable and supportable estimation techniques, such as:

- expected product-use profiles;
- average product lives;
- engineering specifications;
- sales volumes;
- industry benchmarks;
- market studies;
- jurisdiction-specific energy information;
- standard waste-treatment assumptions; and
- recognised financed-emissions methodologies.

Where these approaches are used, the focus should be on transparent disclosure of the methodology, significant assumptions, data sources, uncertainty and limitations. This is preferable to encouraging entities to seek information that they have no legal or commercial ability to obtain, or that would impose excessive costs without producing a corresponding improvement in decision usefulness.

Assurance considerations

Standardisation would also improve assurance efficiency. Scope 3 information commonly involves estimates, modelled data and information obtained outside the reporting entity's systems and controls. Assurance expectations should recognise that the absence of primary data does not necessarily indicate a reporting deficiency where the entity has used an appropriate methodology, reasonable assumptions and a transparent data hierarchy.

Guidance should clarify that assurance focuses on whether:

- the boundary and categories have been appropriately determined;
- material sources have not been omitted without reasonable grounds;
- the methodology is suitable and consistently applied;

- inputs and assumptions are reasonable and supportable;
- calculations are accurate;
- estimation uncertainty is appropriately disclosed; and
- the entity maintains governance and controls proportionate to the nature of the information.

This would allow assurance practitioners to assess the appropriateness of the entity's process and methodology without implying that every underlying value-chain data point must be independently verified.

Overall, a proportionate and integrated approach is required that combines clear boundary guidance, a structured framework for judgement, standardised category-level methodologies and emissions factors, and realistic expectations concerning access to upstream and downstream information. Such an approach would reduce unnecessary information requests throughout the value chain, avoid inadvertently treating value-chain participants as reporting entities, improve comparability and consistency, and support efficient, scalable assurance. It would also preserve the objective of providing decision-useful climate-related financial information without imposing costs that are disproportionate to the quality or relevance of the resulting disclosure. Further the complexity of scope 3 is closely tied to our response to option 1A that limited assurance be the ongoing level of assurance as it is more aligned to the nature of the information available to determine scope 3 emissions. We would also support consideration of whether Scope 3 disclosures would be required under a simplified disclosure requirement described earlier in our response.

Option 3B: Additional resources to help reporting entities efficiently determine the boundaries of their value chain and ensure that data requests (e.g. for GHG emissions data) do not create disproportionate costs or compliance impacts across value chains, particularly for SMEs.

Position: Support

Reason: Refer to our response to 3A.

Option 3C: A further option would be for the Government to play a role in either developing or collecting existing reputable domestic emissions factors to assist in providing the market with access to more accurate secondary data. This would reduce the need for reporting entities to collect primary data to report metrics such as Scope 3 emissions.

Position: Support

Reason: Refer to our response to 3A

Questions:

- 14. For entities in the supply chain of reporting entities:** What has been your experience receiving climate-related financial disclosure information requests, including requests made directly by reporting entities or by third-party data collection providers? Please describe the nature, frequency and administrative impact of these requests.

In our perspective as a supplier to a number of Group 1, 2 and 3 entities, we have received infrequent requests for quantitative climate-related financial disclosure requests. As a supplier of professional services, we are likely not in the highest spend or emitting suppliers to these businesses.

In our involvement with various medium-sized businesses, we note that certain industries such as agriculture and construction are significantly more exposed to requests for climate-related data. Data collection requests are rarely consistent and are typically not reflective of information that is reasonably available to a medium-sized business without undue cost or effort.

- 15. For reporting entities:** What has been your experience engaging your value chain partners to gather data for reporting climate-related information so far? Please identify key challenges, including data availability, supplier capability, cost, consistency and use of third-party data providers.

We are not a reporting entity and as such at this time have no further comments on this point.

16. **For investors and other users of climate disclosures:** What information relating to value-chain climate risks, opportunities and emissions is most important for decision-making? Please identify any information that you consider particularly valuable when assessing an entity's climate-related risks and opportunities.

We are not investors or other users of climate disclosures and as such at this time have no further comments on this point.

17. **For investors and other users of climate disclosures:** Are there specific circumstances where entity-specific primary data is important for decision-making? Conversely, are there circumstances where emissions factors, industry averages or other secondary data sources are sufficient for these purposes?

We are not investors or other users of climate disclosures and as such at this time have no further comments on this point

18. Would greater availability of standardised domestic emissions factors or other secondary data sources reduce the need for, or the burden created by, value-chain information requests? What types of emissions factors, sectors or data sources would be most useful for sustainability reporting purposes?

Yes, refer to our response to option 3A.

19. Would standardising data requests for supply chain entities constrain the ability of reporting entities to obtain the data they need to fulfill their reporting obligations?

Not if designed appropriately. Standardised data requests should establish a clear baseline of common information that reporting entities can request from value-chain participants, while allowing additional entity-specific information where it is genuinely necessary, material and proportionate to the reporting obligation. This would reduce duplication and unnecessary burden without preventing reporting entities from obtaining information that is needed to prepare decision-useful disclosures.

20. Are there any examples where industry-led standards or common practices are emerging to help standardise the information that is being requested by reporting entities of their value chain partners?

We are not aware of many specific industry-led standards or common practices that have sufficiently emerged across the middle market at this stage. However, where such standards or practices develop, they should be encouraged where they are transparent, proportionate, capable of consistent application and aligned with recognised reporting methodologies and domestic emissions factors.

Specific responses to Treasury's other potential avenues to improve efficiency of disclosure requirements

Opportunity 1: Improved alignment between domestic frameworks and AASB S2 requirements

We would support alignment of NGER and AASB S2 requirements where reasonable and appropriate. This would include alignment of reporting year end where reporting entities have different year ends for NGER and sustainability reporting currently. We note the Government's concerns about reducing IFRS S2 consistency and would highlight the above points we have raised around this issue depending on the public accountability of the entities reporting.

Opportunity 2: Registered Company Auditor (RCA) practical experience requirements

We present no specific opinion on this matter.

We would support further consideration of sustainability assurance engagements within the Registered Company Auditor process. Any reform should have the goal of supporting appropriately qualified and experienced persons in becoming Registered Company Auditors, without compromising the level of experience and knowledge required to meet current benchmarks. We do draw attention to the fact that many existing Registered Company Auditors may not have any clients which will require mandatory sustainability reporting. Therefore, while we agree that an RCA is the appropriate person for providing sustainability assurance, capacity to obtain an RCA without sustainability assurance expertise will be necessary for many smaller practices. It may be prudent to consider two categories - RCAs that can assure financial reporting only, and others accredited to assure sustainability reporting as well. While we would expect existing RCAs to be grandfathered in, prospective RCAs may be blocked if having sustainability assurance experience is a requirement.

Opportunity 3: Standardised information request forms

We support enhancing the guidance on if and when entities are required to obtain or provide sustainability-related information and what information should be provided. Standardising information request forms with accepted or common sources of information would also greatly enhance the efficiency, and consistency of responses from smaller and medium sized entities who are not captured by the thresholds of the legislation but are exposed through "value chain" or commercial requirements need to provide information.