APPENDIX: RESPONSES TO CONSULTATION QUESTIONS

Proposal 2: Improving consistency in the application of existing requirements

Q 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.

A key benefit of providing more guidance will come through its support of implementation certainty, which would promote efficiency. The lack of consistency in applying materiality or the proportionality mechanisms inhibit a shared understanding of how the reporting provisions should apply. Clearer guidance would improve disclosure quality in an efficient manner, by allowing reporters to focus on material risk and opportunity, as well as support comparability in reporting. While some sectors have industry support for implementation, authoritative guidance from a standard setter or regulator (with appropriate industry input) would be more effective in supporting the provision of useful information and promote efficiency. For example, the AASB's *Climate-related risks and opportunities and the disclosure of material information*, is a useful starting point for considering the application of materiality. Further AASB guidance on sector specific materiality considerations would provide additional value.

Q 10. For reporting entities: What specific practical challenges have you experienced, or do you expect to experience:
a. in applying the "undue cost and 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.

The boundaries for applying "undue cost or effort" are unclear and are like to differ according to sectoral context. Targeted guidance that outlines more granular guidance on approaching the "undue cost or effort" boundaries for sectors would be useful.

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

Targeted guidance from standard setters or regulators would be useful to support implementation. Given the short timeframes involved, as Group 1 is already reporting, it may be most efficient to start with guidance materials that can be generated quickly by leveraging existing resources. Our observation is that, to date, guidance materials have been targeted at smaller or less mature reporters. There is also a role for guidance for the application of reporting concepts by larger reporters, to drive consistent understanding across the market, including by supporting efficiency in audit. It will also be important to ensure guidance is publicly distributed so that entities that are not able to attend workshops or webinars still have access to the information.

Q 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.

Beyond the application of proportionality mechanisms, ACSI's view is that additional guidance would be helpful on:

- **Materiality**. Materiality is a fundamental concept across sustainability reporting. Individual sectors (e.g. coal mining versus software services) will face different material sustainability issues. At present, only universal guidance on materiality in sustainability reporting is available. Our analysis of the first year of climate disclosures indicates that there is a lack of

clarity in the approaches and assumptions used to quantify climate risks. Additional guidance providing examples of how principles are applied across different contexts would be helpful in supporting preparers to appropriately explain their materiality judgements to investors, and for auditors in carrying out their work.

- **Undue cost and effort.** Reporting entities could benefit from guidance on what would be considered undue cost and effort for different entities based on their size, sophistication, and level of presumed climate risk exposure.
- **Scoping the value chain**. Scoping value chains can vary in size and complexity across sectors. It would be valuable to provide more guidance on scoping value chains in different operating contexts.
- **Scope 3 emissions reporting.** Methodological maturity and the availability of quality data are two important challenges in Scope 3 emissions disclosures. Additional guidance on reporting Scope 3 emissions and the purpose of doing so (being to understand market-based transition risk), would assist in implementation certainty and comparability between different reporters. Where Scope 3 emissions are material to assessing an entity's transition risk, resilience or future value, that information is important to investors and to understanding entity risk and concentrations of risk in the economy.
- **Sector specific guidance**. Climate-related financial disclosures are an opportunity for reporters to demonstrate an entity's value and resilience. Sector specific guidance would be immensely helpful in clarifying the interpretation of various disclosure requirements where there may be differences in sectorial approaches.

It is important the relevant authorities responsible for creating guidance are well supported and resourced to create fit-for-purpose materials for reporting entities, users, and assurance providers. This could involve, for example, leveraging experts, users and reporters in the development of sector-specific guidance.

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

Q 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.

Investors are seeking information on the company's level of exposure to material climate-related risks and their response to those risks through their value chain. This includes transition plans, identified climate-related risks and opportunities, current and anticipated financial impacts and emissions. We emphasise the focus on the material risks, and the need for further guidance on materiality. We are aware of some challenges in the market where entities consider they need to report right across their value chain, without considering materiality. We support the provision of additional guidance on what would be considered reasonable requests for information from a reporting entity's value chain.

Q 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?

Primary data is important where the risks are material and the information is available (for example, a high emitting entity) or where the reporting entity differs from the sector as a whole – in terms of its exposure to climate risks or their response to these risks. However, we recognise that data maturity may take time. We encourage entities to consider and make use of the data hierarchy, and explain their reasons for doing so.