

# Reporting and Assurance of Material Climate Risks: Evidence from Australia

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# Outline

- 1. Overview - Current Climate Risk Reporting**
- 2. Research Objectives**
- 3. Methodology**
- 4. Findings**
  - Disclosure
  - Assurance
- 5. Scope 3 Emissions**

# 1. Overview – Climate Risk (CR) Reporting

- In December 2018, the AASB/AUASB issued a non-mandatory guidance, *'Practice Statement 2 Making Materiality Judgements'*

## DISCLOSURE

**Climate risk is material**

## ASSURANCE

**Implications of climate risk  
should be considered**

- In March 2022, the ISSB issued Exposure Drafts:
  - IFRS **S-1** *General Sustainability-related Disclosures*
  - IFRS **S-2** *Climate-related Disclosures*

## 2. Research Objectives

Document the current state of **material climate risk disclosures** and **assurance** in Australia from 2017 to 2020

### DISCLOSURE

Changing landscape of material CR reporting

- Location
- Content

### ASSURANCE

Scope of assurance

Assurance criteria

Key assurance procedures

# 3. Methodology



## Disclosure and Assurance

- 108 Australian firms from 21 climate-sensitive industries
- 2017 - 2020
- Annual reports and stand-alone reports
- Disclosure Index based on adapted SASB standards



## Semi-structured Interview

- 2 report preparers (ASX-listed companies)
- 3 assurers

# Disclosure Index



## Dimension #2: Business Model and Innovation (4 general issue categories)

- Product design & Lifecycle management
- Business model resilience
- Materials sourcing & Efficiency
- Physical impacts of climate change

# Example #1: Disclosure Index scoring

Metals and Mining			Dimension		Environmental					
			General Issue & Disclosure Topics		GHG Emissions		Energy Management		Water and Wastewater	
			Type of disclosure		Quan	Qual	Quan	Quan	Quan	Quan
Company	Year	Within F/S	Within annual report	Location of reporting	Gross global Scope 1 emissions (mil)	Discussion of long-term and short-term strategy	Operational energy consumed	% renewable	Total water withdrawn	Number of incidents of non-compliance with water quality permits, standards, regulations
FMG	2020	0	1	Approach to climate change	1.93	1 (pp.59-61)				
			0	Sustainability Report					169.74 GL	0
			0	Climate change report		2 (p.15, 17-19)				
	2019	0	0	Corporate Social Responsibility	1.69	2 (pp.69-70)			136.83 GL	0

Metrics

Search specific keywords

Refer to SASB Technical protocol

SASB/TCFD guidance materials

0 = no disclosure  
 1 = boilerplate  
 2 = informative (entity-specific)

# Example #2: Disclosure Index scoring

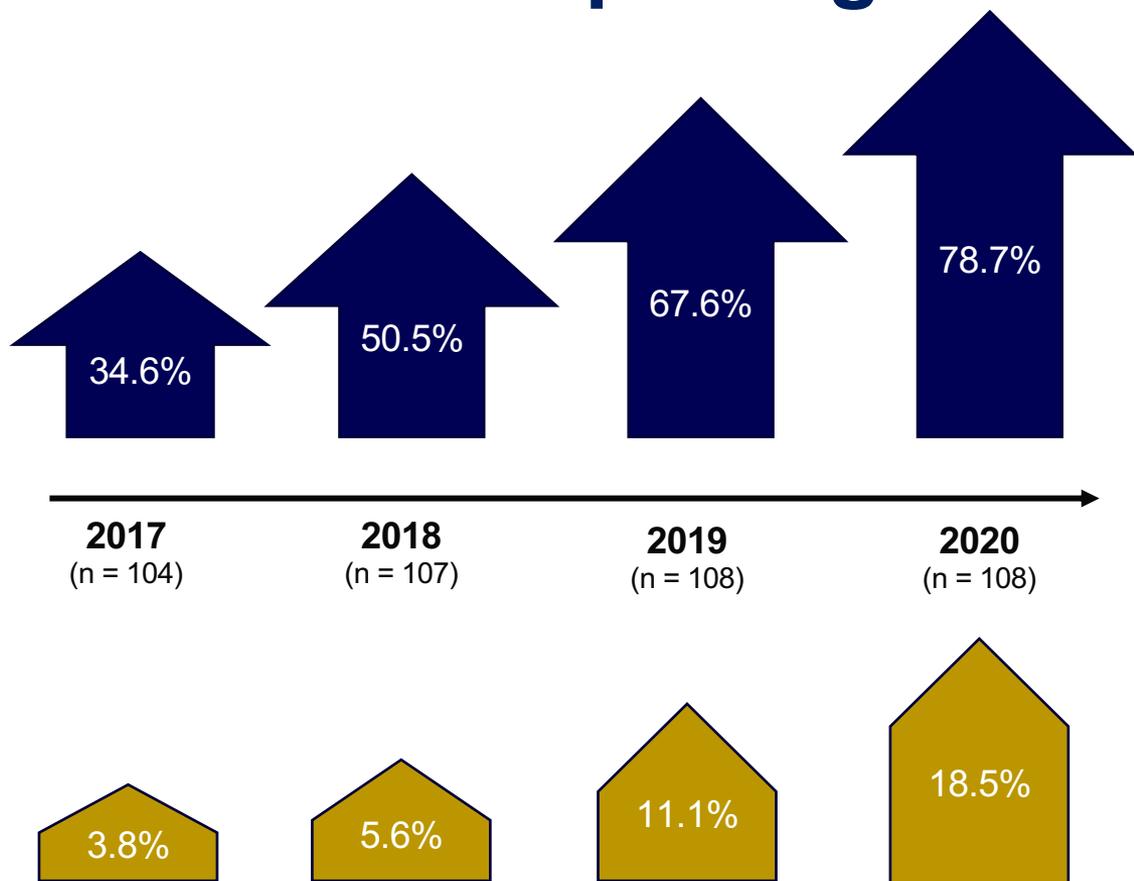
Insurance			Dimension		Business Model & Innovation			
			General Issue		Product Design & Lifecycle Management		Physical Impacts of Climate Change	
			Disclosure Topics		Incorporation of ESG in Investment Management	Policies to incentivise responsible behaviour	Environmental Risk Exposure	
			Type of disclosure		Qual	Qual	Qual	
Company	Year	Within F/S	Within annual report	Location of reporting	Description of approach to incorporation of <b>ESG factors</b> in investment management processes and strategies	Discussion of <b>products</b> and/or <b>product features</b> that incentivise health, safety, and/or environmentally responsible behaviours	Description of approach to incorporation of environmental risks into the <b>underwriting process</b> for individual contracts	Metrics
QBE	2020	1 (Note – Risk Mgts)	1	Strategy & Risk Management	1 p.21		2 pp.20-21	

- **Search general keywords** (e.g., climate, climatic, environment(al), extreme weather)
- **Actual disclosure** of companies already using the SASB standards
- **SASB/TCFD guidance materials**

# Example of Disclosure Index scoring

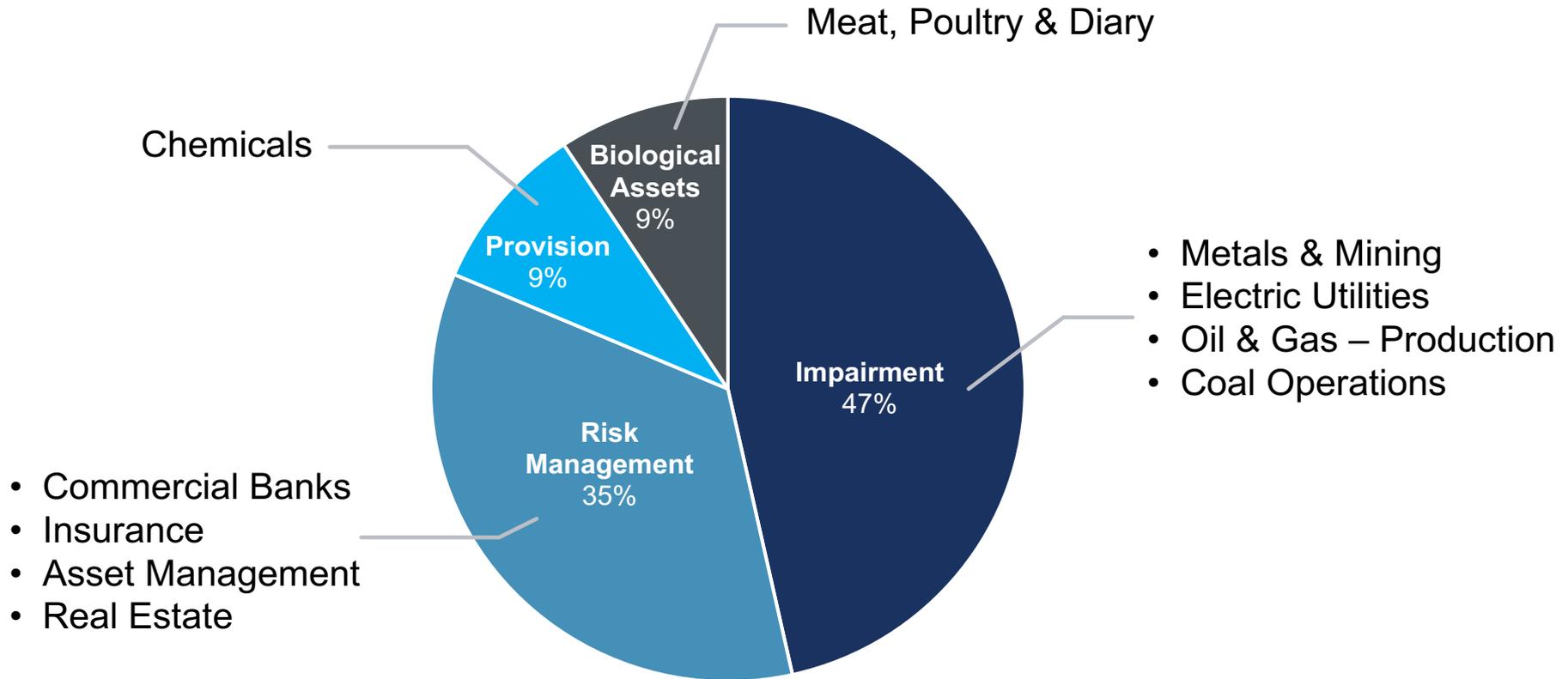
Disclosure topic		Score by type of disclosure		Score by disclosure topic	DSCORE
		<i>actual/max</i>			
GHG	Quan_actual	3	100%	}	}
	Quan_max	3	100%		
	Qual_actual	2	50%	}	
	Qual_max	4			
Energy	Quan_actual	3	100%	}	}
	Quan_max	3	100%		
	Qual_actual	NA	NA	}	
	Qual_max	NA			
Water	Quan_actual	2	66.67%	}	}
	Quan_max	3	66.67%		
	Qual_actual	NA	NA	}	
	Qual_max	NA			

## 4. Findings – Location of CR reporting



**% of firms acknowledge climate risk as a material issue to their business**

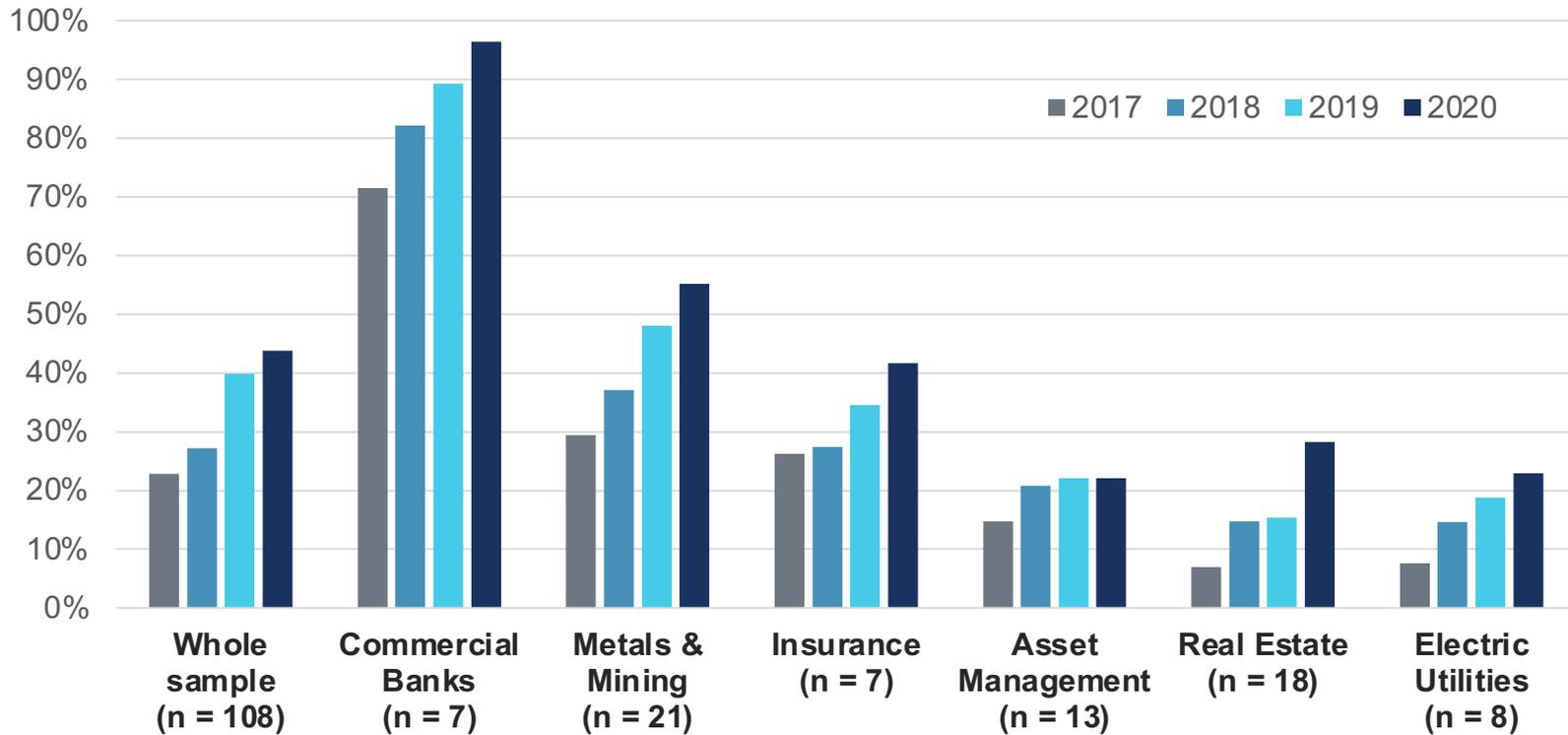
# 4. Findings – Location of CR reporting



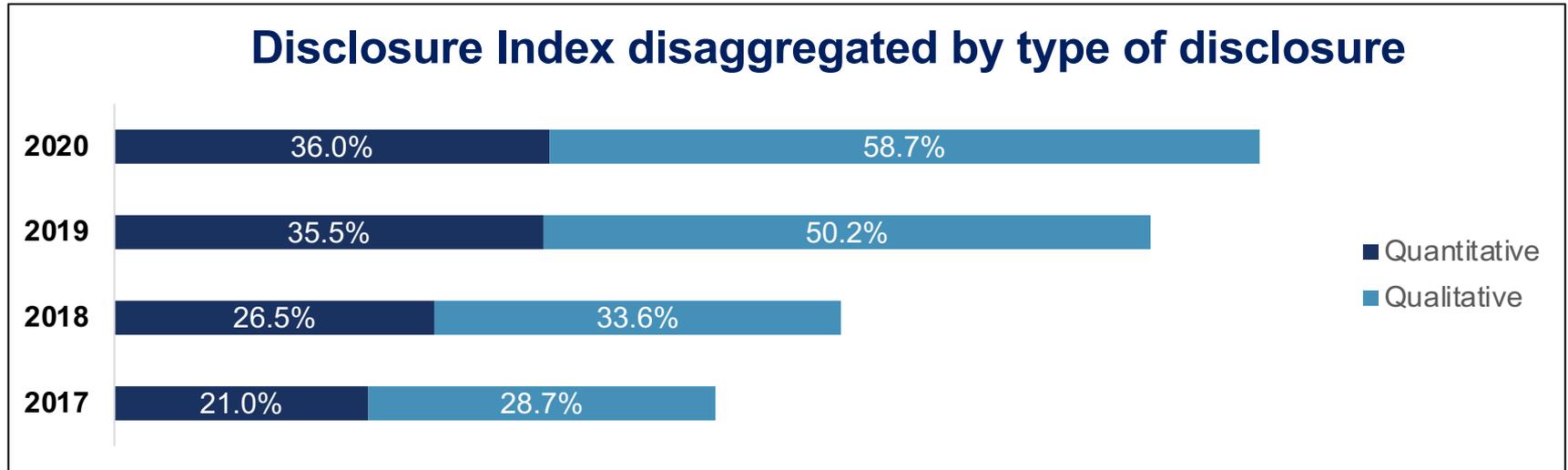
Areas of impact within financial statements

# 4. Findings – Content of CR reporting

## Disclosure Index from 2017 to 2020



## 4. Findings – Content of CR reporting



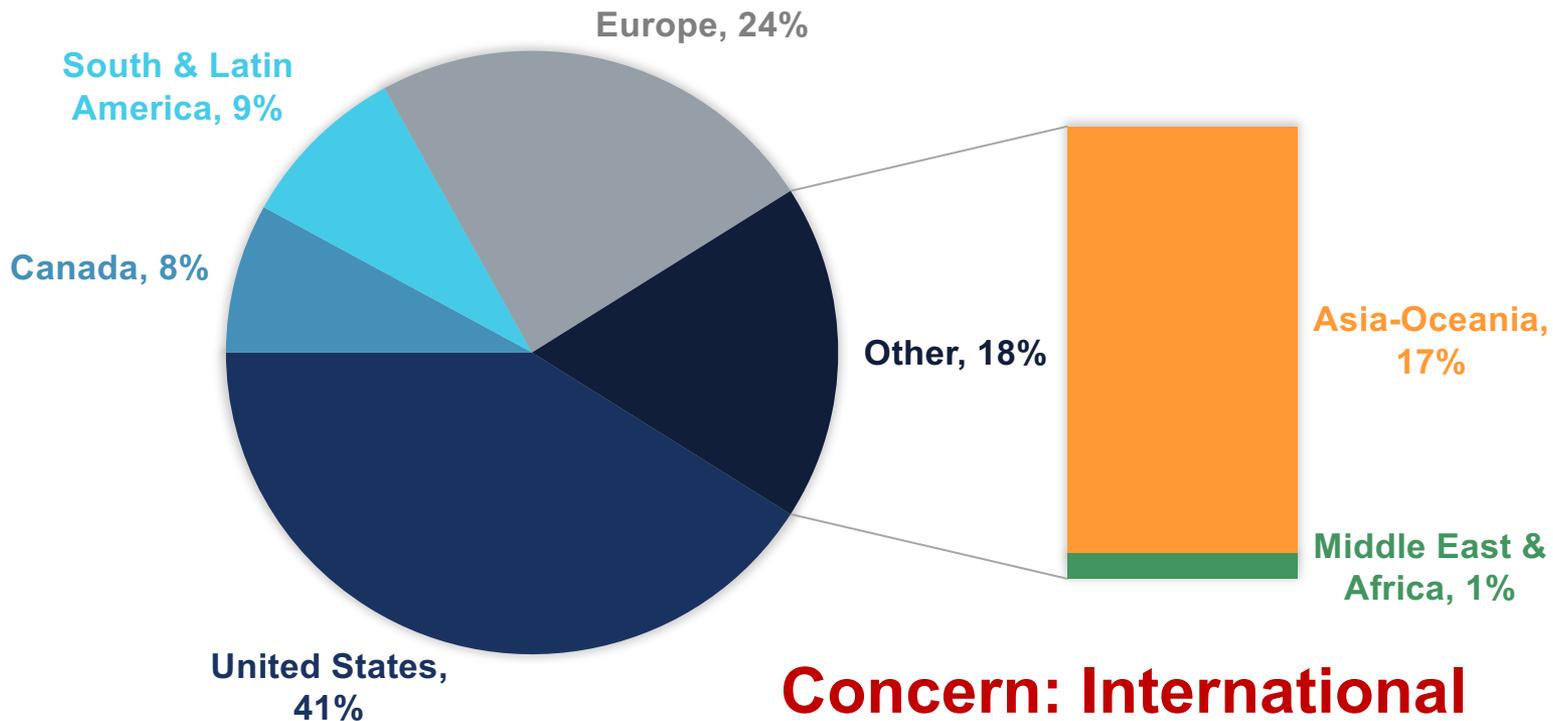
More  
material  
information  
in annual  
reports

**Quantitative** information about **GHG** disclosure topic

**Qualitative** information (across all disclosure topics)

# 4. Findings – Potential impact of IFRS S-2

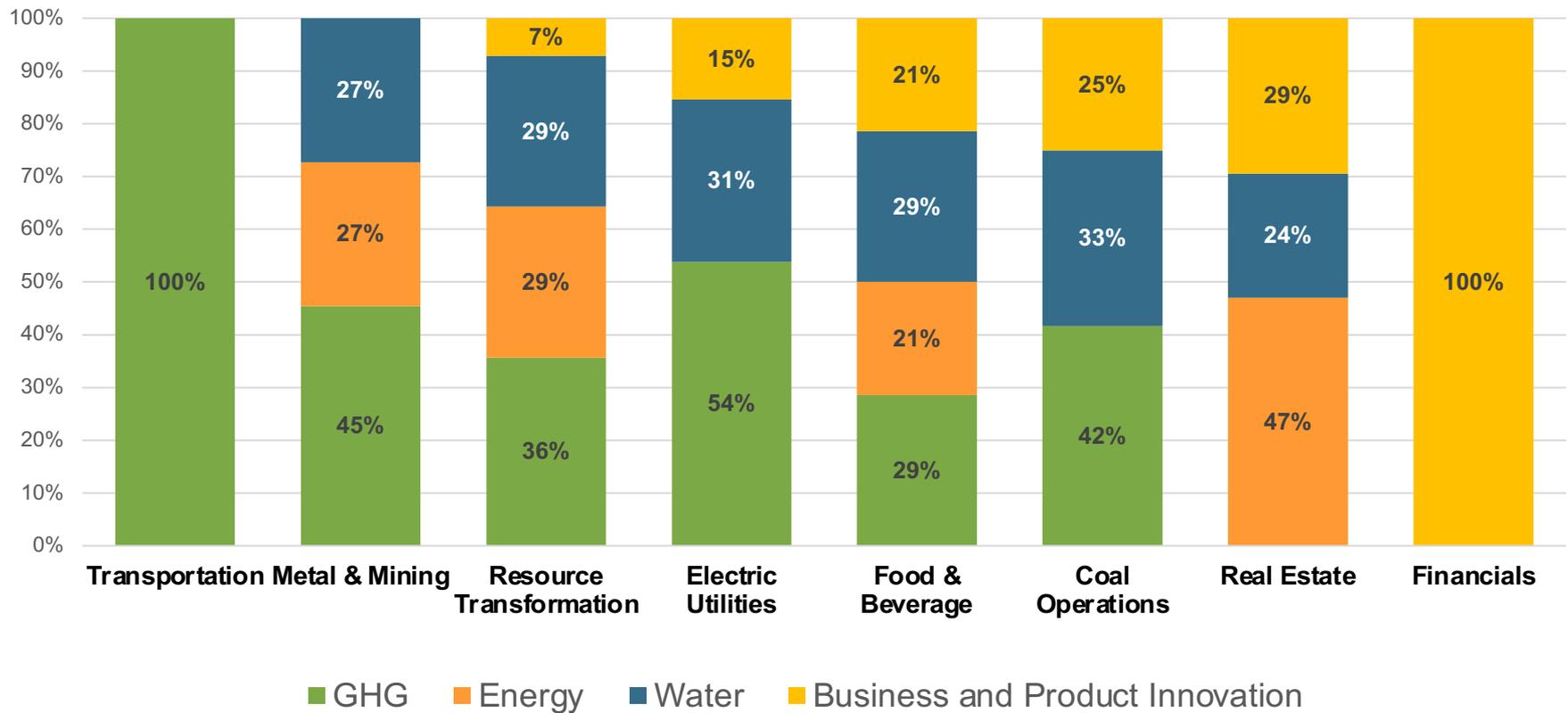
SASB standards reporters by Region in 2022 (ISSB, 2022)



**Concern: International applicability of SASB standards**

# Composition of SASB requirements

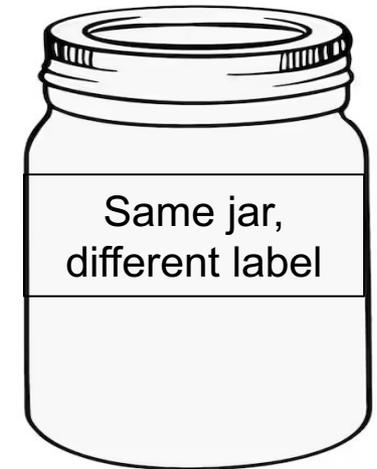
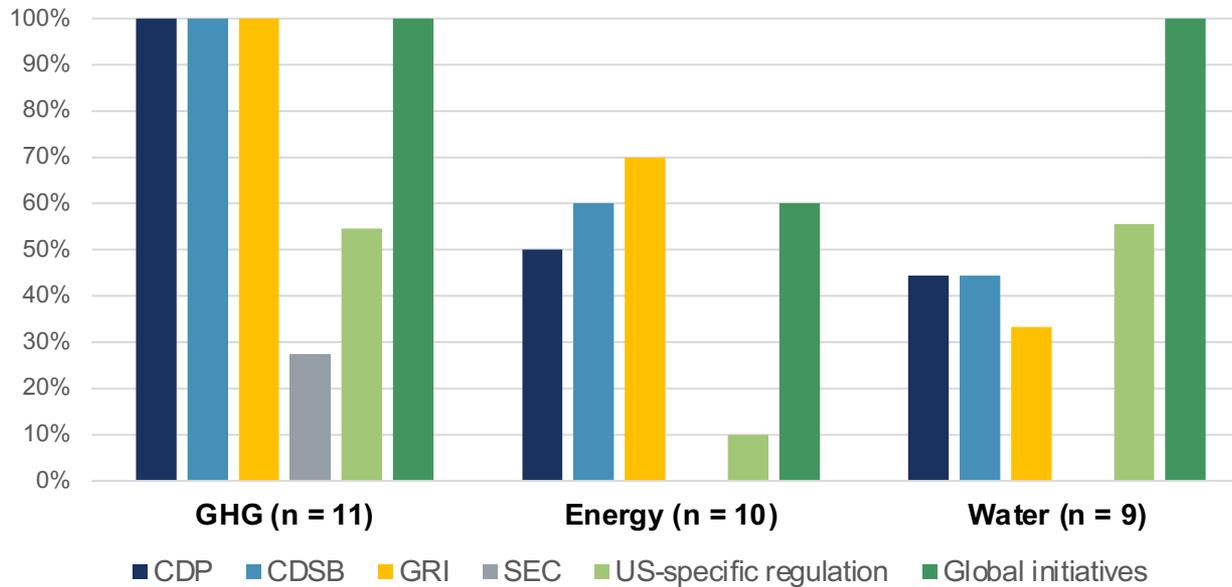
% reporting requirements, by general disclosure issue



# 4. Findings – Potential impact of IFRS S-2

## a. Environmental dimension

Source of SASB standards



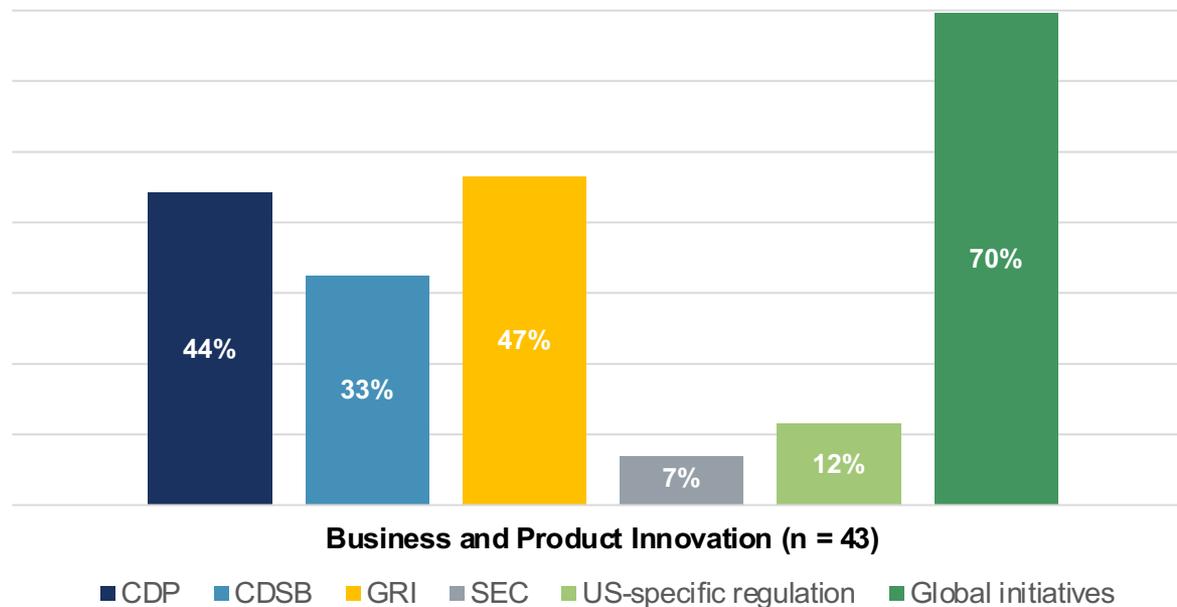
WORLD  
RESOURCES  
INSTITUTE



# 4. Findings – Potential impact of IFRS S-2

## b. Business Model and Innovation dimension

Source of SASB standards



**Observation 1:** Australian firms appear positioned to be able to adopt most SASB's reporting requirements

**Observation 2:** Further deliberation recommended to reach consensus on:

- a. **Alignment** between industry classification (SICS) and the selection of material disclosure topics

## Discrepancies between Disclosure Index versus IFRS S-2

Industry	Disclosure Topic
Non-alcoholic beverages	Environmental & Social Impacts of Ingredient Supply Chain
Meat, Poultry, & Dairy	Land use and Ecological Impacts
Electric Utilities	Nuclear Safety & Emergency Management Grid Resiliency
Containers & Packaging	Supply Chain Management
Air Freight & Logistics	Supply Chain Management
Construction Materials	Air Quality Waste Management

## 4. Findings – Potential impact of IFRS S-2 (cont.)

**Observation 2:** Further deliberation recommended to reach consensus on:

- a. **Alignment** between industry classification (SICS) and the selection of material disclosure topics for each industry
- b. **Equivalent standards** in Australia
  - Electric Utilities - decoupling versus lost revenue adjustment mechanism policies
  - Insurance – Probable Maximum Loss calculation
- c. **Nature** of reporting requirement: in the form of **qualitative** disclosure (principle-based) as opposed to quantitative disclosure (rule-based)

# RECOMMENDATION 1

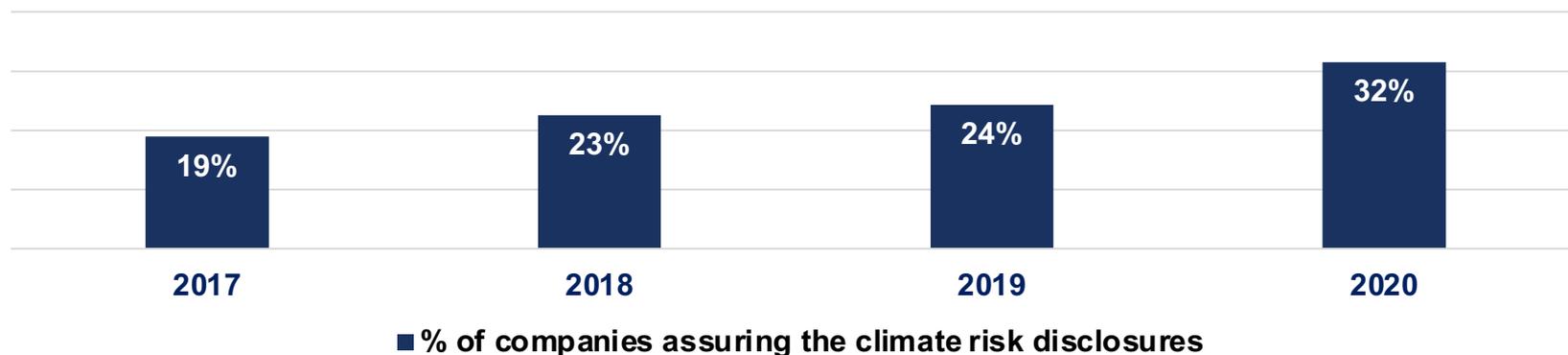
- IFRS S-2: Digital consumption of sustainability-related financial information is prioritised
- Australia has not adopted digital reporting → additional **cost burden**
- Climate risk reporting is **unstructured**
- **Industry-based standards**

At early phase of adoption, require companies to disclose CR in the form of content index to improve the accessibility and connectivity of information

- Cross-reference the location of disclosure
- Indicate whether the information is assured

## 4. Findings - ASSURANCE

### Who assured climate risk disclosures? (108/427)

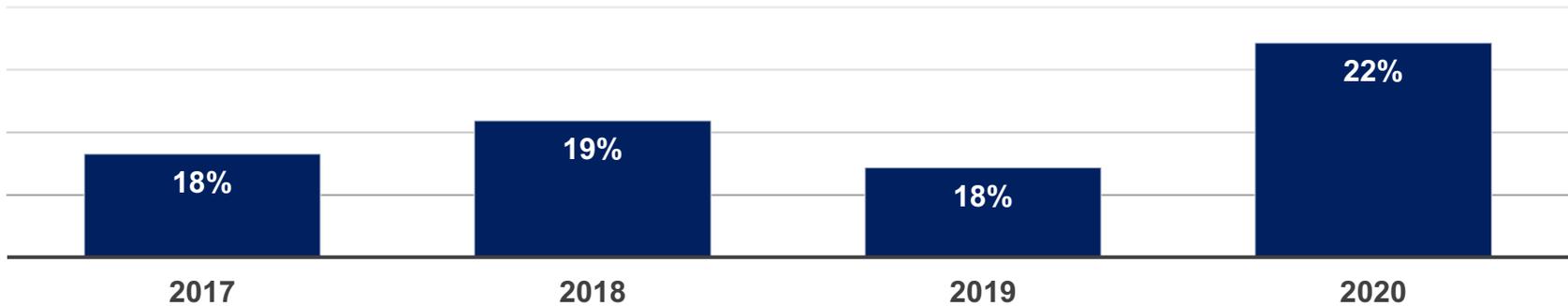


The lack of understanding of assurance by stakeholders  
→ Stakeholders are unlikely to demand assurance.

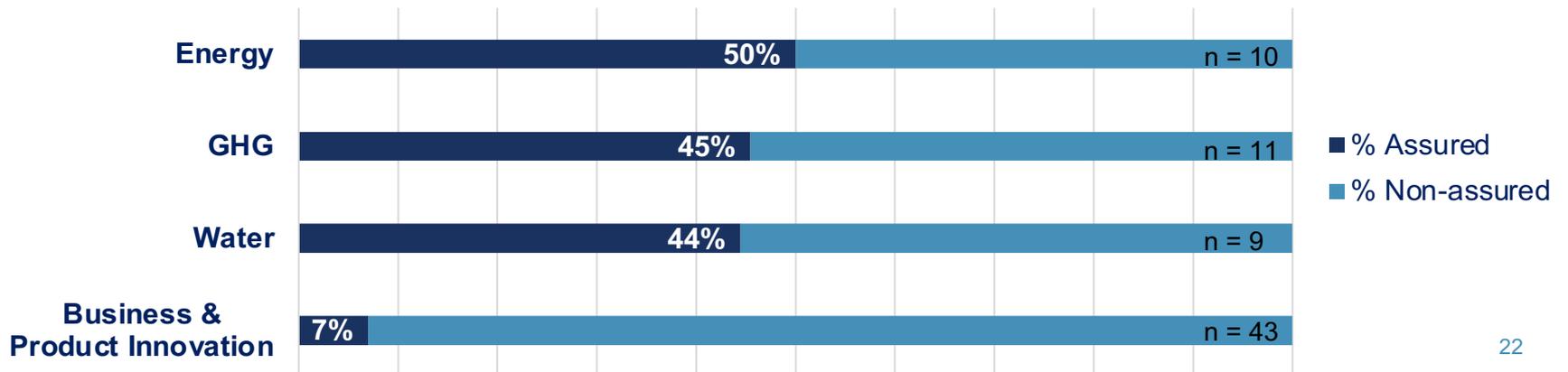
**Recommendation 2.1:** Regulators should consider mandating the assurance requirements.

## 4. Findings – Extent of Assurance

% of assured items in all SASB requirements

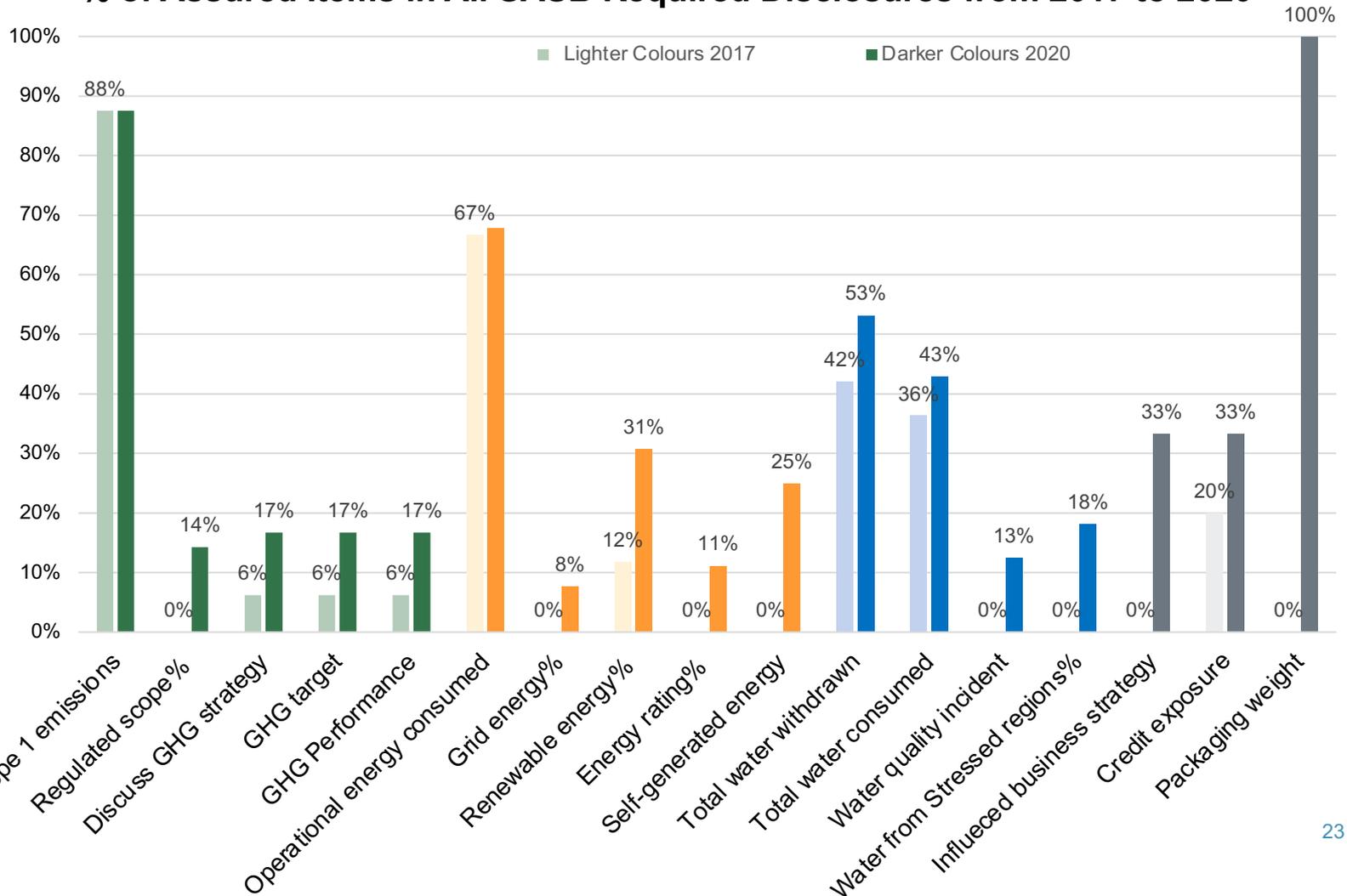


% of assurance, by general disclosure topic



# Which SASB requirements are assured?

% of Assured Items in All SASB Required Disclosures from 2017 to 2020



## 4. Findings – Which SASB disclosures are assured?

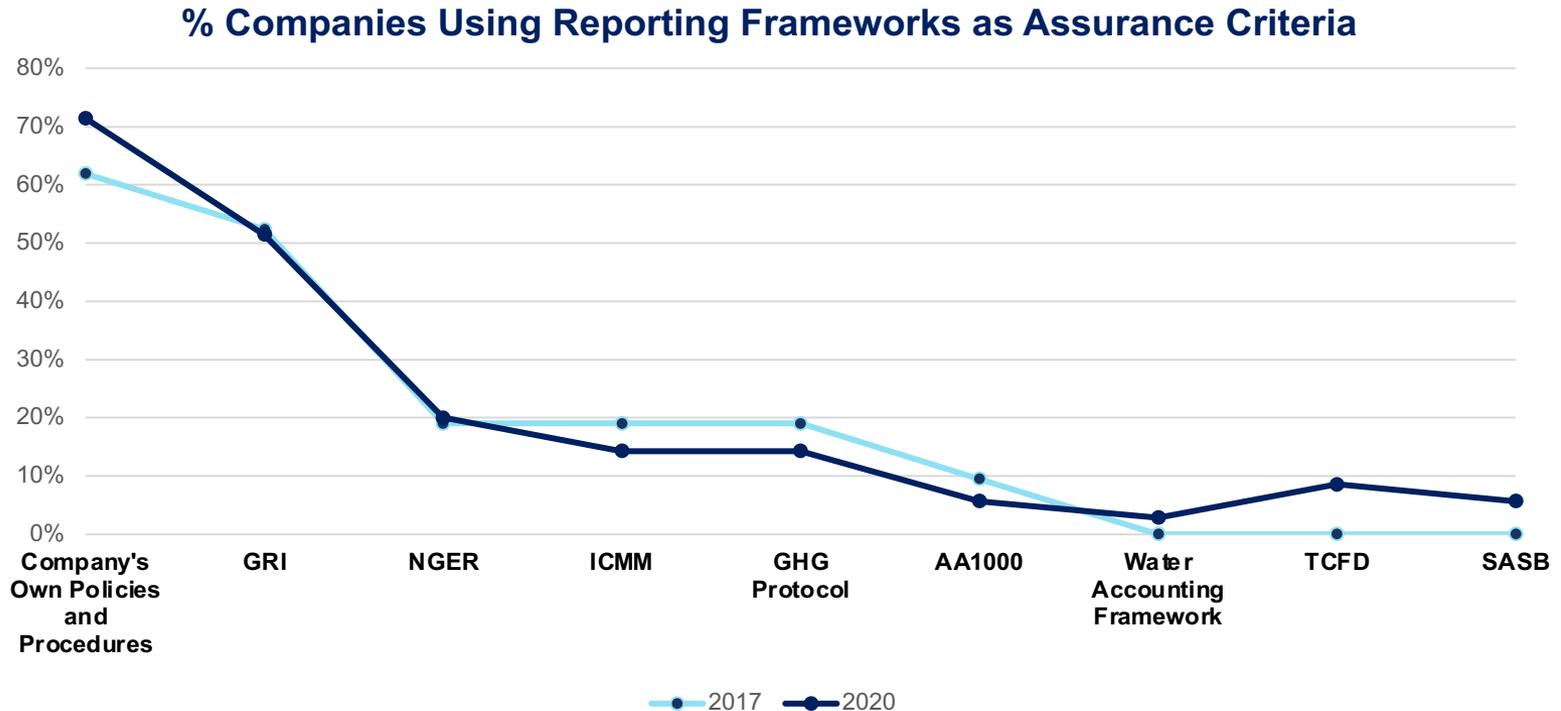
The "piecemeal" assurance is reflective of:

- a. Data quality
- b. Concerns about forward-looking information and the associated reputation and litigation risks (Santos case)

### Recommendation 3:

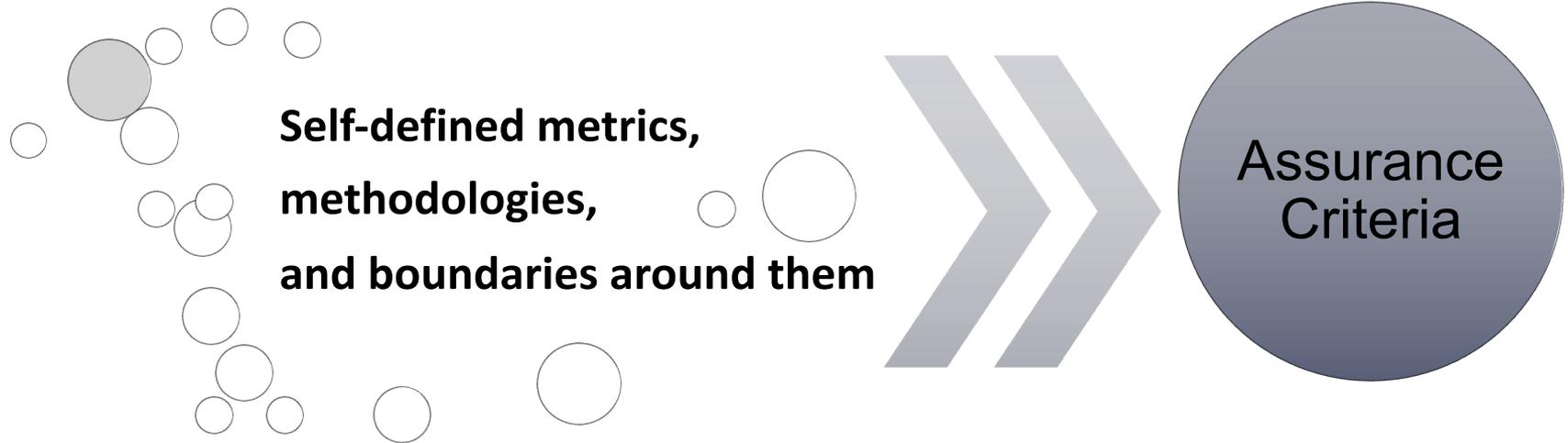
- **Regulators should provide some regulatory guidance on how to report and assure forward-looking climate risk information.**
- **The legal implications of the disclosures and the assurance should be clarified and communicated to the executives and directors.**

## 4. Findings – Assurance Criteria



- **GRI** remains the most popular assurance criteria
- **TCFD** and **SASB** gaining in popularity in 2020
- Companies' own policies and procedures become part of assurance criteria

## 4. Findings – Assurance Criteria

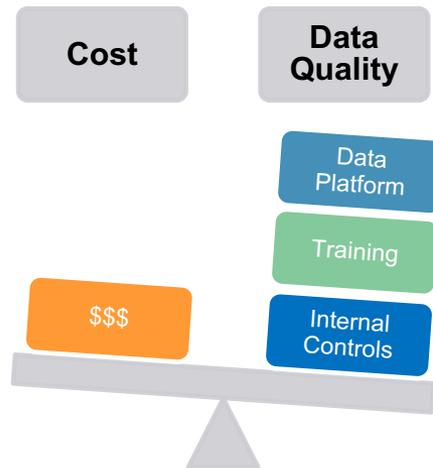


e.g. NGER Act for Australian operations vs. the New Zealand Ministry of Environment dataset for NZ operations.

**Recommendation 2.2:** Companies and their assurance providers should provide more **transparency** around the assurance criteria, especially when in-house methodologies, metrics and boundaries are used.

# 4. Findings – “Test of Control” Worthy Internal Controls

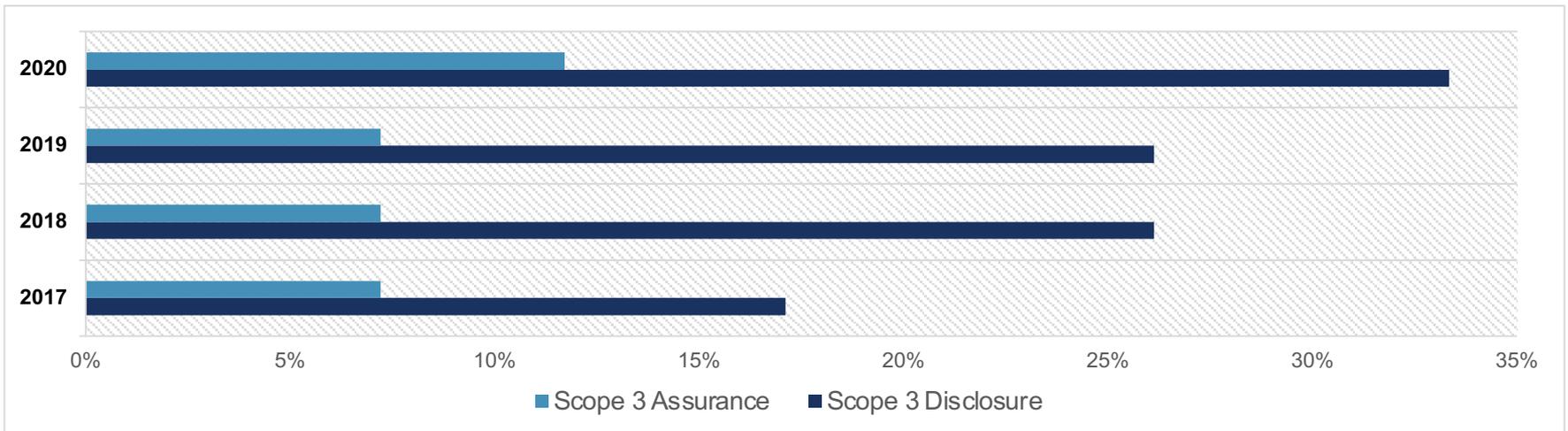
% of companies tested for internal controls on sustainability reporting



## Recommendation 4:

Regulators should consider the trade-off between data quality and cost when setting the regulations.

## 5. SCOPE 3 GHG EMISSIONS



### Interview Findings:

- Scope 3 emission estimates have a wide confidence interval (e.g., +/- 25%)
- Transparency around key assumptions, estimates, and methods for each category of scope 3 emissions
- Data quality scores such as Partnership for Carbon and Accounting Fundamentals (PCAF) should be encouraged and mandated.

# CONCLUDING REMARKS

