

IMPROVING THE EFFICIENCY OF CLIMATE-RELATED FINANCIAL DISCLOSURES | CONSULTATION PAPER

Australian Energy Producers | 2 October 2026

Australian Energy Producers welcomes the opportunity to make a submission to the Treasury on improving the efficiency of climate-related financial disclosures (CRFD).

AEP supports internationally aligned climate disclosures that inform investment decisions at a proportionate cost. Standardised CRFD should provide demonstrable, additional value for investors, with reporting obligations commensurate with the benefits delivered. AEP supports Treasury's objective of ensuring the framework remains practical, proportionate and useful to inform investor decision-making.

The Consultation Paper recognises the significant implementation effort undertaken by reporting entities since the commencement of mandatory CRFD requirements. However, organisations continue to face challenges associated with data availability, reporting methodologies, assurance capacity and interpreting and meeting disclosure requirements.

Reforms should reduce unnecessary compliance costs while preserving the quality and usefulness of disclosures. There remains uncertainty about whether the significant costs incurred by reporting entities deliver corresponding benefits for investors' understanding of how climate-related risks are managed.

Recommendations:

- 1. The phase-in of additional requirements should be paused until the 2028-29 Review is completed** | New reporting groups, increased assurance requirements, and mandating Scope 3 reporting should not be introduced while uncertainty remains over the scheme's effectiveness.
- 2. The CRFD framework should retain limited assurance requirements on an ongoing basis** | Current limited assurance arrangements are sufficient to meet the legislative objectives, align with international practice and minimise reporting costs and complexity.
- 3. Subsidiaries of multi-national groups should be exempt from reporting requirements** | Separate subsidiary reports impose significant compliance, reporting and assurance costs without providing commensurate additional value for investors, lenders and other creditors.
- 4. Clear, targeted guidance should be provided, supported by practical case studies** | Additional guidance would promote consistent interpretation and help auditors apply the flexibility built into the principles-based framework.
- 5. AASB S2 reporting should be better aligned with the National Greenhouse and Energy Reporting (NGER) Scheme and the International Sustainability Standards Board (ISSB) standards** | Greater alignment of reporting timeframes and requirements would help improve consistency and reduce regulatory burden.

Further comments and recommendations are provided below.

Pause further implementation until the 2028-29 Review

The Government should pause the phase-in of additional requirements until the 2028-29 Review is complete. The framework remains in the early stages of implementation. Reporting entities and other stakeholders need sufficient time to assess its practical impacts, costs and benefits before further obligations are introduced. There remains considerable uncertainty about whether the framework is achieving its policy objectives and delivering benefits commensurate with the costs incurred by reporting entities.

AEP members have made substantial investments in governance arrangements, reporting systems, emissions accounting, data management, assurance and specialist personnel. Introducing new obligations or expanding existing requirements before there is sufficient evidence regarding the effectiveness of current settings risks increasing compliance costs and regulatory complexity without improving outcomes.

Make Scope 3 Reporting Voluntary

If additional requirements are not paused, Scope 3 emissions reporting should be made voluntary. This would allow reporting practices to mature and provide time for the 2028-29 Review to consider whether Scope 3 disclosures would deliver consistent information that informs investment decisions at a proportionate cost.

Scope 3 emissions reporting remains one of the most challenging and uncertain aspects of CRFD frameworks globally. Obtaining Scope 3 data involves assessing complex value chains that extend across multiple organisations, industries and jurisdictions. Much of this data is outside the reporting entity's control, requiring reliance on secondary data, industry averages and modelling assumptions to estimate emissions. As a result, Scope 3 disclosures can vary significantly depending on the methodologies employed and the quality of information available. This creates challenges for reliability, comparability and usefulness in informing investment decisions.

The compliance burden associated with mandatory Scope 3 reporting is substantial. Reporting entities must devote significant resources to collecting, validating and estimating data over which they have limited influence or control. These costs may not deliver commensurate benefits in the quality or usefulness of the resulting information. Further, there remains limited evidence regarding how investors, lenders and other creditors are using Scope 3 information and whether current disclosures are sufficiently consistent and reliable to support meaningful comparisons between reporting entities.

Scope 3 emissions figures alone do not capture the broader emissions outcomes of Australian natural gas production and exports, such as reductions achieved where natural gas replaces coal. LNG has been estimated to reduce lifecycle carbon intensity in our region by 47 per cent compared to coal, providing substantial emissions reduction potential.¹

¹ See S&P Commodity Insights (2025), *Pathways to Accelerate Power Emissions Reduction in Asia*. The study considered the supply of LNG from Australia, the US and Qatar to Japan, Vietnam and the Philippines.

Maintain the limited assurance requirement

Limited assurance should remain the ongoing requirement, supporting international alignment and balancing confidence in disclosures with the practical challenges of CRFD. A limited assurance model provides an appropriate level of independent scrutiny while recognising the uncertainty inherent in many climate-related datasets and reporting processes.

CRFD frequently involve estimates, assumptions, forward-looking analysis and data that continue to evolve in quality and availability. While some emissions metrics draw on established reporting frameworks, methodologies and assurance practices for many other disclosures are still developing. Requiring reasonable assurance over this information risks imposing costs and verification demands disproportionate to the reliability of the underlying data, without resolving its inherent uncertainty.

Retaining limited assurance would also align Australia with international practice. The Treasury Consultation Paper notes that “Few, if any, jurisdictions plan to currently progress toward a reasonable assurance standard for sustainability reporting”.

There is currently insufficient evidence that increasing assurance requirements would deliver benefits commensurate with the additional costs. More extensive assurance obligations would increase reporting costs, place additional pressure on an already constrained assurance market, and create additional implementation challenges.

Exemptions for multi-national subsidiaries

Where Australian subsidiaries of multi-national groups are covered by equivalent consolidated group disclosures, duplicative reporting requirements increase administrative costs while offering limited additional benefits. Treasury should therefore provide an exemption to subsidiaries to reduce duplication while remaining aligned with the objectives of the International Sustainability Standards Board (ISSB) standards and CRFD framework.

The CRFD framework is based on the ISSB standards, which aim to provide material information that informs investment, lending and stewardship decisions. Capital allocation, climate strategy, governance arrangements and the management of climate-related risks and opportunities are typically determined at a group level rather than at the level of individual subsidiaries. As a result, the primary users of ISSB-aligned disclosures generally seek information about the performance, risks and opportunities of the consolidated group.

There is limited evidence that stand-alone sustainability reports prepared by Australian subsidiaries provide additional value to the market. AEP members have observed little demand for, or use of, subsidiary-level sustainability information because investors and creditors primarily seek information at a consolidated group level.

Clarify Requirements

The CRFD framework can be improved by clarifying requirements and concepts for reporting entities and assurance providers. A reoccurring challenge of the CRFD is uncertainty and misalignment regarding “materiality”, and what constitutes “reasonable and supportable

information...without undue cost or effort" that is "commensurate with the skills, capabilities, and resources that are available to the entity".

Although the principles-based nature of the framework provides flexibility, it also creates uncertainty regarding regulatory expectations, particularly where information is incomplete, data quality varies between sources, or organisations must rely on estimates and assumptions. AEP members have observed different interpretations of these concepts across assurance providers, resulting in varying expectations regarding the volume, granularity and evidentiary standard of supporting information.

This inconsistency can create significant implementation challenges. In some cases, reporting entities are required to undertake additional analysis, obtain legal review, collect supplementary information or commission external studies to satisfy assurance expectations, despite the framework expressly recognising that information may be incomplete, estimated or uncertain. These differing assurance approaches can increase compliance costs and create uncertainty regarding what is necessary to demonstrate compliance with CRFD requirements.

Practical non-mandatory guidance should be developed to ensure the framework's flexibility principle is reflected consistently in assurance practices. Reporting entities should be able to rely on consistent treatment of reasonable estimates, proxy data and professional judgement where primary information is unavailable or cannot be obtained without undue cost or effort. Assurance practices should recognise the practical realities associated with climate-related reporting, particularly in relation to value-chain information, forward-looking disclosures and emerging data sources.

Treasury, the Australian Securities and Investments Commission, the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board should work together to develop practical, non-mandatory guidance for reporting entities and assurance providers. Guidance should support proportionate and consistent application of the framework, with assurance expectations aligned with its intended flexibility.

Guidance should be supported by case studies demonstrating how concepts such as "materiality", "reasonable and supportable information" and "without undue cost or effort" apply in practice. Case studies should show when estimates, industry data, assumptions or incomplete value-chain information can support compliant disclosures. Case studies should cover climate scenario analysis, quantification of long-term climate-related risks and opportunities, Scope 3 emissions, vulnerable assets and business activities, and application of relief provisions. They should demonstrate a range of reasonable approaches while preserving flexibility across industries and circumstances.

Case studies should clarify the evidence and level of detail needed to support materiality assessments and quantitative disclosures. Organisations can devote substantial effort to demonstrating why information need not be disclosed, as well as preparing material disclosures. For example, paragraph 29(b)-(d) disclosures are most useful where climate-related risks and opportunities differ materially across an entity's assets, operations or business activities. However, where climate-related risks and opportunities are broadly consistent across an entity's portfolio, requiring detailed disaggregation is unlikely to provide meaningful additional insight for investors. In such circumstances, the disclosures can become highly subjective, particularly when assessing

whether specific assets or business activities are considered vulnerable to climate-related risks or aligned with climate-related opportunities.

Similarly, the application of paragraph 29(a)(iv), which requires disaggregation of emissions between the consolidated accounting group and other investees, can require significant implementation and assurance effort. A case study showing when these disclosures provide useful information, and when they offer limited additional value, would help reduce unnecessary regulatory burden.

Improve domestic and international alignment

Australia should align its scenarios requirements with ISSB standards to ensure consistency and the ongoing availability of robust scenario analysis. Australia's financial disclosure requirement mandates a scenario where global average temperature increase is limited to 1.5°C.² As scenario providers increasingly explore temperature overshoot pathways and a broader range of climate outcomes, reporting entities may face greater difficulty identifying scenarios that meet CRFD requirements. Treasury should consider allowing a broader range of credible, widely accepted and regularly updated scenarios while maintaining the policy intent of the CRFD system.

AEP supports efforts to align AASBS2 requirements with the NGER Scheme. Differences in reporting periods can increase regulatory burden and compress preparation timeframes. Organisations may need to run parallel processes, accelerate emissions calculations for sustainability assurance before NGER reporting is finalised, and reconcile subsequent data revisions or estimates. This duplication increases costs and creates timing pressures.

Treasury should explore options that enable appropriately qualified technical emissions experts to support both climate disclosure preparation and sustainability assurance processes. Greater recognition of these specialists would improve reporting quality, expand available expertise and reduce implementation costs by allowing organisations to leverage existing technical capability.

² Corporations Act 2001 (Cth), S296D(2B)(b); Climate Change Act 2022 (Cth), 3(a)(ii).