



NORGES BANK  
INVESTMENT MANAGEMENT

Climate Disclosure Unit  
Market Conduct Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600  
Australia

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## Climate-related financial disclosure

We refer to the Treasury's consultation on climate-related financial disclosure, running from 12 December 2022 to 17 February 2023. We welcome the opportunity to contribute an investor's perspective on the design and implementation of disclosure requirements for climate-related financial risks and opportunities in Australia.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with 12,429 billion Norwegian kroner at year end 2022. Of this total, 24.6 billion AUD is invested in the shares of Australian companies. We are a long-term investor, working to safeguard and build financial wealth for future generations.

As a long-term investor, we need information on companies' exposure to sustainability risks, how these are managed, and relevant performance metrics. We rely on both information related to the current performance of a company (i.e., how and where it creates value today) and information on drivers of value that may be predictive of its long-term performance. Sustainability information supports investment decisions, risk management processes and ownership activities. As a global investor, with holdings in companies in 70 different countries, we have a clear interest in this information being reported in a consistent and comparable manner across markets. That is why we have supported the establishment of the International Sustainability Standards Board and its mission to develop a comprehensive global baseline of corporate sustainability disclosures.

We encourage regulators and standard-setting bodies to set mandatory requirements for climate-related reporting, and strongly support basing the Australian's climate reporting regime on the forthcoming ISSB standards. Australia's alignment with international standards

Norges Bank Investment Management is a part of Norges Bank – The Central Bank of Norway

POSTAL ADDRESS  
P.O. Boks 0179 Sentrum,  
NO-0107 Oslo

OFFICE ADDRESS  
Bankplassen 2,  
Oslo, Norway

Tel. +47 24 07 30 00  
Fax +47 24 07 30 01  
Web [www.nbim.no](http://www.nbim.no)

Registration of  
Business Enterprises  
NO 937 884 117 MVA





is essential both to retain access to global capital markets and to minimise compliance costs for Australian businesses operating cross-border.

We support the expansion of mandatory disclosure requirements to listed and unlisted entities over time. This is important for creating a level playing field and for accurate reporting of scope 3 emissions, which depend on an entity's suppliers' and customers' scope 1 and 2 emissions. We do, however, recognise the implementation challenges, and therefore support phasing in the requirements over time. To ensure reliability of reported information, at minimum limited assurance could be required for climate disclosures under the forthcoming regime, with reasonable assurance required for scope 1 and 2 emissions. Assurance providers should be subject to independence and quality management standards set by the relevant international standard setters. This will support the consistency, comparability and reliability of sustainability-related information provided to the market and thus enhance its quality.

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Yours sincerely,

Carine Smith Ihenacho  
Chief Governance and Compliance Officer

Elisa Cencig  
Senior ESG Policy Adviser





## Key consultation questions

**Question 1:** What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:

- 1.1 What are the costs and benefits of meeting existing climate reporting expectations?

*Existing climate reporting standards, such as the TCFD recommendations, are broadly familiar to companies and other stakeholders having been issued in 2017. Furthermore, they form the basis of the existing jurisdictional mandatory reporting requirements. Therefore, there might be some benefits in basing the Australian climate-related disclosure framework on the TCFD framework, as this might facilitate compliance from entities in-scope. However, the ISSB has now issued a draft exposure standard on climate-related disclosures whose finalisation is expected soon. Given the forthcoming readiness of this standard for jurisdictional adoption and the time needed for the implementation of a mandatory disclosure framework, it would be more efficient to directly base Australian requirements on the ISSB standard, which is expected to represent the global baseline for sustainability reporting. We therefore encourage the Treasury to consider aligning the Australian framework with the ISSB standard. If existing climate reporting expectations (TCFD) were used instead, there would be significant costs for both businesses and policymakers alike in having to adjust the requirements to the more granular ISSB standard soon after implementation of the regime.*

- 1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

*Australia's alignment with international practice is essential to retain the benefit of the country's openness to global investors. Alignment with international standards is one of the guiding principles of the future framework, as per the consultation paper, and essential both to retain access to global capital markets and to minimise compliance costs for Australian businesses operating cross-border.*

*NBIM is a global investor with holdings in listed equities in 70 different countries. For sustainability information to support our investment decisions, risk management processes and ownership activities across our diversified portfolio, we need it to be reported in a consistent and comparable manner across markets. We therefore strongly support global baseline standards for climate and broader sustainability reporting.*

**Question 2:** Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

- 2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

*We support the expansion of mandatory disclosure requirements to all listed entities and ultimately unlisted over time. This is essential for creating a level playing field and for accurate reporting of scope 3, which depends on an entity's*



*suppliers' scope 1 and 2 emissions. Ensuring that mandatory disclosure applies to all entities across the value chain is the only way to ensure reliability and more broadly to solve data challenges. We do however recognise the reporting challenges for SMEs, and therefore support a phased and proportional approach to implementation of the requirements.*

**Question 3:** To which entities should mandatory climate disclosures apply initially?

- 3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

*N/A*

- 3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

*N/A*

**Question 4:** Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

- 4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?

*We strongly support the global baseline for climate and sustainability reporting represented by the International Sustainability Standards Board, and jurisdictional alignment with this global baseline. Minimising deviation from global standards ensures comparability and consistency of disclosures, which is helpful for global investors such as ourselves, but also for companies with value chains across jurisdictions. The benefits represented by the international alignment of disclosure requirements are higher than the benefits potentially offered by deviations from global standards, especially over time as deviations are often adopted to allow for a proportionate and less burdensome implementation in the short-medium term. To avoid fragmentation of the sustainability reporting landscape while adapting to the local context, the ISSB standards can be implemented with a "building blocks" approach whereby jurisdiction-specific standards and regulations can augment the global baseline.*

- 4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

*The climate disclosure standards currently being finalised by the ISSB are the most appropriate for the Australian reporting regime. The success of the ISSB standards as a global baseline is dependent on their jurisdictional adoption, and we therefore strongly encourage the Treasury to base the new climate reporting requirements on the ISSB. The "building blocks" approach can be used not only to expand the set of reporting topics beyond those covered by the ISSB, but also to address region-specific issues and meet jurisdiction-specific requirements and specificities.*



**Question 5:** What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

*We agree that the overall climate-related financial risk reporting framework should be consistent with the existing regulatory framework for financial reporting. It is important that this information is subject to the same internal governance and verification processes as financial information. The overarching climate disclosure obligations (strategy, governance, risk management and targets) could be built into legislation as opposed to ASIC regulatory guidance, as this would give more certainty on the overarching requirements.*

**Question 6:** Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

*We concur with ASIC 2019 regulatory guidance recommending that material climate-related risk should be disclosed in the directors' report as part of an operating and financial review, and believe that the new climate reporting requirements should continue to be included in an operating and financial review in line with existing practice. This is helpful to ensure that climate reporting information is subject to the same internal governance and verification processes as financial information, and will also help minimise additional regulatory burden. In particular, disclosure of an entity's transition plan as required under the strategy section of the IFRS Draft Standard on Climate-related Disclosures represents material information for investors and should be included as part of the operating and financial review, which must already contain information about business strategies under the Corporations Act. However, we understand the operating and financial review is required only for listed companies; careful consideration should therefore be given to the conduit which could best facilitate the implementation of the mandatory climate reporting requirements to unlisted companies over time.*

**Question 7:** What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

*We support the reference to the ISSB guidance on materiality, which is aligned with the definition of materiality in IFRS accounting standards thus facilitating the integration of climate reporting into general purpose financial reporting. The IFRS definition of materiality, which refers to information that could reasonably be expected to influence the decisions of primary users of general purpose financial statement if omitted, misstated or obscured, is familiar to reporting entities and wider stakeholders and broad enough to be applied to climate reporting materiality judgments.*

**Question 8:** What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

*In order to ensure reliability of reported information, limited assurance could be required for climate disclosures under the forthcoming regime. Disclosures on Scope 1 and 2 GHG emissions could be subject to reasonable assurance as this information often forms the core of analyses by investors. Companies should be encouraged to seek reasonable assurance of*



*other reported information where feasible, acknowledging that data availability and reporting methodologies do not always lend itself to this. Assurance providers should be subject to independence and quality management standards, ideally those set by relevant standard setters, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA), who are working towards global assurance and ethics standards which can support limited, and ultimately reasonable assurance of sustainability-related information. This will support the consistency, comparability and reliability of sustainability-related information provided to the market and thus enhance its quality.*

**Question 9:** What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

*Entities should report Scope 1, 2 and 3 emissions in line with the Greenhouse Gas Protocol to ensure international alignment and comparability.*

**Question 10:** Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

*We support the reference to the ISSB draft climate standard and its Appendix B to Exposure Draft IFRS S2 (Climate-related Disclosure), which includes industry-specific metrics based on the Sustainability Accounting Standards Board standards. The ISSB is currently working to enhance the international applicability of SASB-developed disclosure topics and metrics, and to transition the content of the Appendix B from illustrative guidance to requirement, subject to further consultation. A reference to the ISSB industry-specific metrics included in Appendix B to IFRS S2 in the Australian regime would therefore facilitate implementation of this future mandatory element of the ISSB standard for reporting entities.*

**Question 11:** What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

*We strongly support the inclusion of information on transition planning and use of carbon offsets in covered entities' disclosure. Disclosure of entities' short, medium and long-term targets and milestones as well as business and operational planning towards their published targets is essential to understand the credibility and feasibility of these plans. Likewise, it is useful for investors to know to what extent companies are relying on offsets and the risks linked to reliance on offsets or tools which are not yet commercially deployed at scale.*

**Question 12:** Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

*A phased timeline could be considered for disclosure requirements. For example, disclosure of emissions should be required straight away (at least Scope 1 and 2) but a separate phased timeline could be envisaged for some other elements such as the assurance requirements. Regarding Scope 3 GHG emissions, the ISSB is already considering relief as part of its S2 finalisation process, notably a temporary exemption from the requirement for entities to disclose their scope 3 emissions for a minimum of one year after the effective date*



of IFRS S2<sup>1</sup>. We think that the temporary relief built into the international standard eliminates the necessity for the Australian regime to consider additional phasing-in and will help ensure international alignment while addressing reporting entities' concerns.

**Question 13:** Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

N/A

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

N/A

**Question 14:** Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

*Some governance of the information necessary for companies to meet required disclosures would be useful to allow for comparability of information and to avoid excessive divergence of companies' assumptions. International alignment of the information needed to support disclosures is pivotal, and setting up a national entity to provide governance of this information may be challenging. While any such entity's guidance could refer to international organisations and guidelines, it might be challenging for it to govern the quantity of information required for the disclosures, such as the average emissions intensity of electricity grids across the globe.*

*Regarding climate scenarios specifically, it is important that companies retain flexibility in producing their own scenarios, building on recognised climate models, for example to assess how various industries and policymakers might respond to evolving developments in climate change and climate policy and technology.*

**Question 15:** How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

*A safe harbour regime for net zero targets or for Scope 3 emissions data might be necessary to avoid that companies are disincentivised to disclose due to legal liability concerns. However, a balance needs to be found with the aim of achieving accurate and comprehensive disclosures, so any potential safe harbour regime should be targeted and proportionate.*

**Question 16:** Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?

N/A

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<sup>1</sup> [IFRS - ISSB Update December 2022](#)



**Question 17:** While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

*Governance mechanisms should be flexible enough to allow for the incorporation of further sustainability reporting in a timely manner, particularly the expansion of ISSB standards beyond the climate standard S2 and the general sustainability-related disclosure standard S1. Sustainability reporting is fast-moving and there is a need for regulatory environments to adapt effectively to future global developments in standard setting.*

**Question 18:** Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

*Digital reporting should be encouraged for sustainability disclosure as it simplifies access to relevant metrics and data in a comparable manner across companies, thus meeting the needs of reporting users in a more efficient manner. However, since digital financial reports are rarely being used despite this already being a possibility, mandatory requirements or incentives might be necessary to achieve take-up of digital reporting formats. If sustainability reporting is integrated with financial reporting, which we believe is the optimal solution, then a consistent approach needs to be taken for both.*

*A possible intermediate practical solution, which might alleviate the burden for companies, is to provide only quantitative elements such as metrics, targets and KPIs in a pdf annex of the main document which allows for programmatic methods to extract the information for analysis.*

**Question 19:** Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

N/A