

Mr Jason Lange
Executive Director
Office of Impact Analysis
Department of the Prime Minister and Cabinet
1 National Circuit
BARTON ACT 2600

Email: Helpdesk-OIA@pmc.gov.au

Dear Mr Lange

Impact Analysis – Climate-related financial disclosures – Second Pass Final Assessment

I am writing in relation to the attached Impact Analysis (IA) prepared for the proposal to mandate climate-related financial disclosures.

I am satisfied that the IA addresses the concerns raised in your letter of 28 August 2023. Specifically, it:

- Clarifies the reasoning behind the need for Government intervention, highlighting the tools and stakeholder support that would allow for successful intervention with this reform.
- Provides reasoning as to why Treasury is currently unable to quantify the benefits of the reform.
- Provides a status tracker of the IA at each major decision point.

Compared with the baseline of continuing under the status quo, the recommended option is initially expected to add regulatory burden of \$1 million - \$1.3 million per year per reporting entity, stabilising around \$500,000 - \$700,000 per year per reporting entity as entities develop their capabilities. The cost range is likely to vary based on the size and activity of the entity.

As stated in the IA, the analysis of compliance costs and associated benefits is constrained by a lack of quantitative evidence, particularly with regards to the benefits of these reforms. Consultation with a broad range of stakeholders (both through written submissions and bilateral meetings) revealed strong support for the reforms based on widespread economic benefits, but very little information on the likely size of those benefits. The IA therefore identifies general and intangible benefits of improved sustainability disclosures, including likely lower cost of capital faced by firms and a more efficient allocation of resources, aligned with the transition to net zero.

Costs are expected to decline over the longer term as analysis of this nature matures, driven by widespread uptake. Although the regulatory burden imposed is significant, Treasury has made efforts, where possible, to mitigate regulatory costs. These include:

- Leveraging existing frameworks and legislative structures such as the *Corporations Act 2001 (Cth)* and the *National Greenhouse and Energy Reporting Act 2007*.

- Mandating requirements based on the proposed international baseline standard. This will likely improve interoperability across jurisdictions and reduce compliance costs for businesses operating across multiple jurisdictions.
- Modifying the liability framework to help stakeholders manage short-term uncertainty associated with parts of the reform.
- Making allowances for circumstances of smaller businesses that may not necessarily have the resources or internal capability to confidently disclose climate risk. The recommended option will only require these smaller entities to disclose if they have material climate risk.
- Phasing in companies from the largest businesses to ‘smaller’ businesses will allow more lead time to improve capability and for the assurance market to develop. This in turn will reduce short and long-run assurance costs.
- Treasury is also working with regulators to develop clear guidance and resources to assist in implementation, reducing some short-term costs.

Accordingly, I am satisfied that the IA is now consistent with the six principles for Australian Government policy makers as specified in the *Australian Government Guide to Policy Impact Analysis*.

I submit the IA to the Office of Impact Analysis for formal final assessment.

Yours sincerely



Brenton Philp
Deputy Secretary
The Department of the Treasury
5 September 2023