



Treasury

Contact: Sean Osborn  
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Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
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Dear Dr Kendall

**AASB Invitation to Comment ITC 48 *Extended External Reporting***

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to AASB Invitation to Comment ITC 48 *Extended External Reporting* (ITC 48). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC agrees that, if an immediate position is adopted by the AASB, the recommendations of the TCFD provide an appropriate reporting framework on a voluntary basis.

Applying the TCFD recommendations in the public sector in a way that provides meaningful information for users and is cost-effective, is likely to require some adaptation. HoTARAC members have a range of opinions on the matter. Several Australian governments are currently assessing their climate risk reporting and specifically the TCFD recommendations. Therefore, HoTARAC recommends the AASB continues to consult on the application of the TCFD recommendations specific to the public sector.

If you have any queries regarding HoTARAC's comments, please contact Sean Osborn from New South Wales Treasury on (02) 9228 5932 or by email to [sean.osborn@treasury.nsw.gov.au](mailto:sean.osborn@treasury.nsw.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stewart Walters'.

Stewart Walters  
CHAIR  
Heads of Treasuries Accounting and Reporting Advisory Committee  
8 January 2022

**ENCLOSED:**

HoTARAC Comments to the AASB on ITC 48 *Extended External Reporting*

## HoTARAC Comments to the AASB on ITC 48 *Extended External Reporting*

### Question 1

Do you agree with the need for the AASB to adopt an immediate position, or should the AASB continue not to adopt a position until a wider international consensus has been identified?

While any Australian entity can voluntarily currently adopt the TCFD recommendations, HoTARAC acknowledges the rationale for the AASB adopting an immediate recommended position. In particular, demand from private sector for-profit entities and investors. HoTARAC supports the general principle of sector-neutrality in Australian financial reporting, and suggests this policy may be relevant to prescribing sustainability standards. A majority of HoTARAC members did not explicitly agree with the need for the AASB to adopt an immediate position. Members who explicitly disagreed with the need for the AASB to adopt an immediate position cited the following reasons:

- Further analysis and consultation is required to determine the application of TCFD to the public sector. Refer to Question 3 for further comments.
- Further analysis is required to determine how the TCFD recommendations will interact with existing climate related disclosures (in progress or under development) by governments.
- Cost versus benefit of transitioning to TCFD before a wider international consensus has been identified, noting the following:
  - International developments in sustainability and climate reporting are evolving at a rapid pace. The International Sustainability Standards Board (ISSB) is expected to carry out a thorough public consultation in 2022 of its current prototypes on sustainability disclosures.
  - Adoption of any new reporting framework will undoubtedly have a significant cost, particularly initially. This could outweigh the benefits of adopting TCFD immediately, if the international position changes in a relatively short period of time.
  - Some jurisdictions have already begun or are planning to undertake significant work in 2022 on their climate-related disclosures. Any change in reporting requirements will inevitably result in additional costs.
  - Although the proposed AASB recommendation will be voluntary, it would create political and social pressure on the public sector to adopt the recommendation immediately.

Only one HoTARAC jurisdiction explicitly agreed with the need for the AASB to adopt an immediate position, citing agreement with the reasons outlined in ITC 48.

### Question 2

Assuming that an immediate position is adopted as contemplated by the proposal, should the position be applied on a voluntary or mandatory basis?

A majority of HoTARAC members agree that, assuming an immediate position is adopted, the position should be on a voluntary basis. The following reasons were provided in support of a voluntary basis:

- Limited consultation to date on TCFD;

- Uncertainties on the future direction of climate-related reporting;
- EER is an onerous task requiring significant funding and resources. A voluntary basis will provide time to build capabilities and resources;
- Provides flexibility to individual entities on the timing of adoption;

No HoTARAC members support a mandatory position.

### **Question 3**

Assuming that an immediate position is adopted and regardless of whether the position is adopted on a voluntary or mandatory basis, do you agree that the recommendations of the TCFD provide an appropriate framework for this position?

A majority of HoTARAC members agree that, assuming an immediate position is adopted, the recommendations of the TCFD provide an appropriate framework for the reasons noted by the AASB in ITC 48. One HoTARAC member explicitly disagrees with the need for the AASB to identify a recommended framework at this point in time.

A majority of HoTARAC members believe further work may be needed to apply the TCFD recommendations to the public sector. The Taskforce on Climate-related Financial Disclosures was established to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. Several Australian governments are currently assessing the extent to which the TCFD recommendations may need to be adapted to particular features of the public sector.

### **Applying the TCFD recommendations in the public sector context**

Some HoTARAC members are of the view that the TCFD recommendations are most relevant at a consolidated whole of government (WoG) level and, at this level, the disclosures in the public sector will be more comparable with the private sector.

In government, policies and decisions are generally made at a WoG level and individual agencies often have minimal autonomy in decision making. Therefore, meaningful disclosures in line with the TCFD recommendations on governance, strategy, risk management, metrics and targets, may be most relevant at the WOG level.

Due to the costs and resources required to adopt TCFD, some HoTARAC members believe it would only be beneficial to adopt TCFD on a gradual or staged basis at the WOG level. At least one HoTARAC jurisdiction is in the early stages of piloting TCFD for a small sample of individual agencies. HoTARAC recommends the AASB continues to consult with its members on how TCFD is best applied to the public sector.

### **Examples of potential challenges adapting TCFD for the public sector**

#### **Banking and Insurance Entities**

In the private sector, banks and insurers contract multiple third-party external customers at arm's length. Each customer will have different risk metrics. These businesses have discretion over who they lend to or insure.

In the public sector, it is common to have central treasury corporations and internal-to-government insurance entities (including captive insurers). These treasury corporations and public sector insurance entities, effectively have one client, being their governments. They do not have the same discretion that private sector banks have regarding who they lend to.

The TCFD recommendations and supplemental guidance<sup>1</sup> appear to assume that banks will formulate climate risk management policies and integrate management of those risks (and opportunities) into their core business and client lending operations. For a banking-type entity, this would include integrating and assessing climate risk (both physical and transition risk over varying time periods) in the client loan assessment recommendation and loan covenant monitoring process.

However, in the public sector, these activities reside with central government, as the policy setter. This is consistent with how investors assess the credit worthiness of each state as a whole – not the treasury corporation (or insurer) on a stand-alone basis. Therefore, it would be impractical for financial service entities in the public-sector to apply the TCFD banking disclosures to their stand-alone operations in the same way that a private sector bank does, as they have two very different operating models.

### **Impacts of climate risks on individual government agencies**

Most government agencies are financed largely from appropriations from their central government's consolidated fund. This means the impacts of climate risks on revenue and expenditures, will often relate to a decision of central government or treasury department, rather than the individual agency.

For example, if an agency is exposed to climate risk that results a significant reduction in revenue, the government will frequently step in to provide additional funding in order for the agency to continue to meet its service objectives. In this case, the financial impacts and the relevant financial disclosures as recommended by the TCFD, are most appropriately reported at a WoG level where climate risks and opportunities are managed.

### **Decisions of cabinet**

In the public sector, effective governance and risk management disclosures may at time be constrained by cabinet-in-confidence protocols.

### **Cost versus benefit**

A key benefit of climate related financial disclosures should be the usefulness of information to stakeholders. While the TCFD recommendation were primarily established to help identify the information needed by investors, lenders, and insurance underwriters, in government, the key stakeholders and users of financial information are creditors, investors, regulatory bodies, and the general public.

HoTARAC agrees public sector stakeholders are interested in the climate related risks and opportunities at a WoG level. The costs-to-benefits of replicating TCFD disclosures at an individual agency level, are not yet clear. For example, individual agency level reporting could result in hundreds of entities reporting for the one government.

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<sup>1</sup> [Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures](#), Part D Supplemental Guidance for the Financial Sector