

AADA RESPONSE TO THE 'IMPROVING THE EFFICIENCY OF CLIMATE-RELATED FINANCIAL DISCLOSURES' - CONSULTATION PAPER

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CONTENTS

Section 1: Foreword	03
Section 2: Impact of climate reporting obligations on franchised new car dealers	04
Section 3: Changes to large proprietary company thresholds	05
Section 4: Scope 3 emissions reporting	06
Section 5: Proposed reforms	07
Section 6: Conclusion	10

FOREWORD

The Australian Automotive Dealer Association (AADA) welcomes the opportunity to respond to the ‘*Improving the efficiency of climate-related financial disclosures*’ consultation paper.

The AADA is the peak industry advocacy body exclusively representing franchised new car and truck dealers in Australia. There are more than 3,900 car and truck dealerships across the country, ranging from family-owned small businesses to large publicly owned businesses operating in regional areas and capital cities. The new vehicle retailing sector employs more than 64,000 people, including approximately 7,500 apprentices, contributes more than \$21.5 billion to the national economy, has total turnover of \$91.3 billion and generates more than \$8.2 billion in tax and duty revenue.

The AADA supports greater transparency and visibility of climate-related financial risks and the intent of Australia’s climate-related financial disclosure framework. The AADA also recognises the value of improving the quality and consistency of climate-related information available across the economy.

However, as the framework is implemented and reporting obligations begin to flow through complex supply chains, there is a risk that the regime may impose unnecessary or disproportionate compliance burdens on businesses that are not themselves subject to mandatory reporting requirements. This is particularly relevant for small and medium businesses that may be asked to provide increasingly detailed information to larger businesses to support their reporting obligations.

The AADA therefore welcomes Treasury’s consultation on opportunities to reduce unnecessary compliance costs while maintaining the quality of climate-related reporting. In particular, the AADA supports the consultation’s focus on establishing clearer boundaries around information requests and ensuring that reporting requirements operate proportionately in practice.

IMPACT OF CLIMATE REPORTING OBLIGATIONS ON FRANCHISED NEW CAR DEALERS

Australia's franchised new car and truck dealers operate as part of broad global automotive supply chains, with close commercial relationships with vehicle manufacturers, financiers, suppliers, customers and other businesses. While dealers sell and service vehicles for particular brands, they are independently owned businesses operating under franchise agreements with vehicle manufacturers.

The application of climate-related reporting obligations will vary significantly across the new car retailing industry. Some businesses such as larger dealer groups may be directly captured by the reporting requirements and will need to collect information across their own operations and supply chains. Other smaller and medium sized dealers may fall outside the mandatory reporting thresholds but still form part of the supply chains of manufacturers, and other businesses that are required to report.

93 per cent of Australian new car dealers operate under a franchising model, and in this context, dealers already provide manufacturers with a significant amount of operational and commercial information as part of their franchise arrangements. As climate-related reporting develops, manufacturers and other reporting entities may seek additional information from dealers to support their own disclosures, including information that dealerships do not currently collect as part of their normal business operations.

Many dealer groups are franchised to several vehicle brands and also have commercial relationships with multiple financiers, fleet and rental companies, insurers, suppliers and property providers, any of which may themselves be subject to climate-related reporting requirements. A dealer may therefore be asked to provide climate-related information to a number of different entities, potentially using different methodologies, reporting periods or systems. While each request may be reasonable in isolation, responding to similar requests in different forms could create a significant cumulative administrative burden.

This means the impact of climate-related financial reporting on dealers cannot be considered only within the context of businesses that are directly captured by the mandatory reporting thresholds. The requirements can also impose costs further along the supply chain as reporting entities seek the information necessary to meet their own obligations. This is particularly relevant as Scope 3 reporting requirements take effect, and is reflected in Treasury's recognition that value-chain information requests can create disproportionate costs and compliance impacts, particularly for SMEs.

The AADA considers that the reporting framework must therefore not only be workable and proportionate for dealers that are directly captured, but also ensure that the cost and administrative burden of compliance is not unnecessarily transferred downstream to dealers and other businesses that are not themselves required to report.

CHANGES TO LARGE PROPRIETARY COMPANY THRESHOLDS

The AADA welcomes the Government's announcement that the thresholds for determining whether a proprietary company is 'large' will be increased from \$50 million to \$100 million in revenue and from \$25 million to \$50 million in assets. The AADA supports the timely implementation of these changes, which as a result will remove smaller Group 3 entities from mandatory climate-related financial reporting requirements.

The increase in these thresholds recognises that the costs associated with mandatory reporting need to be proportionate to the size and resources of the businesses captured by the framework. For smaller businesses, establishing the systems, processes and expertise needed to comply with climate-related financial reporting can represent a significant regulatory burden.

This is particularly relevant in the context of franchised new car dealers, where the industry includes a number of large multi-brand dealer groups, but also includes many smaller, family-owned businesses. These smaller businesses can often record relatively high levels of turnover because of the high value of the vehicles they sell, despite having comparatively small workforces and operating on relatively low margins.

Increasing the revenue threshold from \$50 million to \$100 million will reduce the likelihood that smaller and family-owned dealerships are brought within mandatory reporting requirements primarily because of the value of the products they sell.

The AADA therefore supports the Government proceeding with the announced threshold increases as soon as practicable, alongside measures to ensure that the benefit of removing smaller businesses from mandatory reporting is not undermined by substantial reporting requirements being passed down through the value chain.

SCOPE 3 EMISSIONS REPORTING

The benefit of increasing the reporting thresholds could be substantially lessened if smaller businesses that are no longer directly captured are nevertheless required to undertake significant additional work to provide information for the Scope 3 reporting of larger businesses.

As noted in the consultation paper, obtaining information across a reporting entity's supply chain can create costs for businesses that are not themselves subject to mandatory reporting requirements. This is an important issue for franchised dealers, where a dealer that falls outside the mandatory reporting thresholds could still receive significant information requests from manufacturers, financiers and other reporting entities. Where that information is not already collected by the dealership, responding may require new data collection, systems or processes, and for multi-brand dealer groups, these costs could increase further where similar information is requested by several businesses in different forms.

The AADA considers that the Government should examine whether mandatory Scope 3 reporting can be removed or substantially limited, particularly where obtaining the information imposes significant costs on businesses that are not themselves subject to mandatory climate-related financial reporting. If changes of this nature fall outside the scope of the current consultation, the AADA considers that the treatment of Scope 3 reporting should be considered as part of the broader statutory review commencing after 1 July 2028.

If Scope 3 reporting is retained, the AADA strongly supports Treasury's work to establish clearer boundaries around value-chain information requests and reduce the burden placed on smaller businesses. Businesses that are deliberately excluded from mandatory reporting requirements should not effectively be required to establish equivalent reporting systems in order to satisfy the obligations of larger businesses.

PROPOSED REFORMS

Proposal 1 - Streamline assurance requirements

The AADA supports retaining limited assurance as the ongoing assurance requirement, which would help minimise the cost and complexity of compliance for reporting entities.

Proposal 2 - Improve consistency and guidance on proportionality

The AADA supports Treasury providing clearer and more practical guidance on ‘proportionality’, which will be particularly important for smaller businesses that are captured by reporting requirements due to turnover thresholds.

The AADA has previously explored the development of common climate-reporting resources for franchised dealers, including scenario modelling and carbon accounting. There is an opportunity to reduce duplication and compliance costs by undertaking some of this work at an industry level, rather than requiring individual dealer groups to develop the same approaches independently.

This type of approach could be particularly valuable for smaller reporting entities that do not have dedicated sustainability teams or the resources available to larger corporations. They would still remain responsible for their own disclosures and would need to account for their individual circumstances, but could draw on common industry work rather than separately undertaking the same foundational work.

As Treasury considers how proportionality can operate more effectively in practice, the AADA encourages the consideration of the role that industry-led solutions can play in reducing the cost of compliance for smaller reporting entities, and how Government can support the development and use of these approaches.

Proposal 3 - Establish clearer boundaries on value-chain information requests

The AADA strongly supports Treasury’s proposal to establish clearer boundaries around the information that reporting entities seek from businesses within their supply chains.

As outlined above, this is particularly important for businesses that fall outside the mandatory reporting thresholds but may still be asked to provide information to support the Scope 3 reporting of larger businesses. Without clear boundaries, there is a risk that some of the compliance burden the Government is seeking to remove from smaller businesses through the increased reporting thresholds is instead passed back to them through information requests.

This is particularly relevant to franchised dealers, which may receive requests from manufacturers and other reporting entities despite not being directly captured by the reporting requirements. The nature and extent of these requests will ultimately determine how significant the indirect compliance burden becomes for dealers.

The AADA considers that the framework should seek to minimise unnecessary information requests and considers that the measures proposed under Options 3a and 3b provide practical opportunities to achieve this.

› **Option 3a - additional guidance on what constitutes a reasonable request for information**

The AADA supports the approach noted in Option 3a, to provide additional guidance on what constitutes a reasonable request for information.

The AADA considers that guidance should make clear that the reasonableness of an information request needs to take into account the size and resources of the business receiving the request, whether the information is already collected as part of its normal operations, and the cost and effort required to provide it.

For dealers, there should be a clear distinction between providing information that can readily be extracted from existing business and dealer management systems and being required to undertake new data collection or analysis solely for another entity's reporting purposes. Where a request would require significant new systems, external expertise or ongoing reporting processes, a higher threshold should apply before that information is sought.

The importance of clarification around reasonable requests for information is particularly important in the context of commercial relationships and dependency. Franchised new car dealers operate under ongoing franchise agreements characterised by an inherent power imbalance between a franchisor and franchisee. While dealers will reasonably be expected to provide information they already hold, there is a risk that the work and cost involved in meeting a reporting entity's obligations could be transferred to smaller businesses that sit downstream.

The AADA considers that guidance on reasonable value-chain information requests should guard against this outcome. In determining whether a request is reasonable, consideration should be given not only to whether the information can be provided, but also to the cost and administrative burden imposed on the business providing it and whether the information could reasonably be obtained through another source. The AADA also supports Treasury's proposal to include practical and sector-specific examples in its guidance. This would help reporting entities understand what can reasonably be requested from smaller businesses and give businesses receiving requests greater certainty about what they are expected to provide.

› **Option 3b - Greater use of domestic emissions factors**

The AADA considers that greater use of reliable secondary data has the potential to reduce the amount of information that reporting entities need to obtain directly from individual businesses. This could be particularly useful in the automotive industry, where a manufacturer or other reporting entity may be seeking information across a large network of individual businesses.

Where emissions can reasonably be estimated using reliable emissions factors or other existing data, requiring each dealer to separately collect and provide primary data may add considerable administrative effort without necessarily providing a corresponding benefit.

The new car retailing industry provides an excellent example of how secondary data sources could reliably predict downstream emissions. Significant information about vehicles, their characteristics and emissions are already collected and reported through established regulatory and industry systems. This includes CO₂ emissions data used for the New Vehicle Efficiency Standard (NVES), information recorded through the Register of Approved Vehicles (RAV), vehicle registration data and industry sales data such as VFACTS. Manufacturers also hold extensive information about the vehicles they manufacture and supply, while government already publishes emissions factors that can be used to estimate emissions from activities such as electricity and fuel use.

This means that much of the information needed to estimate emissions associated with the automotive value chain may already exist or be capable of being reasonably estimated from existing datasets. Requiring individual dealerships to separately calculate or recreate information about vehicles or activities that can already be determined from reliable manufacturer, government or industry data would add cost and duplication without necessarily improving the quality of the resulting disclosure.

Franchised dealerships also undertake broadly similar activities, notwithstanding significant differences in their scale. This is inherent in the franchise model, where dealers operating under the same brand commonly undertake similar vehicle sales, servicing and other dealership activities. Reliable emissions factors or other industry-level data could therefore provide a practical basis for estimating some emissions without requiring every individual dealership to develop its own methodology or reporting capability.

There will be circumstances where primary data is necessary, and the AADA is not suggesting that secondary data should replace it in all cases. However, where a reasonable and reliable estimate can be produced using existing information or recognised emissions factors, requiring primary data from each individual dealership may impose additional costs without a corresponding improvement in the usefulness of the information.

The AADA therefore supports the development of publicly available domestic emissions factors and considers that reporting entities should be encouraged to use reliable secondary data wherever appropriate before seeking additional primary data from smaller businesses within their supply chains.

CONCLUSION

The AADA supports efforts to improve the efficiency of Australia's climate-related financial disclosure framework and reduce unnecessary compliance costs. The announced increase in the large proprietary company thresholds is a welcome step, particularly for smaller and family-owned businesses that may record high turnover without having the resources of a comparably sized large corporation.

As the framework continues to be implemented, particular attention should be given to Scope 3 reporting and the potential for compliance costs to be transferred to businesses that are not themselves subject to mandatory reporting. The AADA considers that the Government should examine whether Scope 3 reporting can be removed or substantially limited and, if retained, ensure that clear boundaries apply to information requests and that existing and secondary data is used wherever reasonably possible.

Alongside these reforms, the AADA supports retaining limited assurance and greater recognition of industry-level approaches that can reduce duplication and compliance costs for businesses directly subject to the regime.

If you require further information or clarification in respect of any matters raised, please do not hesitate to contact me.

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