

21 July 2023

Climate Disclosure Unit
Market Conduct and Digital Division
Treasury

By email: climatereportingconsultation@treasury.gov.au

Dear Sir/Madam,

Climate-related financial disclosure: Second consultation

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members are Australian and international asset owners and institutional investors with over AU\$1 trillion in funds under management. Through research, engagement, advocacy and voting recommendations, ACSI supports members in managing ESG investment risk and exercising active ownership to strengthen investment outcomes. Active ownership, including the management of climate related risk, allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

This submission draws on ACSI's long-standing practice of detailed engagement with listed companies in relation to climate-related risks and opportunities, as well as detailed research into market practice. ACSI is responding to this consultation with the perspective of reporters (as many of our members would be required to report) and as the users of climate related reporting (as produced by underlying investee companies).

Summary of ACSI's position

As a representative of long-term investors in the Australian market, ACSI welcomes the proposed introduction of requirements for mandatory climate-related financial disclosures set out in the Climate-related financial disclosure: Second Consultation ('Second Consultation Paper'). The introduction of mandatory climate-related financial disclosure underpins the overarching policy goal of supporting decarbonisation of the economy and meeting the 2050 net zero target. This reporting framework will serve as one policy lever among the combination of legislation and regulation required to provide a policy environment that supports and encourages decarbonisation. We encourage coordination across the various policy makers to set ambition that would see Australia and the world meet the goals of the Paris Agreement.

ACSI welcomes the introduction of mandatory climate-related disclosures.

The development of an internationally aligned Australian reporting framework is a logical step towards a global baseline for sustainability reporting. Climate-change risks are financial in nature and deeply embedded across the economy. These risks represent a significant challenge for Australian companies and investors, including superannuation funds. Mandating the disclosure of this information will assist investors' investment analysis, risk assessment, stewardship activities, and due diligence processes. In particular, ACSI welcomes the proposal to adapt the ISSB Standard for the Australian context. Capital markets are global, and consequently there is strong investor appetite for comparability and consistency across jurisdictions. ACSI notes that the Second Consultation Paper is silent on some aspects of IFRS S2 Climate-related Disclosures (IFRS S2). We expect all elements of IFRS S2 to be consulted on in the development of the AASB Standard. In addition, the phase-in of coverage and reporting, accompanied by a transitional modified liability regime, recognises that reporting capabilities will scale up over time. There are substantial methodological and data challenges to be resolved

before mandating scope 3 emissions reporting. The time lag and effect on data accuracy should be clearly provided for in the AASB Standard and the regulatory approach. The proposed reporting relief from disclosing scope 3 emissions in the first year and the ability to report previous financial year information in the current reporting period is reasonable.

More information on policy process would be beneficial.

ACSI recognises that the release of the Second Consultation Paper is the beginning of a policy process that will incorporate the development of guidance and an AASB Standard. Consequently, many of the details, including finalised reporting requirements, will be the subject of future consultations. We welcome the opportunity to work with policy makers on developing a fit-for-purpose reporting framework that supports the disclosure of transparent, comparable and material information about climate change risks and opportunities that caters to the specific needs of each audience.

ACSI considers that an implementation guide clarifying the policy process would be beneficial, particularly for non-listed entities reporting under these regulations. The guide would provide further clarity in respect of the following:

- The specific guidance that is proposed to be developed.
- A clear timeline for the production of guidance, including consultation with technical experts, industry and investors.
- The regulator or policy maker that will be responsible for enforcement, the development and management of each type of guidance.
- Information on how each guidance, the legislation and the AASB Standard will interact. This should include information on how this reporting requirement will align with existing guidance or regulations. For example, APRA-regulated entities already have guidance around reporting climate risks, including scenario analysis (CPG 229 Climate Change Financial Risks).

More clarity on application of requirements for financial institutions is needed.

We note that the objective of this reform is two-fold: to inform capital markets and to assist policy makers in understanding the broader systemic risks. However, the Second Consultation Paper and the ISSB Standard are primarily focussed on the provision of information to capital markets. This means that non-listed entities are not explicitly considered as preparers. For example, it is unclear how reporting requirements will be applied to asset owners or asset managers who rely on different information and have different audiences for their reporting disclosure compared to listed entities. While not the focus of this submission, smaller private companies will also be reporting under a framework designed for listed entities.

This approach creates gaps for non-listed entities' understanding of reporting requirements, particularly in regard to:

- **Financed emissions.** While most entities will be reporting on operational emissions, asset owners and asset managers will be reporting on their portfolio emissions, relying on information provided by their investees or the funds they manage. This will create a time lag in information availability, as investors will only be able to access information after investee entities disclose. There will be a longer time lag for asset owners, including superannuation funds, as they may also be dependent on information sourced from asset managers, who will in turn be waiting on information from investees. This may make it challenging for asset owners to meet the same reporting dates as other entities as they will need time to receive the data, collate, reconcile and then release the consolidated information. Another potential challenge is that some investees may be located in jurisdictions that have not, or have not yet, adopted the ISSB standard. These investees consequently may not disclose the required information or may provide information in a way that does not satisfy reporting requirements, such as not disclosing whether the information has been verified or its method of estimation. In addition, as more information becomes available, previous years financed emissions will be updated to reflect the availability of more and more accurate information. The Australian climate reporting framework should recognise these data challenges for investors, which at present is not explicitly considered in the Second Consultation Paper or the ISSB Standard. For example, additional disclosure guidance is provided in the ISSB Standard for asset managers' financed emissions, but not for asset owners.¹
- **Reporting location.** The Second Consultation Paper states that climate disclosures would be required

¹ IFRS, [Industry-based Guidance on Implementing Climate-related Disclosures](#)

to be published in an entity's annual report. However, the Second Consultation Paper does not give clear guidance on how climate information should be included in the annual report.

Given the gaps in the understanding of reporting requirements, ACSI recommends that within the policy process, as legislation and an AASB Standard is developed, Treasury considers:

- the relationship between the purpose of this reporting and the entity reporting, and
- the additional reporting guidance necessary to support non-listed entities, including asset owners.

This would support a clearer understanding of the purpose of, and audience for, the data being disclosed. This could be achieved through the provision of additional guidance before reporting requirements come into effect, including:

- **Financed emissions.** ACSI considers that greater clarity on the application of financed emissions reporting requirements is needed. We recommend that further guidance on the application of approaches to measuring financed emissions is developed in consultation with industry ideally before reporting requirements commence. In addition, guidance should address the disclosures that should accompany the reporting of estimated or unverified data. This could be achieved through regulatory recognition that the proportion of the portfolio covered under financed emissions reporting can grow over time and that reporters of financed emissions may either estimate the remainder of the portfolio (as contemplated in IFRS S2) or report on a percentage of their portfolio as the data gap closes.
- **General reporting guidance.** As asset owners, asset managers, and other users of financial information will be reporting different information from listed entities, it would be appropriate to provide these reporters general guidance on how the reporting requirements apply to their business types. This should include reference to the location of reporting. ACSI considers a flexible approach that allows cross referencing to satisfy requirements to report in the Annual Report would be an optimal approach.
- **Guidance on the application of materiality.** This guidance could be developed for specific types of unlisted entities that have different sources of information and/or different reporting audiences, such as asset owners and asset managers. For example, the most material scope 3 emissions for a reporting superannuation fund is likely to be the magnitude of financed emissions (category 15) whereas for an oil and gas company it's likely to be the magnitude of emissions from products sold (category 11). Efforts spent on meeting reporting requirements should be prioritised towards the most material categories of emissions – across Scope 1, Scope 2 and Scope 3 – which vary across industries. Equally, as smaller private companies are included in the reporting framework in Group 3, more clarity around the application of materiality for entities with relatively low emissions or little physical risk would support the Second Consultation Paper's reform principles that disclosures are proportional to risk.
- **Guidance on 'reasonable basis'.** ACSI strongly recommends that this regime should be accompanied by clear ASIC guidance on how disclosures should be framed, including disclosure of assumptions, uncertainties and methodologies, along with guidance as to what constitutes a 'reasonable basis' under the modified liability regime to give reporters comfort that their disclosures align with regulatory requirements.

I trust our comments are of assistance. Please contact me or Kate Griffiths, Executive Manager – Policy and Research (kgriiffiths@acsi.org.au), should you require any further information.

Yours faithfully



Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

CONSULTATION QUESTIONS

| Consultation question | ACSI response |
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| <p>Reform principles</p> | <p>ACSI notes that one of the reform principles, 'Internationally-aligned,' is that the climate-related financial disclosure framework should align with international reporting requirements as much as possible. ACSI expects that all elements of IFRS S2 to be consulted on in the development of the AASB Standard.</p> <p>International reporting requirements will be set by both IFRS S2 and IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1). We note that the Second Consultation Paper only refers to the IFRS S2. We recommend that consideration be given also to how IFRS 1 can support the final reporting requirements of IFRS S2 (for example IFRS S1 contains guidance in relation to materiality and changes to estimates and assumptions) in support of international alignment and applicability.</p> |
| <p>Proposal 1 All entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 (Cth) would be required to make climate-related financial disclosures.</p> | <p>ACSI considers that a phase-in approach for coverage is reasonable. The phase-in coverage approach targets the largest companies and heaviest emitters, which are also key engagement targets for investors seeking enhanced climate disclosures. At the same time, we note that the reporting framework appears predominantly designed for listed entities, creating potential challenges for preparers who are not listed entities in understanding how the reporting requirements apply to them. ACSI recommends that any gaps be addressed during the policy development process, via explicit regulatory recognition and guidance, well before the commencement of reporting requirements.</p> <p>Finally, ACSI considers that the standard of disclosure should be set at the parent entity level, not the company level, as per the Modern Slavery Act legislation.</p> |
| <p>Proposal 2 Principles of financial materiality would apply.</p> | <p>ACSI supports the proposal for the principles of financial materiality to apply. As noted in our submission to the first round of consultation, using the same approach as the ISSB will mean that the reference point for materiality will be internationally aligned (UK and New Zealand have also adopted the ISSB approach), investor-focused and considered over the short, medium and long term.</p> <p>We note that an investor-focused definition does create a disconnect when considering the disclosure of information by investors. The materiality definition (and other aspects) will consequently need some further explanation when the reporters are asset owners, asset managers or other users of financial statements. Guidance on the application of materiality will also be important to determine appropriate levels of reporting required for smaller private companies with relatively low emissions or limited physical risk.</p> |

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| <p>Proposal 3</p> <p>From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.</p> | <p>ACSI agrees that governance information should be disclosed from the commencement of reporting.</p> |
| <p>Proposal 4 & 5</p> <p>Proposal 4</p> <p>From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.</p> <p>Proposal 5</p> <p>From commencement, reporting entities would be required to disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the <i>Climate Change Act 2022</i> (holding the increase in the global average temperature to well below 2 degrees above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 degrees above industrial levels).</p> | <p>ACSI supports the phasing in of requirements around scenario analysis disclosure. The disclosure standards allow for varying levels of sophistication, taking into account the company's level of experience, their exposure to climate risks and opportunities, and the availability of supporting methodology and datasets. The transition period will both allow companies to upskill and further develop Australian specific climate scenarios for the Australian sector.</p> <p>We note that the Second Consultation Paper states that one of the two scenarios should align with the goal outlined in the Australian Climate Change Bill. This legislation aligns to the Paris Agreement that has a goal of limiting warming to well below 2°, with an aim of limiting it to 1.5°. This allows reporters to adopt a range of scenarios (i.e., one reporter could report against a 1.5° scenario, while another will report against a 2° scenario), and will reduce the comparability of scenarios. Consequently, ACSI recommends that reporting requirements state that one of the at least two scenarios disclosed should be a 1.5° scenario. Further ACSI recommends that the second scenario should be based on current warming trajectories (with the degree warming that is identified in the requirements based on latest projections) to allow for the resilience of the reporting entities to be assessed under best and worst case conditions. As part of the disclosure, reporters should explain the assumptions used and the limitations of the scenario analysis.</p> <p>We further recommend that more guidance is provided, even if not in the form of standard scenarios, to reporters, particularly to those who have not reported their scenario analysis before. This guidance should also align with existing guidance on scenario analysis for APRA-regulated entities (CPG 229 Climate Change Financial Risks). Providing guidance would also support reporters to produce scenarios that are comparable. For example, the External Reporting Board (XRB) in New Zealand provides guidance on the development of scenarios.² This guidance could be underpinned by the Australian-specific sector pathways that the Australian Government has committed to developing.</p> |

² [Microsoft PowerPoint - Scenario analysis - Getting started at the sector level \(xrb.govt.nz\)](https://www.xrb.govt.nz/scenarios-analysis-getting-started-at-the-sector-level)

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| <p>Proposal 6 & 7</p> <p>Proposal 6 From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.</p> <p>Proposal 7: From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.</p> | <p>We welcome the inclusion of transition plan and target setting reporting requirements. We support the requirement for disclosure around the nature of carbon credits used to meet reported targets. While we agree, at a high level, on these reporting requirements, we note that the actual reporting content will not be clear until the development of the AASB Standard. We note that the reporting requirements for transition plans set out in the ISSB Standard are an appropriate base for the AASB Standard. In addition, the AASB Standard should consider what transition plan requirements are appropriate for reporters not contemplated under the ISSB Standard, such as asset owners. For example, APRA-regulated entities are already guided by CPG 229 Climate Change Financial Risks. Reporting requirements for these entities should align with all existing regulation.</p> <p>In addition, guidance (if produced to support better practice transition plan reporting should incorporate experience from international jurisdictions (such as the UK's Transition Plan Taskforce) and consultation with technical experts, industry, and investors. While the Second Consultation Paper notes that stakeholders have called for guidance on better practice reporting on transition plans, there are no clear commitments for such guidance to be produced.</p> |
| <p>Proposal 8</p> <p>From commencement, entities would be required to disclose information about material climate-related risks and opportunities to their business, as well as how the entity identifies, assesses and manages risks and opportunities.</p> | <p>At a high level ACSI agrees that this information should be disclosed at the commencement of reporting requirements. The Second Consultation Paper does not provide detailed information on this reporting requirement. The extent to which the IFRS S2 will be adopted will be consulted on in the AASB Standard Consultation, including about specific types of physical and transition risks and opportunities, and the information and methodologies required to be disclosed. We note that the ISSB Standard sets out an appropriate base on which the AASB Standard can be based. However, we note that the accompanying Industry-based Guidance on Implementing Climate-related Disclosures³, that outlines potentially relevant disclosure topics by sector, only references asset managers and not asset owners. Relevant topics for asset owners should be considered when developing the AASB Standard.</p> <p>There is existing guidance for the reporting of material climate change risks, ie. APRA's Prudential Practice Guide CPG 229 Climate Change Financial Risks. It will be important to ensure that in the development of any AASB Standard that existing guidance is taken into account and in doing so help align expectations.</p> |

³ IFRS, [Industry-based Guidance on Implementing Climate-related Disclosures](#), p.118

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| <p>Proposal 9</p> <p>From commencement, scope 1 and 2 emissions for the reporting period would be required to be disclosed.</p> | <p>ACSI supports this requirement and it aligns with our submission to the first phase of consultation. Scope 1 and 2 emissions reporting is becoming more common across the ASX.</p> <p>Paragraph 29-32 of the ISSB Standard is a reasonable base on which to develop the AASB Standard for scope 1 and 2 emissions.</p> |
| <p>Proposal 10</p> <p>Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up 12 months to the current reporting period.</p> | <p>The data and methodological challenges associated with scope 3 emissions reporting make it appropriate to have a relief on scope 3 emissions disclosure in the first year of reporting. At present a range of methodologies are used to disclose scope 3 emissions. As entities start to report their scope 3 emissions, the use of different methodologies will negatively affect the ability of investors to compare reporting. ACSI recommends that guidance be developed on scope 3 reporting, to both assist reporters disclosing this information for the first time, and to enhance the useability of the disclosures for investors and policy makers. This guidance should contain clear stipulations around boundary setting. At present entities reporting scope 3 emissions employ different boundaries, which means that there is no ability to compare across companies, even in the same sector.</p> <p>ACSI recommends that guidance on the application of financed emissions reporting requirements is developed in consultation with industry well in advance of commencement of reporting requirements. As noted above, asset owners' scope 3 emissions are very different from those of a listed company. Asset owners' financed (scope 3) emissions comprise the scope 1 and 2 emissions of thousands of underlying investee companies. ACSI welcomes the ability of reporters to use data from previous financial years in their reporting of scope 3 emissions. The Second Consultation Paper does not address the specific methodological and data challenges associated with financed emissions beyond acknowledging that estimations are likely to be used. Reporters of financed emissions are reliant on the information provided to them by their investees. Asset owners will have investments that will not provide that information. For example, asset owners may have investments in overseas locations where mandatory climate-related financial reporting requirements do not apply. As a result, a substantial percentage of financed emissions may not be able to be disclosed or will rely on estimates beyond the initial reporting periods.</p> <p>ACSI recommends that guidance is provided on the disclosures that should accompany the reporting of estimated or unverified data. This could be achieved through regulatory recognition that the proportion of the portfolio covered under financed emissions reporting can grow over time and that reporters of financed emissions may either estimate the remainder of the portfolio (as contemplated in IFRS S2) or report only on a percentage of their as the data gap closes.</p> |

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| <p>Proposal 11</p> <p>By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity.</p> | <p>ACSI recommends that an implementation guide be developed to outline when, and by which authority, these metrics will be developed. We support the inclusion of 'well-established and understood metrics' so that reporting requirements start from when indicators are relatively well developed. We welcome the Second Consultation Paper's proposed approach to consultation on these matters.</p> |
| <p>Proposal 12</p> <p>Reporting will be in annual report and continuous disclosure obligations will apply.</p> | <p>The consultation paper is unclear on how climate reporting will be integrated into annual reporting. The commentary in the Second Consultation Paper appears to suggest that some types of preparers will be able to employ cross-referencing to fulfil their reporting requirements, while others will not.</p> <p>We note that the reform principles in the Second Consultation Paper includes, 'scalable and flexible.' Requiring all reporters to disclose their climate reporting in the Annual Report may not provide an appropriate degree of flexibility, given the range of preparers.</p> <p>ACSI considers that preparers should have flexibility in their methods of incorporating climate reporting into their Annual Report, such as via cross referencing.</p> |
| <p>Proposal 13</p> <p>Assurance will be phased in.</p> | <p>ACSI agrees that assurance requirements should be phased in, reflecting that many reporters (and assurers) will be significantly scaling up in capability over time. In this context, the timeline and content of the assurance expectations outlined in Table 3 of the Second Consultation Paper is overly ambitious given the limited pool of qualified sustainability assurance experts and the relatively quick requirement for reasonable assurance requirements.</p> <p>Other jurisdictions with mandatory climate reporting have taken a methodical approach to assurance in recognition that entities are still in the early stages of reporting. In New Zealand, assurance is limited to emissions reporting. The UK does not require assurance, but the Financial Reporting Council does review selected annual reports.</p> <p>We anticipate that additional clarity on assurance requirements will be available after the finalisation of:</p> <ul style="list-style-type: none"> • AASB Standard reporting requirements, and • The International Auditing and Assurance Standards Board (IAASB) project developing an overarching standard on sustainability reporting. <p>We understand that the plan for assurance requirements may change depending on the finalised reporting requirements. ACSI recommends that further consultation on proposed assurance expectations be undertaken when reporting requirements are confirmed and the anticipated limitations across the market are better understood.</p> |

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| <p>Proposal 14</p> <p>Liability and Enforcement. Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provision to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.</p> | <p>Many companies are already making forward-looking climate related disclosures without negative consequence. While forward-looking disclosures, such as emissions reduction targets, need to be carefully considered, the liability issues can be avoided by clear disclosures, in particular in relation to methodologies, assumptions and uncertainties. However, we recognise that some reassurance is now required for the stakeholders that are not yet reporting and are perhaps concerned about liability.</p> <p>Consequently, while we do not consider it necessary, ACSI does not oppose the design of the modified liability regime. We would not support any extension of the modified liability approach after the end of the transition period.</p> <p>There is also a need to update ASIC's regulatory guidance to provide comfort to preparers. This guidance should include examples of forward-looking statements relevant to climate related financial disclosures and the supporting evidence and processes that reporting entities should have in place. For example, guidance could include appropriate disclosure of methodologies, assumptions and uncertainties, along with what constitutes a 'reasonable basis' for this reporting.</p> |
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