



Climate-related financial disclosure

Consultation paper

December 2022

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Contents

- Contents** ii
- Consultation Process** 3
 - Request for feedback and comments 3
- Keywords and definitions** 4
- Climate-related financial disclosure consultation** 5
 - Introduction 5
 - Reform principles 6
 - Process 6
 - Key considerations 8
 - Covered entities and timing 8
 - International alignment of disclosures 9
 - Regulatory framework for required climate disclosures 10
 - Periodic reporting requirements 11
 - Materiality of climate risks 12
 - Assurance of climate risks 12
 - Reporting of metrics (including emissions), offsets and transition plans 13
 - Data and capability to support climate reporting 14
 - Governance of supporting information for disclosures 15
 - Proportionate application of liability 15
 - Interaction with other reporting obligations 15
 - Other implementation issues 16
 - Ensuring the financial reporting framework is fit for purpose to support climate risk disclosures 17
 - Potential Structure 1. Confirm the AASB as the entity responsible for developing, making and monitoring climate and sustainability related standards 17
 - Potential Structure 2. Establish a separate sustainability standards board 18
 - Potential Structure 3. Reform existing financial reporting bodies into a single, flexible entity 19
- Key consultation questions** 21



Consultation Process

Request for feedback and comments

This consultation paper seeks initial views on key considerations for the design and implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. Views are also sought on other matters relevant to climate disclosures, such as necessary changes to ensure Australia’s financial reporting bodies can keep pace with the expansion of international standard-setting priorities on climate and sustainability reporting.

Closing date for submissions: 17 February 2023

- Email** climatereportingconsultation@treasury.gov.au
- Mail** Climate Disclosure Unit
 Market Conduct Division
 The Treasury
 Langton Crescent
 PARKES ACT 2600
- Enquiries** Enquiries can be initially directed to the above email address.

Keywords and definitions

Term	Definition
AASB	The Australian Accounting Standards Board (AASB) is an independent, non-corporate Commonwealth entity of the Australian Government that develops, issues and maintains accounting standards applicable to entities in the private and public sectors of the Australian economy.
AUASB	The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.
FRC	The Financial Reporting Council (FRC) is a statutory body that provides oversight of the processes for setting accounting and auditing standards in Australia, monitors the development of international accounting and auditing standards, works to further the development of a single set of accounting and auditing standards for world-wide use and promotes the adoption of these standards.
IFRS	The International Financial Reporting Standards (IFRS) Foundation is a not-for-profit established to develop a globally accepted accounting and sustainability disclosure standards, the Standards are developed by their two standard-setting boards, the International Accounting Standards Board (IASB) and the ISSB.
ISSB	Establishment of the International Sustainability Standards Board (ISSB) was announced at COP26 in November 2021 to develop a comprehensive global baseline of sustainability disclosures for the capital markets.
Scope 1, 2, and 3	Scope 1 covers direct greenhouse gas emissions from owned or controlled sources. Scope 2 covers indirect greenhouse gas emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company. Scope 3 includes all other greenhouse gas emissions that occur upstream and downstream in a company's value chain.
TCFD	The Task Force on Climate-Related Financial Disclosures (TCFD) was created by the Financial Stability Board (FSB). In 2017, the TCFD released climate-related financial disclosure recommendations.

Climate-related financial disclosure consultation

Introduction

Climate change is recognised internationally as a material risk to the global financial system – a risk which needs to be managed by capital markets, regulators and corporations. This includes both the physical risks of climate change and the transition risks associated with policy, regulatory and technological change brought on by efforts to mitigate climate change.

A common and important tool to manage both individual and systemic climate-related financial risks is disclosure of those risks. Since the Taskforce on Climate-related Financial Disclosures (TCFD) released its recommendations in 2017, there has been a steady increase in demand for disclosure by investors and jurisdictions mandating TCFD-aligned disclosures. In Australia, financial regulators have issued guidance that climate-related financial risks must be disclosed as part of existing obligations to disclose material risks, recommending TCFD as a framework for disclosure.

Driven by Australia's strong demand for foreign capital and position as an open and well-regulated economy, Australian businesses have generally been on the front foot in meeting market and regulatory expectations. In 2021, Australia had the 4th largest number of TCFD-supporting organisations by jurisdiction.¹ However, the frontier of global best practice continues to shift outward as capital markets and investors demand better quality, internationally-comparable disclosures. Several jurisdictions are contemplating or have introduced mandatory requirements for large businesses to disclose their climate-related risks. For example, both New Zealand and the United Kingdom (UK) recently passed legislation that made climate-related disclosures mandatory for a subset of businesses. The United States of America (US), Switzerland and Singapore are also developing mandatory climate disclosure requirements.

In response, multilateral regulatory bodies, such as the Financial Stability Board (FSB) and the International Organisation of Securities Commissions (IOSCO), have heightened their focus on the quality and standardisation of disclosures. Most recently, a new International Sustainability Standards Board (ISSB) was created to develop comprehensive baseline global standards for climate disclosure (based on the TCFD) and sustainability reporting. Draft standards have been issued for consultation², and the ISSB is now providing regular updates on how the standards will be refined in response to stakeholder feedback.

These developments create a potential guidance gap for Australia, as market expectations for certainty may not be met without government action and without efforts by businesses to continue to improve the quality of their disclosures. This could be costly for the economy if it affects the ability of firms to raise capital. To ensure Australia remains aligned with major international capital markets, disclosure obligations need to be credible and comparable to other prominent jurisdictions. They need to provide investors with decision-useful information about the financial risks that firms face from climate change and provide regulators with information to identify and manage systemic risks.

The Government has committed to ensuring large businesses provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities. As part of this commitment, the Government will introduce standardised, internationally-aligned reporting requirements for businesses to make disclosures regarding governance, strategy, risk management, targets and metrics – including greenhouse gasses. To deliver

1 <https://www.fsb.org/2021/10/2021-status-report-task-force-on-climate-related-financial-disclosures/>

2 <https://www.ifrs.org/news-and-events/news/2022/05/issb-outlines-actions-required-to-deliver-global-baseline-of-sustainability-disclosures/>

on this commitment, legislative and other reforms will be required. Applying the standardised requirements will be mandatory for certain entities.

The Treasurer has announced that Treasury will lead the development of a broad sustainable finance framework for Australia, of which climate-related disclosure will form one part. This consultation paper focuses solely on climate disclosure reforms. The Minister for Finance will lead related work to implement appropriate arrangements for comparable Commonwealth public sector entities and companies to also disclose their exposure to climate-related risk.

Reform principles


The following principles will guide the climate-related financial disclosure reforms, and the final design of new requirements. Responses and feedback received through consultation will be considered against these principles when developing a preferred design for further consultation.

Principle	Definition
1 Support climate goals	Climate disclosure reforms should assist with: Australia's transition to net zero emissions by 2050; adaptation to a changing climate; and broader efforts and initiatives to promote a sustainable financial system in Australia and internationally.
2 Improve information flows	Reforms should deliver clear improvements in the quantity, quality, and comparability of disclosures, which will help regulators to assess and manage systemic risks and other risks to investors, strengthen transparency and improve the flow of useful information to investors (including what actions are being taken to mitigate risks).
3 Well-understood	Businesses, investors, regulators and the public should have a clear and common understanding about obligations for entities to disclose climate-related financial risks. This will require prescription of whom they apply to, how and when they should be made, and clarifying details on content of disclosures.
4 Internationally aligned	New requirements should, as far as possible, be aligned with international reporting practices, to minimise compliance costs for Australian businesses that operate internationally, and to ensure Australia's regime is viewed with credibility by international markets.
5 Scalable and flexible	New requirements should, where possible, build on the existing financial reporting system, and be scalable and flexible to accommodate future developments in the global baseline for climate and sustainability reporting, to minimise the expected compliance costs and potential for unintended consequences.
6 Proportional to risk	Climate disclosure requirements should be proportional to the risks they seek to address, particularly regarding whom they apply to, what costs those entities will incur, what data or capability they will require and what liability they may enliven.

Process

Treasury is leading consultation on the implementation of the Government's commitment to standardised climate disclosures, with close support from the financial regulators and standard-setting bodies.

This consultation paper seeks views on key considerations for the design and implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. Views are also sought on other matters relevant to this commitment, such as necessary changes to the mandates of Australia's financial reporting bodies, to ensure they can



keep pace with the expansion of international standard-setting priorities on climate and sustainability reporting.

Key questions to be considered at this stage of consultation include the coverage, scope, frequency, format, timing, and international alignment of the requirements. Views provided in this consultation will help shape the more detailed design of the new requirements, including the legislative and governance model and interaction with other reporting obligations. In line with the policy principles, this consultation will consider how to ensure new requirements are proportionately targeted and seek views about data and capability underpinning ability to implement climate disclosures.

Feedback can be provided to climatereportingconsultation@treasury.gov.au until 17 February 2023.

The Government will consider views submitted in response to this consultation paper and set out a specific design proposal for further consultation, which will provide more detail of the new reporting requirements, their implementation and sequencing. Where legislation is required to give effect to the new requirements, it is intended that exposure draft legislation will be released.

In accordance with the Australian Government Guide to Regulatory Impact Analysis, a Policy Impact Analysis will be developed as part of this reform. Views on the costs and benefits of implementing new requirements for climate reporting will be collected through this and future consultation papers to inform the final Policy Impact Analysis.

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

Key considerations

Covered entities and timing

Initial timing and phased implementation

International implementation of climate disclosure has generally followed a ‘phased’ approach with many countries applying obligations to an initial set of entities and gradually expanding to a greater range of entities. Many of these initial reporting obligations will commence in 2023 (such as the UK or New Zealand) or 2024 (Canada, Switzerland).

Disclosure mandates could follow a similar pattern in Australia. There are advantages to phasing in disclosure requirements by initially targeting larger entities, maximising the initial benefit from increased transparency. Larger entities have more resources to adequately respond to new requirements, while smaller firms have time to benefit from the institutionalisation of reporting in the market prior to commencing their own reporting. Views are sought on a phased approach which could, for example, commence in 2024, with the first reports being required for financial year 2024-25 (in line with conventional statutory timeframes). This would see Australia implement new requirements in a timeframe consistent with other comparable jurisdictions.

Large, listed entities

The Government has committed to applying standardised climate-related financial disclosure requirements to large businesses. In comparable jurisdictions, such as New Zealand, the UK and the European Union, such disclosures are or will be mandatory for large, listed businesses and financial institutions. In jurisdictions developing mandatory disclosure, including Hong Kong, Switzerland and Japan, disclosure is anticipated to apply to large, listed businesses and financial institutions.

As a starting point in Australia, it is proposed that standardised climate-related financial disclosure requirements would initially apply to certain listed entities covered by the *Corporations Act 2001* (Corporations Act), with views sought on the size thresholds that could be applied to determine the mandatory application of new requirements (for instance, market capitalisation, turnover, and/or number of employees). As outlined above, disclosure requirements could gradually be applied to smaller listed entities over time, as climate reporting capability is institutionalised in Australia.

While most of the progress to date in uptake of climate reporting has come from listed companies, this consultation will also consider views on whether listed schemes should have standardised climate disclosure requirements.

Financial institutions

It is proposed that mandatory climate-related financial risk disclosure requirements would also apply initially to large financial institutions (such as banks, insurers, credit unions and superannuation funds), to provide consistency across the economy and to support the management of prudential risk. This could require legislative changes to other relevant Acts. Views are sought on appropriate size thresholds to determine this initial requirement.

Other entities

In some jurisdictions, such as the UK and the EU, mandatory climate risk disclosure applies to some large entities that are not publicly listed. While an immediate focus of this reform is improving

transparency for investors, views are sought on whether equivalent reporting requirements should apply to large entities that are neither listed nor considered financial institutions. This may be necessary to give regulators the greatest scope to manage systemic risk, or to avoid creating adverse competition impacts between entities not covered and incentives for regulatory arbitrage.

If new requirements are applied through the Corporations Act, some entities that would not be covered include:

- sole traders
- unincorporated bodies
- trusts
- partnerships
- statutory bodies of a state government
- other bodies corporate not regulated by the Commonwealth.

Views are sought on whether there would be any significant consequences of excluding some or all of these entities from climate-related financial disclosure requirements.

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?

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?
- 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?

International alignment of disclosures

It is common among international jurisdictions with mandatory climate disclosure that those requirements are TCFD-aligned. While the TCFD recommendations have seen strong uptake in Australia, they leave significant scope for disclosures to vary in reporting across entities. The ISSB aims to fill this gap by providing the necessary standardisation and comparability between climate disclosures, as part of a comprehensive global baseline of sustainability-related disclosure standards.

The Government has committed to requiring businesses to make climate-related disclosures regarding governance, strategy, risk management, targets and metrics – including greenhouse gasses. As these are common disclosure pillars under both the TCFD and ISSB, there is scope to deliver a reporting requirement that is initially TCFD-aligned and able to reflect ISSB standards when they become available for jurisdictional adoption.

Treasury is engaging closely with the financial regulators and standard-setters on the implementation of the Government's commitment. The Australian Accounting Standards Board (AASB) and the Council

of Financial Regulators (CFR) have undertaken consultation on the draft ISSB standards for the purpose of providing views to the ISSB through their established links with the International Financial Reporting Standards (IFRS) Foundation and IOSCO. Further views are sought in this paper about the potential implementation of the draft ISSB standards in the Australian context noting that this paper also consults on governance arrangements for the body that would adopt and/or modify ISSB standards.

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?
- 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?

Regulatory framework for required climate disclosures

Legislative changes are required to give legal effect to new climate-related financial risk reporting requirements. It is proposed that the overall regulatory framework for these requirements should be broadly consistent with the existing regulatory framework for financial reporting. As a reference point, the existing financial reporting framework consists of legislation, regulatory guidance, listing rules, standards, standard setting boards, and professional bodies (see below).

	Rules/guidance created by
Who needs to report?	The Corporations Act/Corporations Regulations
What needs to be reported?	The Corporations Act/Corporations Regulations
To whom should listed entities report?	ASIC, ASX
Who sets the standards for reporting?	The AASB and AUASB, under broad oversight by the FRC

Under a similar framework for climate reporting obligations, it is envisaged that legislation will likely set out (at a minimum) the details of covered entities, the location for any reporting requirements (e.g. in the annual report), and requirements to follow prescribed standards when making climate-related financial disclosures.

In terms of what must be reported, climate reporting frameworks such as TCFD and the draft ISSB standards include a mixture of overarching disclosure obligations (governance, strategy, risk management, targets and metrics) and prescriptive requirements that sit underneath these overarching obligations. It is proposed that for Australian implementation, the more prescriptive details would be provided by climate standards. However, there are at least two possible options for the position of overarching obligations within the regulatory framework:

- incorporate the overarching obligations for climate disclosure (governance, strategy, risk management, targets and metrics) into legislation and build out the detail of those obligations through standards and guidance; or

- build on existing requirements to disclose any material risks as part of an operating and financial review, with overarching obligations for climate disclosures set through regulatory guidance or standards.
 - For example, ASIC regulatory guidance currently recommends TCFD as a framework for climate disclosures. If ISSB standards were adopted in Australia, guidance could instead direct affected entities to apply the proposed ISSB standard '*IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*', which sets out overarching requirements for sustainability disclosures based on the four TCFD pillars of disclosing governance, strategy, risk management, targets and metrics.

As part of this consultation, stakeholders are encouraged to provide views on where these general obligations should sit in the overall regulatory framework, including alternatives if warranted. However, the final design will depend on a number of considerations, including but not limited to:

- the reform principles outlined in this paper; the final design of the proposed ISSB standards
- the relative balance of flexibility versus certainty offered by the different options
- clearly defining the role and scope of a standard setter
- necessary interactions with other reporting requirements
- other legislative design considerations.

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)?

Periodic reporting requirements

Views are sought on where the new standardised requirements could be located in relation to existing periodic reporting requirements. Australian listed entities reporting on their climate risks to date have generally done so either through the directors' report or in a separate sustainability report. ASIC regulatory guidance ([Regulatory Guide RG 247 Effective disclosure in an operating and financial review \(asic.gov.au\)](https://www.asic.gov.au/regulatory-guide-rg-247-effective-disclosure-in-an-operating-and-financial-review)) was updated in 2019 to recommend that, where climate change represents a material risk, it should be disclosed in the directors' report as part of an operating and financial review as required under the Corporations Act. In line with the principles outlined in this paper, new requirements would seek to build on existing practice in Australia, to minimise any additional regulatory burden and costs.

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?

Materiality of climate risks

Australia's corporate law requires material risks to be disclosed. While there is established understanding of financial materiality, assessing materiality of climate and sustainability reporting is an evolving area. ASIC's climate risk guidance (discussed above) states that for future financial years, disclosures should include the most significant areas of uncertainty or exposure, at a whole-of-entity level, that could have an adverse impact on future financial performance³. In 2021, APRA updated their prudential guidance to assist boards with assessing the financial risks arising from climate change, which it stated businesses needed to be prepared for.⁴ The AASB have also released guidance on how materiality judgements apply to climate related risks⁵.

In its most recent guidance material, the TCFD recommends using financial materiality principles when making climate disclosures, but suggests that Scope 1 and 2 emissions should be disclosed regardless of materiality. The framework for sustainability disclosures that the ISSB is currently developing initially proposed that materiality judgements would be made with reference to 'enterprise value'. Recent updates have indicated⁶ that this term will be removed and the ISSB will use the same definition of materiality as in IFRS accounting standards, with potential for additional sustainability-related guidance. Views are sought on application of materiality judgments in the Australian implementation of climate reporting and ISSB standards.

Assurance of climate risks

While certain entities must have their financial reports audited, assurance is currently not required on sustainability reports. PwC analysis found that 66% of businesses do not have their ESG reports externally assured.⁷ As climate disclosure becomes mandatory across the globe, demand for assurance of disclosures has grown. For example, in the third phase of New Zealand's regime, elements of disclosures relating to greenhouse gas emissions will be required to have independent assurance. Views are sought on what level of assurance (if any) should be required for climate-related financial disclosures.

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)?

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?

³ Regulatory Guide RG 247 Effective disclosure in an operating and financial review (asic.gov.au)

⁴ <https://www.apra.gov.au/news-and-publications/apra-finalises-prudential-guidance-on-managing-financial-risks-of-climate>

⁵ https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finished.pdf

⁶ <https://www.ifrs.org/news-and-events/news/2022/10/issb-unanimously-confirms-scope-3-ghg-emissions-disclosure-requirements-with-strong-application-support-among-key-decisions/>

⁷ <https://www.pwc.com.au/assurance/esg-reporting-australia-2021.pdf>

Reporting of metrics (including emissions), offsets and transition plans

Greenhouse gas emissions

Internationally aligned disclosure regimes frequently require disclosure of greenhouse gas emissions, such as Scope 1 and 2 emissions. Views are sought on the potential interaction between any new requirements and existing national emissions reporting frameworks such as the National Greenhouse & Energy Reporting (NGER) framework, Corporate Emission Reporting Transparency Initiative (CERT) and Climate Active's Carbon Neutral Standards, and how to ensure consistency and minimise duplication for affected entities that also report emissions through these frameworks.

For Australia to deliver a climate reporting regime that is internationally aligned, it is also proposed that some requirements to disclose Scope 3 emissions will apply. This is included in the draft ISSB standard and is recognised as an increasingly important metric for assessing an entity's transition-related climate risks. Requirements to disclose Scope 3 emissions are included in both the US Securities and Exchange Commission's draft climate disclosure rules and the EU's draft European Sustainability Reporting Standards. As part of this consultation process, views are sought on key considerations that should be applied to requirements to report material Scope 3 emissions.

Other metrics

In addition to emissions, other metrics may assist reporting entities and investors to assess climate-related risks and opportunities. The FSB's *Roadmap for Addressing Financial Risks from Climate Change*⁸ suggests that standardising disclosures of these metrics could improve comparability, and the ISSB draft climate standard includes a proposed appendix of industry-specific metrics, based on the Sustainability Accounting Standards Board's standards. Views are sought on whether new requirements in Australia should (aside from absolute emissions as proposed above) define consistent metrics for disclosures, including either economy wide or industry-specific metrics.

Offsets and transition plans

There is growing international focus on greater transparency and comparability in how businesses and financial institutions report on their commitments in relation to climate change. The TCFD and ISSB require details about how targets and goals are set and met to be disclosed, as well as information about the use of greenhouse gas emissions offsets. However, there are initiatives underway to provide consensus about what must be demonstrated to make claims about being aligned with, for example, the Paris Agreement or net zero emissions by 2050.

Phasing of specific disclosure requirements

In some jurisdictions, specific disclosures (for instance, Scope 3 emissions reporting in the US Securities and Exchange Commission's proposed rules) have a separately phased timeline from the broader requirements. Views are sought on whether similar considerations should apply in Australia.

⁸ <https://www.fsb.org/2022/07/fsb-roadmap-for-addressing-financial-risks-from-climate-change-2022-progress-report/>

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?

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

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?

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

Data and capability to support climate reporting

There is growing international recognition of data challenges relevant to assessing climate risks. In 2021, the FSB released a roadmap which identified a priority of improving the availability and consistency of data on the underlying drivers of climate-related risks.⁹ Further, a 2022 Network for Greening the Financial System report highlighted the need for more forward-looking data (for example, targets or emissions pathways) and granular data (for example geographical data at entity and asset-levels).¹⁰ Some of the proposed disclosures may help close some of these gaps. For example, consistently measured Scope 1 and 2 emissions disclosures by an entity's suppliers would improve the entity's ability to estimate Scope 3 (indirect) emissions. Views are sought on how data challenges could impact entities applying new requirements in Australia and how they might be addressed.

A related issue is the capability of users and preparers to collect, interpret and report data required to make climate disclosures. Views are sought on the extent to which these capabilities can be augmented ahead of common international timelines for mandatory climate reporting (2024-2025), whether there are salient data and capability gaps in specific disclosure requirements, and whether there are particular international initiatives that could help address these challenges.

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?

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

⁹ <https://www.fsb.org/2021/07/the-availability-of-data-with-which-to-monitor-and-assess-climate-related-risks-to-financial-stability/>

¹⁰ https://www.ngfs.net/sites/default/files/medias/documents/final_report_on_bridging_data_gaps.pdf

Governance of supporting information for disclosures

Climate disclosures made in line with both the TCFD and ISSB will reference some necessary supporting information that the disclosing entity does not directly produce. For instance, scenario analysis may draw partially or entirely on externally produced scenarios, where an entity provides information about the resilience of their strategy in response to these scenarios. Similarly, there may be other relevant scientific information or methods for calculating emissions (particularly Scope 3 emissions) which may lie outside the TCFD or the ISSB standards. For any of this information, views are sought on whether a particular authority should be responsible for providing information for use in climate-related financial disclosures in Australia, and the governance of that information. For instance, a standard-setter or a scientific body could provide agreed scenarios to be used in scenario analysis.

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?

Proportionate application of liability

Disclosure requirements under the Corporations Act are backed by civil penalties to ensure markets are adequately informed and to provide remedies for misleading or deceptive conduct. Compared to financial reporting, climate disclosures involve substantial use of forward-looking information and may depend upon external parameters that are subject to uncertainty, such as climate scenarios. Consequently, consideration is warranted for how climate disclosures should interact with the prohibitions in the Act, to ensure that entities have appropriate incentives to provide accurate, comprehensive, and timely disclosures without taking on disproportionate liability risk.

ASIC's existing advice for forward-looking statements is that they must be made on 'reasonable grounds' (with reference to s769C and s728(2) of the Corporations Act). Views are sought on how this could be applied in the context of climate disclosures, and whether other mechanisms to address the balance between incentivising disclosure and penalising misconduct could be considered. For instance, in its draft climate disclosure rules, the US Securities and Exchange Commission has proposed a specific safe harbour regime for Scope 3 emissions (in addition to their general provisions for safe harbour for forward-looking statements).

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?

Interaction with other reporting obligations

While it is anticipated that the bulk of disclosures will be part of periodic reporting, any new legislated requirements for disclosure will impact other reporting obligations, including but not limited to continuous disclosure obligations and fundraising documents. In line with earlier questions about the need to balance flexibility with certainty regarding obligations, and ensuring liability is proportionate

to the nature of disclosures, views are welcomed on additional considerations for the interaction between climate reporting and other reporting obligations.

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?

Other implementation issues

Sustainability reporting

While the focus of this consultation is on the Government's climate reporting commitment, markets are increasingly seeking information about broader sustainability-related financial risks. The Taskforce on Nature-related Financial Disclosures (TNFD), of which Australia is a strategic funding partner, is working towards extending the TCFD approach to other domains of nature-related sustainability risks (such as biodiversity or water). The ISSB's draft overarching standard for disclosing sustainability risks points to future development of standards to cover the TNFD domains.

Further, the consolidation of the Sustainability Accounting Standards Board and Value Reporting Foundation into the ISSB suggests that the ISSB's global baseline for sustainability-related financial disclosures will eventually include social and governance disclosures (such as labour standards, tax transparency, diversity, relations with First Nations stakeholders). Views are welcomed on the level of prioritisation that should be given to developing climate reporting requirements that are adaptable enough to accommodate future global developments in nature and other sustainability reporting.

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?

Digital sustainability reporting

The advent of sustainability reporting presents an opportunity to embed digital reporting practices in sustainability disclosures from the outset. While reporting entities have been able to lodge digital financial reports since 2010, zero have been lodged. Digital reporting allows for the machine readability of documents without the need for manual data extraction. This provides a greater opportunity for investors, auditors, and regulators to readily use this data for analysis, comparison, and risk assessment. Views are sought on the costs and benefits of requiring digital reporting for mandatory climate risk disclosure and broader sustainability reporting.

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

Ensuring the financial reporting framework is fit for purpose to support climate risk disclosures

Australia's financial reporting framework aims to support the Australian economy by reducing the cost of capital, maintaining investor confidence, and enabling Australian entities to compete overseas effectively. Due to recent global efforts to develop climate and sustainability risk disclosure standards it is necessary to ensure that this framework can support the implementation of a climate risk disclosure regime in Australia, so it remains efficient, effective and fit-for-purpose. It is also timely to consider whether the legislative, governance and standard-setting arrangements for financial reporting in Australia are sufficiently adaptable to respond to future developments, and can continue to support the integrity, investment attractiveness of Australian markets and competitiveness of Australian businesses.

The governance and oversight arrangements in the Australian financial reporting system established under Commonwealth legislation is given effect by a range of government and non-government organisations. These include ASIC, FRC, AASB, AUASB, and the professional accounting bodies. Relevantly, reporting entities must comply with the accounting standards issued by the AASB, while auditors and assurance providers much comply with auditing and assurance standards issued by the AUASB. While the AASB and AUASB operate independently in developing and implementing standards, they are subject to the broad strategic oversight and guidance of the FRC. The FRC's functions also include advising Government on accounting and auditing systems and processes, and audit quality.

In practice, the FRC relies on the greater resources of the AASB and AUASB to carry out many of its functions, including implementation of its Audit Quality Action Plan and leading international and domestic stakeholder engagement on current and emerging issues including climate and sustainability related risk disclosure.

Structural barriers may create administrative and allocative inefficiencies, which constrain the reporting bodies' ability to respond to current and future developments. As the financial reporting landscape is expected to further transform, Australia's financial reporting framework should flexibly respond to emerging issues to fulfil its aims.

The following sections outline three potential structures to support implementation of climate risk disclosure standards and the ongoing efficiency and effectiveness of the financial reporting system. The proposed structures reflect longer term visions of the financial framework. They do not preclude temporary and transitional legislative changes to enable Australia to continue to participate in the domestic and international efforts to develop and implement climate risk disclosure standards in the short term.

Stakeholders are invited to consider and provide feedback on the proposed structures, including any impacts on individual businesses, sectors, the accounting and auditing profession, and the financial reporting system as a whole. Stakeholders are also invited to submit ideas on other potential financial reporting reform ideas to support introduction of a climate risk disclosure regime.

Potential Structure 1. Confirm the AASB as the entity responsible for developing, making and monitoring climate and sustainability related standards

Under this proposal, Commonwealth legislation would be amended to confirm the AASB as the entity responsible for developing, making and monitoring climate and sustainability related risk disclosure standards. The FRC's oversight of the AASB would continue and include any activities related to

sustainability standards. The AUASB would have responsibility for developing and maintaining any assurance requirements applicable to climate and sustainability related reporting. The Corporations Act and the *Australian Securities and Investments Commission Act 2001* (ASIC Act) do not currently explicitly grant such functions to the AASB.

The AASB has already commenced preparatory steps for any future introduction of climate and sustainability related risk disclosure standards in Australia. In particular it has:

- consulted on the exposure draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*
- engaged with international counterparts, including the ISSB on development of sustainability related standards
- nominated a member to the ISSB's Sustainability Standards Advisory Forum
- established, with the AUASB, a joint informal consultative panel to provide technical expertise to the boards on sustainability related reporting matters.

This potential structure would leverage the AASB's existing experience from these activities to facilitate the implementation of climate related risk disclosure standards. It also recognises the AASB's standard-setting experience and industry credibility, particularly with respect to its comprehensive consultation process and approach to international harmonisation, which will assist in building awareness, consensus and good practice in the development of, and compliance with, any climate related risk disclosure standards.

The AASB's relationships with international standard-setting bodies may also make it well-placed to influence the development of global climate and sustainability standards.

Potential Structure 2. Establish a separate sustainability standards board

Under this proposal, Commonwealth legislation would be amended to establish a separate sustainability standards board (proposed board), similar to the AASB and AUASB, with powers to develop, make and monitor climate and sustainability related risk disclosure standards. The proposed board would function as a separate entity from the AASB and AUASB. The FRC's oversight role would expand to include the proposed board. As with Potential Structure 1, the AUASB would have responsibility for developing and maintaining any assurance requirements applicable to climate and sustainability related reporting.

The creation of a separate board dedicated to climate and sustainability standards may more clearly demarcate the distinct functions and powers of the Australian standard-setting boards. This may assist in ensuring each body is equipped with the appropriate expertise and resources to carry out their standard-setting responsibilities. The distinct board structure would also mean the Australian financial reporting bodies' structure reflects the creation of the ISSB. The parallels to the international structure would be readily understandable by domestic and international stakeholders. It would also ensure the AASB remains focused on traditional accounting standards, although the two boards would need to work closely together.

This potential structure would take time to implement and involve a legislative design process, introduction and passage through parliament, and board establishment processes. The risk that this could cause delay in the implementation of a climate and sustainability risk disclosure regime could be mitigated because:

- the proposed board could rely on the preparatory work undertaken by the FRC, AASB and AUASB towards the development of Australian climate related reporting standards
- the AASB and AUASB have effectively ringfenced some resources for sustainability and climate related reporting, including dedicated climate and sustainability reporting experts, and these could be 'spun off' into a new body once established.

This potential structure would further fragment the Australian financial reporting framework and could exacerbate the existing resourcing and administrative inefficiencies referred to above. For example, the proposed board would likely require the technical and administrative support of a dedicated office, similar to the Offices of the AASB and AUASB. The proposed board's office would be subject to separate reporting and other compliance requirements under public sector governance rules, which could require additional resourcing. The proposed board could seek to minimise these inefficiencies by merging operational requirements as far as possible with the AASB and AUASB (who have already adopted this model). However, each board would still be subject to some independent reporting requirements and likely some duplication of effort.

Potential Structure 3. Reform existing financial reporting bodies into a single, flexible entity

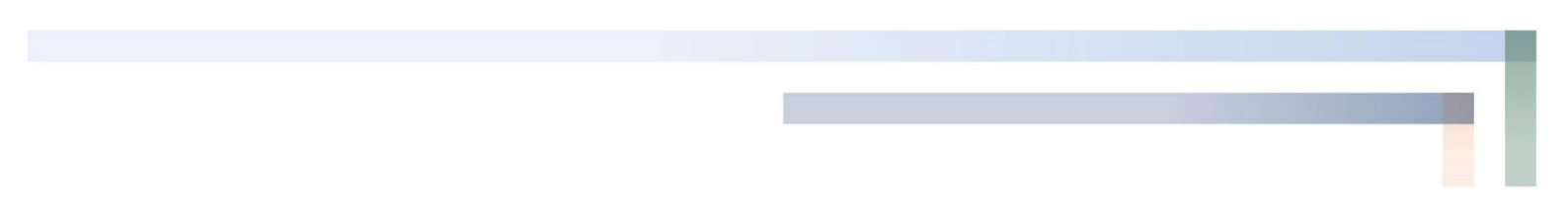
Under this proposal, Commonwealth legislation would be amended to combine the functions and powers of the FRC, AASB and AUASB into one entity responsible for financial reporting system oversight, standard-setting and advice to government. In addition to the accounting and auditing standard setting powers of the AASB and AUASB, the body would also have statutory authority to make climate and sustainability risk disclosure standards.

It is expected any such body would comprise a government-appointed governing board, supported by a team of permanent staff. The new body would also be independently resourced and have powers to establish and delegate functions to sub-committees of technical experts.

The body could operate like the New Zealand External Reporting Board (XRB). The XRB includes a nine-member governing board responsible for establishing and maintaining New Zealand's financial reporting strategy, governance of the XRB, and appointment and monitoring of the XRB's standard setting functions. While the board remains responsible for all functions and responsibilities of the XRB, it has established and delegated accounting and auditing standard setting functions to the New Zealand Accounting Standards Board (NZASB) and New Zealand Auditing and Assurance Standards Board (NZAUASB) respectively. Under this arrangement, the boards address the technical aspects of standard setting and the XRB Board focuses on oversight and strategic decision making.

This potential structure would establish a new body with greater independence and flexibility to respond to current and future financial reporting developments, and so improve the responsiveness and resilience of the financial reporting system. The new body would also seek to remove or minimise the operational inefficiencies in the current system, as outlined above.

It is recognised that such broad reform to the financial reporting system may give rise to some uncertainty for stakeholders and could impact the timely implementation of climate related risk disclosure in Australia. These risks could be mitigated by ensuring consultation with relevant stakeholders on design elements of any new financial reporting body and establishing clear transitional arrangements which would facilitate progress on climate related risk reporting.



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?

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

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?
- 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?

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?
- 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?

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)?

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?

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)?

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?

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?

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

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?

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

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?

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

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?

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?

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?

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?

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

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?