

PRI RESPONSE

EXPOSURE DRAFT LEGISLATION ON CLIMATE-RELATED FINANCIAL DISCLOSURE

9 February 2024

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To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for Australia. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Treasury's call for feedback on the [exposure draft legislation for climate-related financial disclosure](#).

ABOUT THIS CONSULTATION

This consultation invites feedback on the government's final policy design for corporate climate-related financial disclosure requirements. The [Exposure Draft legislation](#) seeks to amend parts of the Australian Securities and Investment Commission Act 2001 and the Corporations Act 2001 (Cth) to introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities.

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PRI POSITION OVERVIEW

The PRI welcomes Treasury's introduction of mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities. The proposals set out in the exposure draft of the Treasury Laws Amendment Bill 2024: Climate-related financial disclosure will be an important step in improving the coverage and quality of climate-related financial disclosures, which will ultimately provide Australians and investors with greater transparency and more comparable information on climate-related financial risks and opportunities. As investors increasingly recognize that achieving positive climate change outcomes is instrumental to fulfilling their duties, including their financial objectives,¹ this legislation marks an important step toward ensuring that investors have access to decision-useful information.

We support Treasury's provisions that enable a phased implementation of the reporting requirements by size and NGER Scheme legislation applicability and support the introduction of an AUM test that captures asset owners. We also support the phased implementation of assurance requirements with clear milestones already set out, as well as the provisions of the modified liability to provide an enabling environment for reporters in the transitional phase. We furthermore welcome the clarity provided to treat sustainability reports in the same manner as financial reports at AGMs, including the requirement for prior presentation of the report. These considerations will all in all support reporting entities in the transitional period as reporting capacity is built and enable investors to access climate reporting amid increasing awareness of the financial materiality to achieve overarching climate goals.

Meanwhile, we also note that there are points for improvement. These include provisions in the legislation draft that are inconsistent with the draft AASB Standard and points that are insufficiently defined or clear, which can lead to confusion for both reporters and data users. Our key recommendations aim to both ensure that investors have access to decision-useful information as data-users, but also the necessary clarity and guidance as reporters.

KEY RECOMMENDATIONS:

- **Reporting Entities:** Provide greater clarity on the applicability and phasing of the reporting requirements for investors, including both investment managers and asset owners. Although we support the introduction of an AUM test for asset owners and a phased implementation with Group 2, we note the legislation is not clear on the relationship between the revenue-based size test and the AUM test. The lack of clarity may be a source of confusion for financial institutions that directly or partially apply to both categories, such as banks and insurance companies as well as associated entities to asset owners.
- **Phasing:** As proposed, introduce a 1 Jan 2025 commencement date for Group 1 entities instead of 1 July 2024, as it would improve the quality of reporting during the transition year. While we recognize the urgency that is required for investors to obtain standardized climate-related risk information to appropriately assess and manage climate-related risks, we believe that this

¹ PRI (2022), [A Legal Framework for Impact: Australia](#)

arrangement would be beneficial to allow for more time to consider and reflect the feedback provided to relevant policy instruments being introduced.

- **Reporting content:** Take an aligned whole-of-government approach to ensure that the IFRS S1 and S2 are adopted as baselines to ensure comparability and interoperability of data across regions. Modifications should only be made in instances where they do not detract from the global standard set by the ISSB Standards, but rather contribute to improved disclosures such as by promoting higher standards of transparency, reliability and comparability. Such modifications that potentially detract from the global baseline include:
 - Changes to IFRS S1 to limit its scope on climate-related financial information, rather than broader sustainability-related financial disclosures
 - Prioritization of the NGER Scheme legislation over the GHG Protocol Standards for GHG emission measurement
 - Changes to the requirement for entities participating in asset management, commercial banking or financial activities associated with insurance to report on financed emissions
- **Reporting framework:** Provide greater clarity on the location of sustainability reporting. Treasury has mentioned in its Policy Position Statement that “climate-related financial disclosures will sit within a sustainability report, which will form the fourth report required as part of annual financial reporting obligations and be contained in an entity’s annual report,” with additional guidance that an “index table” be prepared in the annual report for ease of navigation. The ASRS Standard do not refer to such a requirement for a “sustainability report” or “index table” but do note that reporting can be included across information to meet other requirements and be done through cross-reference to other reports. that entities should provide an index table in their annual report that displays climate disclosure requirements (i.e., governance, strategy, risk management, metrics and targets) and the correlating disclosure section and page number. We recommend that greater clarity be provided by Treasury to eliminate confusion with the AASB requirements.
- **Assurance requirements:** Consider including sustainability assurance providers that are not financial auditors as entities able to provide sustainability assurance statements, provided they meet a certain threshold of qualification. As noted in the Policy Impact Analysis the assurance requirements will pose a large strain on the supply of sustainability assurance and auditing skills and capability in the market. We note that this can potentially be addressed by alleviating the requirement to have sustainability assurance statements be provided by the same financial auditors as financial assurance statements.

DETAILED RESPONSE

REPORTING ENTITIES

The ultimate threshold proposed for entities required to make climate-related financial disclosures is appropriate. We welcome the coverage of reporting obligations to large proprietary companies and the controlling corporation of Australia's highest emitting facilities under the National Greenhouse and Energy Reporting Act 2007 (Cth) (NGER) as climate disclosures by these entities is proportional and:

- is needed by investors to meet their own regulatory reporting requirements, including but not limited to those under this proposed rule.
- could address scope 3 data gaps by facilitating the flow of climate-related information from entities within large financial institutions and listed companies' value chain.
- better enables investors to analyse where climate risks and opportunities lie across their entire portfolios particularly given investors can be directly or indirectly exposed to unlisted entities that contribute to their own portfolio emissions.
- would provide governments and regulators with a more comprehensive understanding of the Australian economies' carbon exposure and its climate risks and opportunities to enable them to facilitate a just and orderly transition to net zero emissions by 2050 in a manner that maintains a sustainable financial system.

While we support the government's proposal for the reporting threshold, we recommend the government provide greater clarity on the applicability and phasing of the reporting requirements for investors, including asset owners. Although we support the introduction of an AUM test for asset owners and a phased implementation with Group 2, we note the legislation is not clear on the relationship between the revenue-based size test and the AUM test. The lack of clarity will be a source of confusion for financial institutions that directly or partially apply to both categories, such as banks and insurance companies as well as associated entities to asset owners.

Additionally, we reiterate our recommendation for Treasury to ensure the framework for introducing mandatory climate-reporting effectively enables the introduction of additional sustainability reporting in due course.² Accordingly, we encourage Treasury to assess the appropriateness of criteria solely based on revenue, assets, and employee size in its application to additional sustainability standards. We encourage the consideration and application of additional criteria that would require reporting by entities that have substantial dependencies and impacts upon the relevant sustainability issue to ensure investors can adequately identify risks and opportunities to their portfolio (akin to Treasury's proposal to require climate reporting by NGER's controlling corporations).

² PRI (2023), [PRI Response: Australian Treasury's First Consultation on Climate-related Financial Disclosures](#) (p.3-4, 19); PRI (2023), [PRI Response: Australian Treasury's Second Consultation on Climate-Related Financial Disclosure](#) (p. 3)

PHASING

The Policy Statement asks for feedback on whether amending the legislation to require a 1 Jan 2025 commencement date for Group 1 entities instead of 1 July 2024 would improve the quality of reporting during the transition year.

PRI maintains the position taken in response to the Treasury's second consultation³ that Group 1 entities should begin reporting in 2024/25 and Group 2 in 2025/26, with Group 3 following at 2027/28. The reason being that taking in to account the latest information available on market maturity and preparedness based on TCFD reporting and the urgency at which investors require standardised climate reporting to meet 2030 interim targets, Group 2 commencement at 2026/27 may not provide investors with sufficient time to meet their targets and could have the unintended consequence of exposing them to allegations of greenwashing.

However, while we maintain that this sense of urgency is pertinent and reporting timelines should align as such, we also recognize the more immediate importance of ensuring that the sustainability reporting and assurance requirements are established, building upon sufficient consultation with market participants. As such, we will support the Treasury proposal to postpone commencement of Group 1 reporting to 1 Jan 2025, as this would be required to allow for sufficient time to ensure that feedback is sufficiently considered and reflected in the relevant policy mechanisms and standards.

REPORTING CONTENT

The PRI welcomes the AASB's commitment to introduce internationally aligned mandatory climate-related financial reporting. The proposals presented in ED SR1 represent an important step forward in clarifying how Australian entities can respond to the international baseline presented by IFRS S1 and S2. Signatories regularly report to the PRI that the lack of comparable, decision-useful corporate climate and broader sustainability data is a substantial barrier to their responsible investment practices. We therefore strongly support the Australian Government's intention to uphold a global baseline for climate disclosures that achieves maximum possible interoperability with ISSB standards, and that is scalable and flexible to accommodate future sustainability reporting developments.

We however note that there are key adjustments made to IFRS S1 and S2 in the AASB exposure draft that potentially undermine the ISSB objective to facilitate interoperability with disclosures. These changes namely include:

- **Changes to IFRS S1 to limit its scope on climate-related financial information, rather than broader sustainability-related financial disclosures**

Investors are increasingly recognising their legal duty⁴ to consider sustainability-related system-level risks. Many companies are already responding to these needs by disclosing their exposure to and management of such risks, including those other than climate change. Limiting the scope of ASRS 1 to climate change risks international alignment on sustainability reporting broadly as issues beyond climate change are already becoming relevant as jurisdictions adopt and align with

³ PRI (2023), [PRI Response: Australian Treasury's Second Consultation on Climate-Related Financial Disclosure](#) (p. 6-7)

⁴ PRI (2022), [A Legal Framework for Impact: Australia](#) (p.8).

IFRS S1. We recommend that Treasury and AASB: (I) clarify that ASRS1 can and should be considered for entities willing to report on wider sustainability risks; and (II) acknowledges from the outset the need to bring other areas of sustainability reporting in scope should entities deem it material.

- **Prioritization of the NGER Scheme legislation over the GHG Protocol Standards for GHG emission measurement.**

While this change would support Australian entities already in the scope of NGER Scheme legislation reporting and publication to the extent of their domestic emissions, these benefits will not extend to companies not captured by the NGER Scheme legislation, businesses to which financial control or equity-based emissions calculation are more appropriate, or for the standardized calculation of Scope 3 emissions and emissions outside of Australia. In addition, investors are not yet provided with key contextual information on the interoperability of emissions data calculated using the NGER Scheme legislation and the GHG Protocol.

The priority moving forward should be to transition toward adoption of globally aligned calculation methods to ensure comparability of data across jurisdictions. In order to support investors in the meantime, the Australian government should clarify key differences between the methodologies required under the NGER Scheme legislation and the GHG Protocol and highlight material differences that could result in differences between data calculated based on the NGER Scheme legislation and the GHG Protocol. If and where discrepancies are identified, the government should plan to transition toward comprehensive alignment with the GHG Protocol and provide investors with the necessary confidence and background information on the comparability of emissions data from Australia and other jurisdictions. NGER-based emissions factors that provide accuracy for domestic emissions calculation can be used with a GHG Protocol aligned regime.

- **Omissions and changes made to requirements regarding industry-based indicators.**

While sector-neutral metrics offer a crucial baseline of information, industry-based metrics are an additionally important element of sustainability reporting that enables the disclosure of comparable information on material industry-specific risks. Provisions relating to industry-based metrics in IFRS S1 and S2 enables entities to apply their own materiality assessment to these metrics to identify metrics that are relevant and represent their risk exposure and management most appropriately. PRI recommends that provisions to consider industry-specific metrics are included in the AASB Standards.

- **Changing of financed emissions as a reporting requirement for entities participating in asset management, commercial banking or financial activities associated with insurance to an item requiring consideration.**

This proposed change risks omitting comparable information on a material emission category for financial institutions that assists in the assessment of indirect transition risk exposure through financial assets. We recommend that the Australian government take necessary measures to align the NGER Scheme legislation with the GHG Protocol Standards and ensure that financial institutions are required to report on financed emissions per the IFRS S2 requirement.

This, however, isn't the case for all changes made to the ISSB Standards in their adoption in the draft ASRS. For example, changes such as clarifying that a climate resilience assessment should consider the most ambitious global temperature goal set out in the Climate Change Act would not harm the comparability of reporting outputs, but rather strengthen it. We would furthermore maintain our position from July 2023⁵ to recommend for risk assessment against three climate scenarios. Likewise, the inclusion of asset owners in the scope of reporting entities on top of what the ISSB Standards originally designed for will aid the Australian market to maintain and strengthen alignment on climate-related risk management. We recommend that the Australian government take an aligned whole-of-government approach to ensure that the IFRS S1 and S2 are adopted as baselines to ensure comparability and interoperability of data across regions, and that even if and where modifications are made, they are not subtractive from the global standard.

Finally, PRI recommends that greater clarity is provided regarding the Group 3 materiality exemption. The current requirement as stated in the Policy Position Statement notes that "where Group 3 entities assess that they do not have material risks or opportunities, they would only be required to disclose a statement to that effect." However, the draft ASRS Standards note that where an entity determines so, "the entity shall disclose that fact, and explain how it came to that conclusion, in its general-purpose financial reports." Treasury should align its requirements here with AASB, and should consider aligning with the AASB requirement, which will ensure transparency for investors, and that entities apply the necessary rigor to consider and assess climate-related financial risks.

REPORTING FRAMEWORK

Treasury has mentioned in its Policy Position Statement that "climate-related financial disclosures will sit within a sustainability report, which will form the fourth report required as part of annual financial reporting obligations and be contained in an entity's annual report," with additional guidance that an "index table" be prepared in the annual report for ease of navigation. The ASRS Standard do not refer to such a requirement for a "sustainability report" or "index table" but do note that reporting can be included across information to meet other requirements and be done through cross-reference to other reports. that entities should provide an index table in their annual report that displays climate disclosure requirements (i.e., governance, strategy, risk management, metrics and targets) and the correlating disclosure section and page number. We recommend that greater clarity be provided by Treasury to eliminate confusion with the ASRS Standard requirements.

On the "index table", we recognize the benefits of such a table to reporting users including investors, but we also acknowledge the burden and costs that are associated to this requirement. We recommend that Treasury require the reporting of a summary index that identifies where key disclosures relating to governance, strategy, risk management, metrics and targets are reported.

ASSURANCE REQUIREMENTS

PRI supports proposals to require limited assurance for scope 1 and 2 from years commencing 1 July 2024 and expand this to reasonable assurance for all climate disclosures from years commencing 1

⁵ PRI (2023), [PRI Response: Australian Treasury's Second Consultation on Climate-Related Financial Disclosure](#) (p. 7-8)

July 2030 onwards. This would allow for time to wait for the ISSA 5000 General Requirements for Sustainability Assurance Engagements to be developed by the International Auditing and Assurance Board (IAASB), which can provide greater clarity on how to globally align the assurance standard to ensure reliability of information across regions.

As noted in the Policy Impact Analysis, however, the assurance requirements will pose a large strain on the supply of sustainability assurance and auditing skills and capability in the market. We note that this can potentially be addressed by alleviating the requirement to have sustainability assurance statements be provided by the same financial auditors as financial assurance statements. We recommend that consideration is given to including sustainability assurance providers that are not financial auditors as entities able to provide sustainability assurance statements, provided they meet a certain threshold of qualification.

LIABILITY FRAMEWORK

PRI supports the proposal from Treasury to define a fixed three-year period (July 2025 to June 2028) for relief on Scope 3 emissions and certain climate-related forward-looking statements. We anticipate that this could encourage early voluntary disclosures by entities in Groups 2 and 3, which may improve the flow of information about emissions within their value chain to enable more accurate scope 3 reporting by Group 1 entities. These time-bound modified liability provisions are fit to strike a balance between capacity building in the market and investor concerns over the quality and integrity of reports.

REVIEW OF CLIMATE-RELATED FINANCIAL DISCLOSURE REQUIREMENTS

We welcome the commitment by Treasury to reviewing the climate disclosure requirements in 2028-2029. We believe this will assist in the interest of maintaining proportionality to the market capacity as well as keeping any standards and requirements in line with Australia's climate goals.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of Treasury further to introduce mandatory requirements for businesses and financial institutions to disclose their climate-related risks and opportunities in Australia.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org