



3 March 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email to climatereportingconsultation@treasury.gov.au

RE: ASX SUBMISSION TO CLIMATE-RELATED FINANCIAL DISCLOSURE CONSULTATION PAPER

ASX Limited (“ASX”) welcomes the opportunity to make a submission to Treasury’s consultation paper on climate-related financial disclosure (“**Consultation Paper**”).

Given ASX’s significant role in Australia’s financial system and the broader economy, ASX is uniquely positioned to support Australia’s economic goals. ASX recognises the importance of its role in supporting Australia’s sustainable future.

ASX is a Partner Exchange under the UN Sustainable Stock Exchanges (“SSE”) initiative. The SSE initiative focuses on examining how exchanges, in collaboration with regulators, investors and corporations, can enhance corporate transparency on environmental, social and corporate governance issues, and encourage sustainable investment.

Set out below are ASX’s comments in response to several questions in the Consultation Paper. ASX has not addressed all questions posed by the consultation paper. ASX anticipates it will have further views on the detailed design of the disclosure requirements, which Treasury has foreshadowed will be open to consultation at a later stage.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

More time is required to implement the changes

ASX suggests that the proposed commencement of reporting requirements in the 2024-25 financial year would impose a significant burden on reporting companies. For companies not already voluntarily complying with a climate disclosure regime, such a timeframe is likely to be very difficult to meet.

Given the degree of granularity required by internationally aligned disclosure regimes, such as the standards being developed by the International Sustainability Standards Board (“ISSB”), it is likely that many companies will need to undertake extensive work to meaningfully respond to reporting requirements, including detailed analysis to identify and resolve information gaps.

Phased implementation is appropriate

ASX agrees with a phased implementation approach, beginning with larger entities, recognising the greater resources available to those entities and that the approach taken by the larger entities can become useful for informing smaller companies in their approach.

Question 3: To which entities should mandatory climate disclosures apply initially?

Disclosure obligations should capture large listed and large unlisted companies

The application of reporting requirements to both large public (listed and unlisted) and large private companies is aligned with the reform principles set out in the Consultation Paper, including supporting Australia's climate goals. Given the economy and society-wide impacts of climate change, ASX is strongly of the view that any mandatory reporting requirements should apply to both large public and large private companies.

This form of coverage would provide advantages that are essential to ensuring the credibility of Australia's disclosure regime. For example, as outlined in the Consultation Paper, the application of reporting requirements to both large public and large private companies:

- provides regulators greater ability to manage systemic risk; and
- prevents adverse competition impacts and incentives for regulatory arbitrage.

This form of coverage is also consistent with other key jurisdictions, including the United Kingdom and the European Union.

The application of the new requirements to both public and private companies would be consistent with the Government's immediate focus on improving transparency for investors. It is important to emphasise that many of Australia's largest private companies operate in heavy emitting industries, including energy and resources and construction. The exclusion of large private companies from these reporting obligations would reduce the advancement of the policy objectives of the new requirements, and may create perverse incentives for high-emitting entities to move out of the listed market to avoid the reporting obligations.

The size thresholds should be a bright line test

The size threshold above which entities will be required to report should be clear, easy to self-identify and completely objective. For example, modern slavery reporting requirements apply to both public and private entities based on a consolidated revenue threshold.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

Australian disclosure requirements should be aligned with international standards

As evidenced by the work of the TCFD and ISSB, the world is moving toward internationally consistent standards for the disclosure of climate change risks. ASX supports the adoption of the international standards as our domestic climate reporting requirements. Consistent standards allow investors to compare across jurisdictions and harmonisation of disclosure requirements is more efficient and less complex for listed entities operating in multiple jurisdictions.

Alignment with global standards enables the international investment community to rely on disclosures made under Australian law. Regulatory fragmentation has the potential to undermine international efforts to reduce emissions. Companies likely to be subject to the climate reporting regime have significant global exposure. It is foreseeable that such entities will be subject to climate reporting requirements from other jurisdictions.

ASX notes that the ISSB standards are not yet finalised. A transition regime that applies interim standards until the ISSB standards are finalised would add complexity and would not be a desirable outcome.

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?

New reporting obligations should minimise burden on entities and follow existing lodgement procedure

ASX supports reporting that minimises the burden on companies while still achieving meaningful disclosure. The objective of any new disclosure should be clear, concise and effective reporting that provides useful information for investors in a simple and brief format, while minimising the additional regulatory burden on entities. This objective should guide where the new reporting requirements are situated in relation to other periodic reports.

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?

Independent assurance would be likely required to promote consistency of reporting

While currently there is a relatively low level of independent assurance of ESG reports in Australia (per the Consultation Paper, 66 per cent of business do not have their ESG reports externally assured), assurance is more common in European countries and is expected to increase globally as the ISSB develops the global baseline.¹

Requiring independent assurance of climate-related financial disclosures would be likely to promote consistency of reporting, and ASX supports the inclusion of such a requirement.

ASX's notes that the Government has recently introduced legislation to create a framework in the financial reporting system to include the development and assurance of sustainability standards, including a role for the AUASB to develop and maintain relevant assurance standards for sustainability purposes.

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?

ASX supports appropriate safeguards for entities who report responsibly

Currently, entities can choose whether or not to make forward looking climate-related disclosures. If they do not have reasonable grounds for making the disclosure, there is no obligation to make it.

If forward looking climate-related disclosures are made mandatory, entities may be required to make forward looking disclosures even if they do not have reasonable grounds for it. ASX supports the adoption of appropriate safeguards for entities in this situation if they have endeavoured to make fair and balanced disclosure.

As a general comment, the more clear and prescriptive the new requirements are, the more that it should be possible for entities to make disclosures with high confidence. Uncertain or general requirements may result in lower-quality disclosures.

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

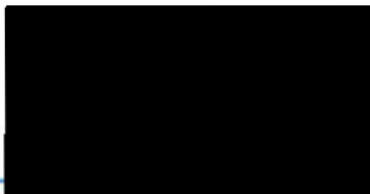
Digital reporting would likely reduce the risk of errors, create a readily available source of actionable data and in turn, improve market efficiency. ASX has heard from its customers that there is a desire for standardised reporting and functionality to compare data across sectors, however we note there needs to be a framework that allows for reporting by companies of different size and industry.

¹ Shan Zhou, 'Reporting and Assurance of Climate-Related and Other Sustainability Information: A Review of Research and Practice', Australian Accounting Review, September 2022.

Regulatory change in the space would be likely to drive take-up of digital reporting. Benefits experienced in overseas jurisdictions would suggest that this is worth doing in order to reap the market efficiency benefits. In the context of decarbonisation, usable and comparable data will ensure the flow of efficient capital to those taking a leadership role.

We would welcome the opportunity to discuss the matters raised in this submission in more detail, as well as any of the questions in the Consultation Paper not directly addressed. If you have any queries on these matters, please contact Grant Lovett at [REDACTED] or [REDACTED]

Yours sincerely



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