



28 July 2023

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

By email to [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

## ASX SUBMISSION TO CLIMATE-RELATED FINANCIAL DISCLOSURE CONSULTATION PAPER

ASX welcomes the opportunity to make a submission to Treasury's second consultation paper on climate-related financial disclosure (**Consultation Paper 2**).

ASX supports the implementation of mandatory climate-related financial reporting in Australia. Disclosure of climate risks will promote sustainable and responsible business practices, in turn mitigating climate risks and assisting in meeting Australia's climate targets. In addition, mandatory climate reporting would bring Australia into line with international counterparts such as New Zealand, the United Kingdom, European Union, Japan, Brazil, Hong Kong and Singapore.

ASX is uniquely positioned to provide insights on disclosure-related matters for listed entities and investors. As Australia works to achieve its climate goals, the disclosure of climate-related risks and opportunities is becoming increasingly important for both companies and investors. Reporting requirements that will promote consistency and comparability of disclosures will be beneficial for investors, and will encourage investor confidence in the market. Further, aligning with internationally-recognised global standards for disclosure will strengthen Australia's position in the international financial landscape and ensure Australia continues to be an attractive investment destination for global capital.

Moving to mandatory disclosure represents a meaningful, but significant shift for the Australian market. Given the importance and scale of implementing the regime, ASX has concerns about the ambitious timeline for implementation. Rushed implementation that could give rise to confusion or inconsistency during the initial years of disclosure under the new regime could result in a decrease in investor and market confidence. We consider it essential for Government to work with the industry to establish an implementation timeframe which would ensure that disclosures that are made from the commencement of the regime are meaningful, comparable and accurate, in order to ensure the success of the policy.

ASX's submission also outlines support for the proposed coverage, alignment with international standards for reporting content and approach for digital reporting. The submission also raises questions for Treasury's consideration regarding the interaction of the proposed disclosure regime with the existing continuous disclosure regime, and the operation of the interim modified liability approach.

ASX made a submission to Treasury's initial discovery consultation paper (**Consultation Paper 1**) in March of this year (**ASX Submission 1**), where we provided comments on several themes that are also explored in this submission. As more details are made available and draft legislation is released for consultation, we will continue to work with Treasury and the Government to ensure the successful implementation of this disclosure regime.

---

## Coverage

ASX supports the reporting entities proposed to be captured under the mandatory climate disclosure reforms detailed on page 6 of Consultation Paper 2. In particular, ASX welcomes the updated proposal to capture *unlisted* entities that meet the prescribed size thresholds because exposure to the physical and transitional risks associated with climate change is not unique to listed entities. Including unlisted entities ensures the credibility of Australia's disclosure regime by providing regulators with greater ability to manage potentially significant risks and preventing adverse competition impacts and incentives for regulatory arbitrage.

The expanded scope will be essential to achieving the Government's reform principles and ensuring the integrity and reputation of Australia's reporting regime. As noted in Consultation Paper 1 and ASX Submission 1, the proposed coverage is consistent with other key jurisdictions, including the United Kingdom and the European Union. In addition, reporting by unlisted entities will assist with the availability of better reporting information overall as reporting entities will likely need to rely on information provided by parts of their value chain, which may include unlisted entities.

## Implementation timing

ASX understands the importance of the timely implementation of a mandatory climate-related financial reporting regime in Australia, and notes the Government's commitment to its implementation as part of its climate agenda. Given the importance of the disclosure regime to Australia's broader climate policy, the regime must be implemented carefully, in a way that provides certainty for reporting entities and promotes investor confidence in the system. It is critical to balance the desire to implement the regime quickly with giving adequate time for reporting entities to prepare for new disclosure requirements, so that reporting under the regime can be meaningful, correct and reliable.

ASX notes that the implementation timelines proposed in Consultation Paper 2 are very ambitious. For Group 1 entities, the proposed timeline requires compliance from financial year 2024-25, meaning that systems for data collection must be in place by July next year (that is, in less than 12 months). There will also be downstream impacts of reporting of Scope 2 and 3 emissions for entities outside of Group 1, which should be taken into account when considering the impact of the implementation timeframe. Given the compressed consultation window, ASX has not considered the full extent of the impact across the whole market.

ASX notes that the standards setting out what will need to be disclosed are yet to be made by the Australian Accounting Standards Board (AASB). While Consultation Paper 2 states that it is envisaged that the AASB standards will closely align with the requirements in recently released *IFRS S2 Climate-related disclosures (IFRS S2)*, ASX is mindful that those standards:

- > have not yet been released by the AASB and the extent (if any) of possible deviation from IFRS S2 is not clear; and
- > will be subject to a public consultation, which may contribute to possible deviation from IFRS S2.

The extent (if any) to which the ultimate standards do deviate from IFRS S2 will likely inform the level of difficulty presented by requiring Group 1 compliance from 2024-25. Group 1 entities, even if already voluntarily complying with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, may need to undertake significant work to identify and resolve information gaps, establish systems for data collection and make changes to existing reporting mechanisms.

ASX notes that while a number of entities have voluntarily been complying with the TCFD recommendations, IFRS S2 has several new requirements and a higher degree of granularity. The IFRS Foundation has recently published a comparison of the TCFD recommendations with IFRS S2,<sup>1</sup> which notes that IFRS S2 is consistent with the TCFD requirements but requires more detailed information and has some additional requirements, such as requiring the disclosure of information about the approach to setting and reviewing each target. As such, entities will need to undertake further work in order to meet the new mandatory standards, regardless of their level of voluntary compliance or preparation based on existing TCFD recommendations.

In addition, a longer implementation timeframe would allow more time for assurance skills, capacity and processes to be developed in the market at a workable pace.

---

<sup>1</sup> <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/ifrs-s2-comparison-tcf-july2023.pdf>

---

For these reasons, ASX supports a longer implementation timeframe for Group 1 entities that would provide a minimum of 12 months between the finalisation of the requirements in the AASB's climate disclosure standards and the commencement of the first reporting period. Given that the exact requirements of the disclosure standards are yet to be determined, the timeline for implementation may also require further consideration once the standards are finalised and the impact on entities is fully known.

## Reporting content

### *International alignment*

ASX supports the proposed alignment of Australia's climate-related financial disclosure standards with IFRS S2 as a global baseline. ASX also encourages the Government to consider carefully how Australia and the ISSB's standards will interact with:

- > other existing major climate frameworks (e.g. GRI standards)
- > approaches in international jurisdictions where mandatory reporting has been in place prior to the release of the ISSB's final standards (e.g. New Zealand and the United Kingdom)
- > approaches in international jurisdictions where ISSB alignment is potentially unclear in certain respects (e.g. United States and the European Union).

Strong international alignment is central to realising the benefits of consistent and comparable climate-related financial information. Where appropriate, ASX encourages the Government to seek to promote harmonisation.

### *Disclosure of opportunities*

Consultation Paper 2 explains that the reporting content required under Australia's reporting regime will likely include the disclosure of "information about material climate-related risks *and opportunities* to their business, as well as how the entity identifies, assesses and manages risk *and opportunities*" (*emphasis added*). ASIC considers that the law already requires listed entities to include a discussion of climate-related risk where it is a material risk that could affect the company's achievement of its financial performance in the operating and financial review (OFR) in an entity's annual report. ASX notes that introducing a new requirement to disclose climate-related "opportunities" in the OFR may exacerbate existing concerns related to instances of greenwashing.

## Digital reporting

ASX notes Treasury's decision in Consultation Paper 2 not to pursue the implementation of digital reporting for climate disclosure ahead of any plans to make digital reporting for existing financial reporting mandatory. ASX understands the rationale underlying this decision. ASX encourages the Government to explore options and pathways towards mandatory digital reporting for financial reporting to enable Australia to gain the benefits of digital reporting (including those outlined in ASX Submission 1) and ensure that Australia remains in step with developments in international jurisdictions.

## Continuous disclosure

Treasury has confirmed in Consultation Paper 2 that continuous disclosure obligations would apply as they do presently and that it is not proposed that continuous disclosure thresholds be changed. Consistent with that intent, any definition of 'materiality' adopted for the purpose of deciding whether climate-related disclosures need to be included in a periodic report should recognise that the definition is distinct from (but sometimes related to) the definition of materiality that applies when deciding whether a continuous disclosure announcement must be made. Guidance from the AASB on the climate disclosure standards should reinforce this distinction.

ASX notes that the materiality definition proposed for climate disclosures outlined on page 11 of Consultation Paper 2 reflects the meaning of "material" under the Australian accounting standards (AASB 101 *Presentation of Financial Statements*).<sup>2</sup> This definition is a well-understood and distinct (but sometimes related) concept from the definition of materiality that applies in the context of continuous disclosure, as recognised by the Courts. ASX considers it appropriate to maintain this distinction.

---

<sup>2</sup> Consultation Paper 2 states, "climate-related financial information would be material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (existing and potential investors, lenders and other creditors) make on the basis of the reports."

---

ASX also notes Treasury’s statement on pages 11-12 of Consultation Paper 2 that “it is increasingly understood that climate-related risks (either transition or physical risks) would be material for most businesses.” Further information supporting this statement is needed. ASX understands that entities would need to consider the specific climate-related risk and make an assessment as to materiality by reference to the circumstances of the specific entity and the facts involved.

In addition, ASX notes its expectation that the obligations under the continuous disclosure regime will continue to apply in the normal way following the introduction of the mandatory climate disclosure reforms.

ASX acknowledges Treasury’s comments on pages 21 and 28 of Consultation Paper 2 that further guidance issued by ASX regarding climate disclosures in the context of continuous disclosure “may assist reporters in better understanding their obligations.” ASX will consider this matter as further detailed aspects of Australia’s reporting regime become clearer.

### **Interim modified liability approach**

Consultation Paper 2 proposes that a time and scope-limited modification of liability settings would apply to climate disclosures. In particular, Consultation Paper 2 states, “elements of mandatory disclosure including scope 3 reporting, scenario analysis and transition planning would be afforded time-limited protection from misleading or deceptive conduct, false or misleading representations, and similar claims.” Consultation Paper 2 proposes that the protection “would only operate in respect of private litigants and would allow ASIC to take action where appropriate” and that it “would apply for three years from the commencement of the regime.”

#### *Scope limitation concerns*

Based on the information provided in Consultation Paper 2, ASX notes that it is unclear: (i) what types of claims would constitute “similar claims;” and (ii) how the proposed protection would apply to such claims. ASX notes that Consultation Paper 2 appears to be silent on the protection(s) (if any) that would be available in circumstances where legal claims arise outside of the Corporations Act.

#### *Time limitation concerns*

The proposal that protection would apply for three years from the commencement of the regime would result in certain reporting entities receiving substantially different lengths of protection. ASX encourages the Government to consider amending the commencement of the proposed time limitation so that reporting entities in Group 1, Group 2 and Group 3 all receive equal benefit of the protection. Equal benefit of the protection is important because it is likely that entities will not begin to encounter entity-specific issues and learnings until the respective commencement of their reporting requirements.

We would welcome the opportunity to discuss the matters raised in this submission in more detail. If you have any questions, please contact Diane Lewis via phone or at [REDACTED]

Kind regards

[REDACTED]

---

**Diane Lewis**  
General Manager, Regulatory Strategy and Executive Adviser

[REDACTED]  
[REDACTED]