



29 February 2024

Dr Keith Kendall, Chair  
Australian Accounting Standards Board  
PO BOX 204  
COLLINS STREET WEST VIC 8007

Dear Dr Kendall

**SUBMISSION TO AUSTRALIAN SUSTAINABILITY REPORTING STANDARDS – DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION**

Treasury welcomes the opportunity to provide feedback to the Australian Accounting Standards Board (AASB) on its exposure draft (ED) standards *SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*.

We wish to draw the AASB’s attention to the Government’s climate-related financial disclosure position paper (Attachment A), which was released publicly on 12 January 2024. The paper outlines the Government’s commitment to implement mandatory climate-related financial disclosure requirements for large businesses and financial institutions.

In line with this, Treasury supports the AASB developing standards for Australia that align as closely as possible to those issued by the International Sustainability Standards Board (ISSB) and endorsed by the international community, including the Financial Stability Board and the International Organization of Securities Commissions, to support the needs of entities reporting across multiple jurisdictions. The position paper outlines where the Government endorses modifications to the ISSB standards, such as use of Australia’s greenhouse gas emissions estimation methodologies for Scope 1 and 2 emissions, requiring Scope 3 emissions from an entity’s second reporting year (using information up to 12 months prior to the reporting period) and use of at least two scenarios for climate resilience assessments, with one aligned to the most ambitious global temperature goal in the *Climate Change Act 2022* (Cth).

The Government’s policy position has been informed by extensive consultation with companies, investors and NGOs as part of the Sustainable Finance Strategy<sup>1</sup>, development of climate-related financial disclosure requirements<sup>2</sup> and other engagement.

Treasury welcomes the opportunity for further discussions with the AASB on this submission.

Yours sincerely

**Penny Sirault**  
Assistant Secretary, Sustainable Finance Branch

<sup>1</sup> [Treasury \(2023\), Sustainable Finance Strategy](#)

<sup>2</sup> [Treasury \(2023\), Climate-related financial disclosure: Second consultation](#)

# Mandatory climate-related financial disclosures

## Policy position statement

The Government is committed to improving the quality of climate-related financial disclosures, providing Australians and investors with greater transparency and more comparable information about an entity's exposure to climate-related financial risks and opportunities and climate-related plans and strategies.

Improving climate disclosures will support regulators to assess and manage systemic risks to the financial system as a result of climate change and efforts taken to mitigate its effects.

A rigorous, internationally aligned and credible climate disclosure regime will support Australia's reputation as an attractive destination for international capital and help draw the investment required for the transition to net zero. It will bring Australia in line with other jurisdictions, including the EU, UK, New Zealand and Japan.

This statement outlines the Government's policy positions related to: the scope of the reform (including entities covered), the content required in reports, the location of reporting, assurance requirements for disclosures, and the application of liability for disclosures. These policy positions reflect Option 1b as outlined in the Policy Impact Analysis.

Climate-related financial disclosures will be mandated through amendments to the *Corporations Act 2001* (Cth) (Corporations Act) and related legislation. Detailed sustainability and assurance standards will be made and maintained by the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB).

## Reporting entities

*Who will be included?*

- Large entities that are required to prepare and lodge annual reports under Chapter 2M of the Corporations Act will be required to disclose information about climate-related risks and opportunities. This includes listed and unlisted companies and financial institutions as well as registrable superannuation entities and registered investment schemes.
  - Large entities are defined using size thresholds equivalent to the existing Large Proprietary Company definition (this threshold will apply to both listed and unlisted companies).
  - Reporting by large entities will provide transparency to shareholders and support the efficient allocation of capital aligned with risks and opportunities.
- Asset owners (such as registrable superannuation entities and registered schemes) will be considered large if funds under management are more than \$5 billion.
  - Reporting by asset owners will support consistent reporting of climate-related risks and opportunities across the financial sector, noting the significance of these entities in Australia's financial system.
- Where entities are subject to both the annual reporting requirements under the Corporations Act and emissions reporting obligations under the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act), they will be required to disclose regardless of size.
  - Reporting by NGER-covered entities is appropriate and proportionate to the risks they face.

## Exemptions

- Small and medium businesses, below the relevant size thresholds companies will be exempt.
- Entities that are exempt from lodging financial reports under Chapter 2M of the Corporations Act, including where exemptions have been made through ASIC class orders or where the entity is registered with the Australian Charities and Not-for-profits Commission, will not be required to make climate-related financial disclosures.

## Phasing

Entities subject to mandatory climate-related financial disclosure would be phased in three groups, over a four-year period as set out in the table below.

The commencement date for Group 1 entities included in the exposure draft of the legislation is 1 July 2024. The Government welcomes stakeholder feedback on whether amending legislation to require a 1 Jan 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year.

An entity will be phased in on the basis of size or level of emissions. The table below sets out when entities must commence mandatory disclosure on the assumption they are required to prepare and lodge annual reports under Chapter 2M of the Corporations Act **and** they fall within one (or more) of the following three categories.

First annual reporting periods starting on or after	Large entities and their controlled entities meeting at least two of three criteria:			National Greenhouse and Energy Reporting (NGER) Reporters	Asset Owners
	Consolidated revenue	EOFY consolidated gross assets	EOFY employees		
1 July 2024 Group 1	\$500 million or more	\$1 billion or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	\$200 million or more	\$500 million or more	250 or more	All other NGER reporters	\$5 billion assets under management or more
1 July 2027 Group 3	\$50 million or more	\$25 million or more	100 or more	N/A	N/A

## Reporting content

Climate-related financial disclosures will include information about an entity's climate-related risks and opportunities, as required by Australian climate disclosure standards and including:

- Information relating to governance, strategy, risk management and metrics and targets (including Scope 1 and Scope 2 greenhouse gas emissions) will be required from the first year of reporting.
- Scope 3 emissions (i.e. emissions that occur up or down their supply chain and emissions associated with their financing or investment activities) will be required from the second year of reporting. Scope 3 disclosures would represent information that is available at the reporting date without undue cost or effort.

## Group 3 materiality exemption

Group 3 entities (entities that are in-scope for reporting but that do not meet the thresholds for Group 2) would only be required to make climate-related financial disclosures in line with the climate disclosure standards, if they face material climate-related risks or opportunities for the financial reporting period. 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.

## Interaction with climate disclosure standards

The Government endorses full adoption of the ISSB's *IFRS S2 Climate-related Disclosures standard*<sup>1</sup> in Australia, with modifications limited to those necessary to ensure standards are fit for purpose for Australia. This should incorporate Australia's greenhouse gas emissions estimation methodologies and international climate change commitments.

The Government supports adoption of ISSB's *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*, where required to give effect to climate disclosure standards.

The Australian Accounting Standards Board (AASB) published its draft standard *SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* in October 2023. The Government expects Australian standards should require the following disclosures. However, the AASB is responsible for the final standards.

### Climate resilience assessments

- Entities should be permitted to commence with qualitative scenario analysis, with quantitative analysis required for financial years commencing on or after 1 July 2027.
- Entities should use at least two possible future scenarios and one of these scenarios must align with the most ambitious global temperature goal in the *Climate Change Act 2022* (Cth) (i.e. limiting global warming to 1.5 degrees).

### Scope 1 and 2 emissions

- The estimation methodologies and frameworks used should be consistent with those included in the *National Greenhouse and Energy Reporting (Measurement) Determination 2008* where available, or the relevant annual National Greenhouse Accounts Factors publication, where entities are reporting Australian-based emissions.
- Market-based (in addition to location-based) Scope 2 emissions should be disclosed if required under the NGER legislation and no later than financial years commencing on or after 1 July 2027.

### Scope 3 emissions

- Scope 3 emissions must be reported from an entity's second reporting year onwards. This requirement will be established in legislation.
- Additional relief should be provided to allow companies to disclose estimates of their Scope 3 emissions relating to any one-year period, up to 12 months prior to the relevant reporting period (for example, 2027-28 financial year reporting requirements could be met by disclosing Scope 3 emissions incurred in the 2027 calendar year or 2026-27 financial year).

### Industry-based metrics

- Entities should only be required to disclose against well-established and understood industry-based metrics from 1 July 2030 onwards. Entities may choose to disclose relevant industry-based metrics voluntarily prior to that date.

<sup>1</sup> [www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/](http://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/)

## Reporting framework

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. Entities should include an index table within their annual report that enables users to easily navigate the climate disclosures. Timing of annual report lodgement, including for those required to lodge with Australian Securities and Investment Commission (ASIC), will stay consistent with current requirements under section 319 of the Corporations Act.

## Assurance requirements

Climate disclosures will be subject to similar assurance requirements to those currently in the Corporations Act for financial reports, and will require entities to obtain an assurance report from their financial auditors who will use technical climate and sustainability experts where required. These requirements will be set out in Australian assurance standards for climate disclosures.

### Interaction with climate disclosure standards

The Australian Auditing and Assurance Board (AUASB) will develop assurance standards in line with the International Auditing and Assurance Standards Board's (IAASB) final standard. The AUASB may also provide standards or guidance under the local sustainability reporting framework. In particular, the AUASB will also set out a pathway for phasing in requirements over time, which would commence with assurance of Scope 1 and 2 emissions disclosures from years commencing 1 July 2024 onwards and end with assurance of all climate disclosures made from years commencing 1 July 2030 onwards.

## Liability framework

Climate disclosures will be subject to the existing liability framework under the Corporations Act and *Australian Securities and Investments Commission Act 2001* (Cth) including: director's duties, misleading and deceptive conduct provisions, and general disclosure obligations. This is appropriate to ensure directors engage fully with climate disclosure obligations and to support investor confidence in the information disclosed.

### Modified liability for climate disclosure

Entities will be provided relief for a fixed three-year period for disclosures relating to Scope 3 emissions and certain climate-related forward-looking statements.

For reports issued between 1 July 2025 and 30 June 2028, only the regulator will be able to bring action relating to breaches of relevant provisions made in disclosures of scope 3 emissions and climate-related forward-looking statements, and the remedies available to the regulator will be limited to injunctions and declarations.

Beyond this period, the existing liability arrangements will apply.

## Review of climate-related financial disclosure requirements

The Government will conduct a review of climate disclosure requirements in 2028-29. The review will be led by Treasury, working with the Council of Financial Regulators.

At a minimum, the review will examine the effectiveness of coverage settings (particularly the approach to Group 3 entities), appropriateness of the liability framework and whether there are any other barriers that may be affecting company's ability to make quality disclosures, including data availability, and supporting materials.