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ASX SUBMISSION ON CLIMATE-RELATED FINANCIAL DISCLOSURE: EXPOSURE DRAFT LEGISLATION

ASX Limited (**ASX**) welcomes the opportunity to make a submission to Treasury's consultation on the exposure draft legislation to implement mandatory climate-related financial disclosure (**CRFD**) requirements (**Consultation 3**).

ASX supports the introduction of a mandatory CRFD regime in Australia that closely aligns with the global baseline of the International Sustainability Standards Board's (**ISSB**) *IFRS S2 Climate-related Disclosures* (**IFRS S2**). The successful implementation of a mandatory CRFD regime is important for companies, investors and the financial system. A reliable CRFD regime would support more transparent identification and management of climate-related financial risks and opportunities within companies and across the Australian economy, which would enable more accurate pricing of risks and opportunities and ultimately lead to improved efficiency of capital flows. It would also assist with monitoring the build-up of climate-related financial stability risks. With several international jurisdictions at more advanced stages of CRFD reporting, it is critical that Australia's CRFD regime produces consistent, comparable and high-quality disclosures. The strength of Australia's CRFD regime will have meaningful implications for Australia's position in the international financial landscape and the attractiveness of Australia as an investment destination for global capital.

As an important conduit between issuers and investors, ASX is uniquely positioned to provide insights on disclosure-related matters. High-quality disclosures are vital to promoting transparent, efficient and resilient capital markets that generate long-term value. The introduction of mandatory CRFD requirements represents a significant shift in financial reporting and disclosure standards in Australia. ASX is concerned that the proposed commencement date of 1 July 2024 for Group 1 entities will not provide those entities adequate time to prepare for and appropriately report against the proposed CRFD requirements. It is essential that the commencement of the CRFD regime is carefully calibrated to ensure that it achieves its important purpose.

Treasury's Policy Statement outlines that the Government welcomes stakeholder feedback on whether amending the proposed legislation to require a 1 January 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year. ASX submits that there should be a minimum of 12 months between the finalisation of the Australian Accounting Standards Board's (**AASB**) climate disclosure standards and the commencement of the first reporting period under the proposed CRFD regime. In the absence of at least a 12-month preparation window, a 1 January 2025 commencement date for Group 1 entities is better than a 1 July 2024 commencement date.

ASX provided submissions to Treasury's initial discovery consultation in March 2023 (**Consultation 1**) and second design consultation in July 2023 (**Consultation 2**). Given the short timeframe provided for responses to Consultation 3, ASX's submission to Consultation 3 is limited only to comments on the proposed commencement date for Group 1 entities.

Significant reporting uplift required

As described by ASIC Chair Joe Longo, the “shift to mandatory climate-related disclosure presents the biggest change to corporate reporting in a generation.”¹

Separate to existing mandatory disclosure requirements, ASIC and the ASX Corporate Governance Council have previously encouraged listed entities to voluntarily consider disclosing additional climate-related financial information in accordance with the TCFD framework. Although there has been a steady uptake of TCFD reporting in Australia across the ASX200, the capability of reporters varies and there is considerable disparity in how risks are disclosed.

KPMG’s *Australian Sustainability Reporting Survey June 2023* indicates that even among those listed entities that report voluntarily, not all are reporting in accordance with the full TCFD requirements. For example, KPMG’s report suggests, “Of the 94 ASX100 companies that report sustainability performance, 88% acknowledge climate change as a risk to the business. Most of those deliver a narrative description of the potential impacts (90%), and very few include modelling of the potential impacts using scenario analysis (8%) or provide financial quantification of the potential impacts (1%).”² In addition, only 53% of ASX100 companies obtained third-party assurance of their reported sustainability performance. Further research from the Australian Council of Superannuation Investors indicates that there is even greater uplift required when taking a wider view out to the ASX200, with analysis suggesting that only 75% of the index has committed to or is reporting against the TCFD framework in some form.³

Given the considerable variation in current reporting and shortcomings in the consistency and depth of disclosures, the proposed CRFD regime will be a significant step change for many reporting entities, including those listed entities that may already be voluntarily reporting in some form. As noted in Treasury’s Policy Impact Analysis, it is likely that reporting entities will need to undertake extensive transitional activities in order to report against the CRFD regime for the first time, including:

- > Familiarisation and gap analysis activities. Reporting entities will need to carefully consider and analyse the requirements of the CRFD regime, including the standards yet to be finalised by the AASB and any forthcoming regulatory guidance. Many reporting entities will need to undertake a detailed gap analysis to identify where uplift is required in both internal processes and external disclosures across governance, strategy, risk management and metrics and targets. Action plans will need to be developed and executed to address any gaps.
- > Legal review. Given the introduction of new mandatory obligations, many reporting entities may need to obtain legal review and advice that considers how compliance will be achieved with regard to the circumstances of the specific entity.
- > Systems changes, data collection, scenario analysis and scope 3 modelling build-out. It is expected that the implementation and upgrade of information and communications technology systems, data collection and related systems for collecting and processing of climate-related data to enable reporting that meets the requirements of the CRFD regime will be significant. Many reporting entities may also need to enhance data governance and ensure adequate frameworks for audit trails.
- > Preparation of the report for the first time. It is expected that the CRFD requirements will result in lengthier and more complex reports. Many reporting entities may need to establish roles and responsibilities and build capabilities within sustainability and financial functions or engage external resources. There may also be additional time associated with preparing disclosures as reporting entities experience the learnings involved in developing a report that satisfies the requirements of the CRFD regime for the first time.
- > Preparation for assurance of the report for the first time. Many reporting entities will obtain independent assurance of climate-related financial disclosures for the first time. This may necessitate the undertaking of

¹ Foreword by ASIC Chair Joe Longo, *A director’s guide to mandatory climate reporting* (October 2023), the Australian Chapter of the Climate Governance Initiative (CGI), the Australian Institute of Company Directors, MinterEllison and Deloitte, <https://www.aicd.com.au/content/dam/aicd/pdf/tools-resources/director-resources/directors-guide-to-mandatory-climate-reporting-web.pdf>.

² KPMG, *Status of Australian Sustainability Reporting Trends – June 2023 Update*, <https://assets.kpmg.com/content/dam/kpmg/au/pdf/2023/australian-sustainability-reporting-trends-june-2023-update.pdf>.

³ Australian Council of Superannuation Investors, *Climate Reporting in ASX200 companies: August 2023*, <https://acsi.org.au/wp-content/uploads/2023/08/Promises-Pathways-Performance-Climate-reporting-in-the-ASX200-August-2023.pdf>.

assurance readiness activities and assessments of how internal audit functions can support improvements to controls and systems.

Limited understanding and certainty of aspects of the proposed CRFD regime

The complexity and challenge of the extensive transitional activities that reporting entities will need to undertake is further heightened by the fact that there is limited understanding and certainty of particular aspects of the proposed CRFD regime, which will continue very closely up to the proposed commencement date.

Important detailed aspects of the proposed overarching legislative framework of the CRFD regime have only just recently become available with the publication of Consultation 3, including in relation to requirements concerning the applicability of liability for disclosures and the location of reporting. Finalised details of the overarching legislative framework will remain subject to change until the conclusion of Consultation 3 and the subsequent parliamentary and legislative processes. In addition, the AASB's climate disclosure standards will remain open for consultation until March 2024, with finalised standards not expected until just before the proposed commencement date of 1 July 2024.

Further, the final form of assurance requirements will not be known for a considerable period. ASX acknowledges that the Australian Auditing and Assurance Standards Board (**AUASB**) will set out a pathway for phasing in assurance requirements over time. However, reporting entities' visibility of the final form of assurance requirements will likely be dependent on the development of the international standard on sustainability assurance (which is not expected to be finalised until the end of 2024) and the completion of subsequent AUASB processes to align domestic requirements as far as possible with the international standard.

Risks of rushed implementation

ASX understands the significance of timely implementation of a mandatory CRFD regime and acknowledges the Government's commitment to the implementation as part of its climate agenda. However, ASX encourages the Government to consider the damaging risks that are increased if reporting entities are not afforded adequate time to prepare, including risks such as:

- > Poor-quality disclosures that obscure or misrepresent important climate-related financial risks and opportunities.
- > Greenwashing and greenhushing that leads to misallocation of capital.
- > Inadvertent non-compliance with requirements that gives rise to legal and reputational consequences for impacted reporting entities.

Rushed implementation would not only negatively impact reporting entities, investors and efficient capital allocation, but it would also undermine the credibility of the CRFD regime and jeopardise Australia's attractiveness as an investment destination for global capital. Given the important purpose of the CRFD regime, the desire for immediate implementation must be appropriately balanced against placing reporting entities in a compromised position in which they are unable to achieve the necessary uplift activities that would support compliant and high-quality reporting.

Adequate preparation window of 12 months at a minimum

Treasury's Policy Statement details that the Government welcomes stakeholder feedback on whether amending the proposed legislation to require a 1 January 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year.

A 1 January 2025 commencement date for Group 1 entities is preferable to a 1 July 2024 commencement date. However, it should be noted that a 1 January 2025 commencement date would also involve operational risks and complexities for reporting entities. For example, this timing would only allow Group 1 reporting entities around 6 months to undertake extensive uplift activities following the finalisation of requirements, which would still give rise to the risks associated with rushed implementation (albeit to a potentially lesser extent). In addition, reporting entities may face challenges making certain disclosures on a half-year basis in an annual reporting context.

ASX considers that there should be a minimum of 12 months between the finalisation of the AASB's climate disclosure standards and the commencement of the first reporting period under the CRFD regime. This preparation window would support the success and credibility of the regime, including by:

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- > Allowing reporting entities adequate time to undertake necessary uplift activities based on finalised framework legislation, disclosure standards and regulatory guidance.
 - > Encouraging reporting entities to thoughtfully plan and invest in the necessary skills and systems to support CRFD reporting and the long-term internal capability of their businesses to meet sustainability reporting requirements.
 - > Reducing the risks of poor-quality disclosures, greenwashing, greenhushing and inadvertent non-compliance.
 - > Allowing the professional services market time to develop expertise and increase availability of resources.
 - > Providing reporting entities greater direction on the future of assurance requirements.

The recalibration of the commencement date for Group 1 reporting entities to provide a minimum preparation window of 12 months should have regard to a start date that aligns with the standard Australian financial reporting year and subsequent adjustments to the proposed commencement date for Group 2 and Group 3 entities to ensure that the proposed phased implementation structure remains.

We would welcome the opportunity to discuss the matters raised in this submission in more detail. If you have any questions, please do not hesitate to contact me.

Yours sincerely

Diane Lewis

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