

The Australian Sustainable Finance Institute (ASFI) welcomes the publication of the Government's final [policy decisions](#) related to Australia's climate-related financial disclosure requirements, and the opportunity to comment on the [Exposure Draft](#) of the Climate-related financial disclosure legislation.

ASFI supports the introduction of mandatory climate disclosures for the Australian market. A robust, useable and internationally aligned climate disclosures framework will help financial institutions to make better decisions, firms to understand and manage climate risk and opportunity, and regulators to combat greenwashing. A key pillar of the sustainable finance policy architecture, climate disclosures will ultimately enhance management of climate risk across the financial system. It will also support greater capital allocation consistent with Australia's national emissions reduction and adaptation goals. Our specific comments are set out below.

About ASFI

ASFI is a not-for-profit organisation committed to realign the Australian financial system to be sustainable, resilient and inclusive. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that support ASFI's mission. ASFI members collectively hold over AU\$23 trillion in assets under management and are committed to allocating capital in a way that creates positive social and environmental outcomes.

Comments on the Exposure Draft legislation

Application of coverage thresholds

As currently drafted, the application of the coverage thresholds is unclear. Specifically, the application to asset owners set out in the draft legislation does not appear to be consistent with the approach proposed in the Policy Statement. There is also uncertainty about how asset managers would be treated under the proposed thresholds.

We recommend the Government take steps to provide greater certainty to entities about which reporting group they fall into. We would also encourage the Government to ensure that entities who may wish to voluntarily begin reporting in Group 1 (for example, to demonstrate industry leadership) are not disincentivised from doing so. For example, it may be helpful to confirm that such entities would receive the benefit of modified liability provisions in the same way that Group 1 entities would.

Timing for commencement of reporting obligations

The Policy Statement invites feedback on whether the commencement of Group 1 reporting obligations should be moved from 'on or after 1 July 2024' to 'on or after 1 January 2025'. While there is an urgent need for effective action to manage climate risk, ASFI is comfortable with this proposal on the basis that it will allow sufficient time to develop detailed reporting standards and guidance and ensure, legislative arrangements are in place. ASFI would not support further delay to commencement or reporting requirements for any groups.

Record-keeping requirements

The definition of sustainability record in section 9 of the Corporations Act is an inclusive definition which could lead to uncertainty for disclosing entities about what is required in order to comply with record-keeping requirements. We suggest Treasury consider amending this definition to say, “sustainability records means documents and working papers needed to explain the methods, assumptions and evidence from which climate statements, notes to climate statements, and statements mentioned in paragraph 292A(1)(c) are made up”.

Comments on the Policy Statement

Alignment with ISSB

The Policy Statement notes “*The Government endorses full adoption of the ISSB’s IFRS S2 Climate-related Disclosures standard in Australia, with modifications limited to those necessary to ensure standards are fit for purpose for Australia.*” As indicated in previous submissions, ASFI strongly supports alignment with ISSB standards as the baseline for Australia’s sustainability disclosure regime. This will help ensure global inter-operability and streamlining of reporting requirements particularly for financial institutions that operate across multiple jurisdictions.

In this context, we note:

- the Policy Statement states: “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.”
- The AASB’s draft climate disclosure standards propose to modify the IFRS S1 and S2 standards to remove the requirement for an entity to consider the applicability of specific industry-based metrics.

We consider this to be an unnecessary deviation from ISSB standards. Industry-based metrics provide a useful way for entities to understand and communicate climate risk and opportunities. We encourage the Government and the AASB to simply retain the ISSB approach, noting that it does not mandate the use of particular standards but merely requires entities to “refer to and consider the application of” the industry-based metrics in the ISSB’s Industry-based Guidance on Implementing IFRS S2. ASFI will also make this comment in our submission to the AASB.

Financed emissions

ASFI is also concerned about the AASB’s proposal to dilute the IFRS S2 requirement for financial institutions to disclose information on their financed emissions. Instead, such entities will be required to “consider the applicability” of disclosures related to their financed emissions. This is a significant departure from IFRS S2 and could undermine the value and efficacy of the disclosures regime.

The AASB’s stated reason for this deviation from the ISSB baseline standard is that entities that apply NGERs methodologies may not have the information necessary to disaggregate disclosures as contemplated under IFRS S2 B61-63. As noted in previous submissions to Government, ASFI considers that the NGERs framework should be reviewed and updated as appropriate to align with the disclosures framework rather than the other way around.

Choice of scenarios for scenario analysis

ASFI welcomes clarification in Treasury’s final Policy Statement for the climate disclosure framework that entities must disclose against a scenario that aligns with limiting global warming to 1.5 degrees. This removes uncertainty compared to the previous position that referenced the range set out in the Climate Change Act, and will support consistency and comparability of disclosures.

As noted in our submission to Treasury's second consultation paper on the climate disclosure framework, ASFI considers that disclosing entities should also be required to disclose against a scenario that is aligned with a higher warming scenario. Specifically, it would be useful for companies to undertake and disclose analysis on a scenario aligned with current warming trajectories.

This will help ensure that companies are conducting analysis and disclosing information about both the risks they face in a rapid decarbonisation scenario as well as in a more delayed decarbonisation scenario, including an appropriate consideration of physical risks. ASFI will also make this comment in our submission to the AASB and would welcome further engagement from Treasury on this issue.

Comments on the broader disclosure and sustainable finance framework

Publication of the Government's Sustainable Finance Roadmap

Climate-related disclosures is one important piece of an effective and well-functioning sustainable finance policy architecture. ASFI welcomes the Government's commitment to develop a Roadmap for the implementation of its Sustainable Finance Strategy, as set out in Treasury's Sustainable Finance Strategy consultation paper in November 2023. We look forward to publication of the Roadmap and to working with the Government, our members, and other partners to help realise the Government's ambition for Australian leadership on sustainable finance.

Implementation of IFRS S1

We recognise that the AASB has attempted to incorporate those aspects of IFRS S1 Standard for General Sustainability Reporting ("S1") which are required in order to facilitate adoption in Australia of IFRS S2. This approach enables the introduction of climate-related reporting in Australia, which ASFI welcomes.

ASFI urges the Government to proceed with adoption of IFRS S1 in its entirety as soon as practicable to ensure continued international alignment and to prepare the market for introduction of ISSB standards to be developed in coming years (on issues such as nature, and human rights). This would be consistent with the Government's intention, as set out in Treasury's Sustainable Finance Strategy [consultation paper](#), to implement reforms in a way that provides "a platform to incorporate other critical sustainability-related issues over time".

Development of guidance

To support implementation of the disclosure framework and promote high quality disclosures and management of climate-risk across the financial system, ASFI recommends the Government prioritise the development of guidance in key areas including:

- a 'financed emissions' methodology. This guidance should be developed in consultation with industry stakeholders and aligned with international standards such as those developed through the [Partnership for Carbon Accounting Financials](#);
- asset owners (we note that the International Sustainability Standards Board has produced guidance for asset managers, banks and insurers but not for asset owners);
- estimation and reporting of land use, land use change and forestry emissions;
- materiality, boundaries for estimation, and changes in methodologies and assumptions;
- data – for example, expectations regarding assurance of third-party data, and disclosure of data gaps;
- scenario analysis, including how to produce scenarios and how report scenario analysis (including explaining assumptions and limitations) to promote clarity, transparency and comparability. ASFI encourages the Government to consider publication of a default set of scenarios that entities can elect to use should they choose not to develop bespoke scenarios.

We also welcome the Government's intention, as outlined in Treasury's Draft Sustainable Finance Strategy [Consultation Paper](#) to develop further guidance for corporate transition plans and encourage this to be prioritised in 2024.

Building sustainable finance skills in Australia

Guidance alone will not provide the significant capability uplift required across the finance sector to support high quality climate disclosures, however. Green skills in Australia's finance sector lag behind those of other developed countries (including the United Kingdom, United States, Germany and Canada)¹. As noted in ASFI's submission to Treasury's Sustainable Finance Strategy consultation paper, the Government should play an active role in capability building either directly or in partnerships with industry bodies. Supporting credible industry bodies to develop and provide training would fulfil an immediate need for education on disclosures, and help position these organisations to provide ongoing training to fill Australia's broader sustainable finance skills gap.

¹ <https://economicgraph.linkedin.com/content/dam/me/economicgraph/en-us/global-green-skills-report/green-skills-report-2023.pdf>