ASFI Submission to Treasury consultation on Improving the Efficiency of Climate Disclosures

1. Introduction

ASFI is the peak body for sustainable finance in Australia. We work with our members – leading financial institutions across banking, investment, insurance and financial services – as well as government and regulators to mobilise capital for sustainability.

ASFI welcomes the opportunity to provide feedback on the Government's consultation on Improving the Efficiency of Climate Disclosures. ASFI has strongly supported the introduction of mandatory, internationally aligned climate-related financial disclosure requirements in Australia. Clear, transparent, comprehensive and comparable disclosure of climate-related information is part of the foundation of a well-functioning financial system and a key pillar of Australia's sustainable finance architecture.

Climate disclosures help address a market gap in consistent, high-quality information about climate-related risks and opportunities. They support better decision-making by investors and lenders, but when done well they are also valuable for reporting entities as a strategic tool to identify, assess and manage climate-related risks and opportunities, inform transition planning, and strengthen governance and accountability.

Many Australian corporates have already undertaken voluntary climate reporting, and investors and banks have increasingly sought this information from investees, customers and project counterparties. Introducing standardised, ISSB-aligned requirements through AASB S2 is expected over time to improve efficiency for both preparers and users of information: reducing fragmentation, improving comparability, and supporting more consistent due diligence and risk assessment across the market. Efficiency should therefore be assessed across the full value chain – including users of sustainability reports – not just compliance costs incurred by preparers and their supply chain entities.

It is still early in the implementation of the regime. ASFI expects the quality, usefulness and efficiency of climate disclosures to improve over time as reporting entities, assurance providers, advisers, directors, investors, lenders and other users build experience. This expectation is shared by audit firms, advisors, and other industry bodies with whom we have engaged over the past 12 months in relation to disclosures. We support the targeted scope of this consultation to identify early opportunities to reduce compliance costs, while maintaining core sustainability reporting requirements.

2. Summary of Key Policy Positions

- **Maintain the core requirements and international alignment of the climate disclosure regime:** high-quality, internationally aligned disclosures are essential to addressing information gaps, supporting market confidence and improving capital allocation.
- **Recognise that disclosure quality and efficiency will improve over time:** the regime is still in its early stages. The burden on preparers and assurance providers will reduce over time as there is market learning. Any adjustments contemplated at this early stage should be limited to areas where there is sufficient evidence that the adjustment will support longer term efficiency and the preparation and disclosure of decision-useful information.
- **Support proportionate assurance requirements:** ASFI considers that there may be rationale in removing or delaying the transition to reasonable assurance in whole or in part. We suggest postponing the shift to reasonable assurance for all entities until after the 2028 legislated review has been completed. As part of the review, Government should consider the costs and benefits of moving to reasonable assurance, and determine the most appropriate assurance settings which could include a mix of limited and reasonable.
- **Support further practical guidance:** ASFI supports the development of additional guidance in the areas proposed in the consultation paper, as well as guidance that helps entities disclose decision-useful information on transition plans and climate-related opportunities, and guidance to support identification and disclosure of physical risks and risk mitigation efforts, and scenario analysis.
- **Support clarity on Scope 3 reporting:** ASFI supports clearer boundaries for Scope 3 reporting and government provision of emissions factor data to improve consistency, comparability and efficiency.
- **Alignment with NGERs**: ASFI supports updating NGERS reporting requirements where feasible to support greater alignment with sustainability reporting.
- **Availability of disclosures**: ASFI considers that sustainability reports disclosed under the Government's climate-related disclosures regime should be made freely available to support ongoing uplift of capability across the reporting and assurance ecosystem, and to enable better access to a range of users.
- **External Reporting Australia (ERA)**: ASFI recommends the Government consider adjusting the eligibility rules for representation on ERA standards bodies to ensure that individuals with appropriate sustainability expertise and industry experience are eligible.

3. User perspectives on climate disclosures

ASFI members are both users and preparers of sustainability reports. From a user perspective, mandatory climate-related reporting is intended to improve the availability, consistency and comparability of information that financial institutions use to assess climate-related risks and opportunities across the economy. Banks and investors use corporate climate disclosures to inform credit analysis, investment due diligence, portfolio and customer engagement, transition assessment, support their own climate transition objectives, and identify financing and investment opportunities. Climate-related disclosures also improve transparency and comparability across companies, helping lenders and investors to better understand sector-wide transition trends and emerging risks and opportunities.

For banking members, disclosures are used across business activities, not only in sustainable finance teams. They can support credit and transition analysis for large corporate and institutional customers, project and structured finance due diligence, assessment of customer readiness for sustainable finance, and sectoral pathway analysis. Public disclosures are particularly valuable for higher-volume assessments, where banks may draw on publicly available information to

understand whether a company has a climate strategy, transition plan or relevant governance arrangements in place. While disclosures will not always substitute for more detailed information (for more complex or structured sustainable finance transactions), as reporting improves over time it may reduce the need for direct engagement and information requests from entities that are demonstrably managing climate risk to a suitable standard.

Investors similarly use climate disclosures to assess governance, strategy, risk management, targets and transition planning across investee companies and assets. Standardised reporting can reduce reliance on fragmented bilateral engagement and support more efficient benchmarking across peers. Members are already seeing early benefits from AASB S2 in the form of deeper and more standardised disclosure on climate risk scenarios, more planning towards Scope 3 disclosure where information has previously been withheld, disclosure of internal carbon pricing where used, and the beginning of clearer links between climate-related matters and financial effects. At this early stage, however, market participants are still building capability in how to interpret and use this information. ASFI, and most industry participants, expect decision-usefulness to improve over time as reporting practice matures and disclosures converge.

Mandatory climate-related disclosures have begun to improve the comparability and transparency of climate-related information, with greater clarity on risks and opportunities and their anticipated and financial impacts. It has also improved clarity on reported emissions. Although it is still early in implementation, the requirements have begun to increase the number of organisations publicly disclosing climate information, providing stakeholders with broader and more comparable information to inform engagement.

Mandatory reporting is bringing greater attention to climate risk across organisations, shifting responsibility beyond dedicated sustainability teams and helping uplift knowledge and capability across governance, finance, risk, legal and business functions. Where entities approach reporting as more than a compliance exercise, members are seeing the process make hidden risks visible and generate insights relevant to business strategy.

However, early implementation and first-year assurance are complex and resource-intensive, with preparers, assurance providers and users learning as standards are applied in Australia and globally. This load should decrease over time, but the administrative burden of reporting should continue to be carefully balanced against the benefits of enhanced disclosure. ASFI therefore supports targeted actions to reduce unnecessary burden while maintaining the core requirements and international alignment of the regime, recognising that implementation costs should reduce significantly after the initial years as systems, processes and market practice mature.

4. Detailed Responses to Consultation Questions

Proposal 1: Assurance requirements	ASFI has heard mixed views from our members regarding the value or necessity of conducting reasonable assurance, compared to limited assurance. Based on this feedback and our broader engagement, ASFI considers that there may be a case for not moving to reasonable assurance, or for moving to reasonable assurance only in part. This would be consistent with the approach being taken in international jurisdictions, where reasonable assurance is either not required or is required only over a limited subset of information (i.e. Scope 1 and

	Scope 2 emissions). Limited assurance is itself a significant undertaking and may be sufficient to support confidence in the veracity and quality of sustainability reporting. Assurance of sustainability reporting is new and there is substantial learning by doing taking place across reporting entities, assurance providers and users. At this early stage of implementation, it may simply be too soon to make final decisions about the appropriate level of assurance for sustainability reporting. Treasury's Option 1C – reasonable assurance over part of the reports – could be a suitable option, however it is not yet clear which elements of the reports should be subject to reasonable versus limited assurance. We have also heard concerns about the complexity of a mixed approach for preparers, auditors and users. The considerations outlined above suggest that final decisions regarding assurance settings should not be made immediately. As such, ASFI favours a combination of 1B and 1C: delay the shift to reasonable assurance for all reporting entities until after the 2028 statutory review. As part of that review, consider the costs and benefits of reasonable versus limited assurance based on industry experience to date and determine what the most appropriate assurance settings are – which could be a mix of reasonable and limited. More detailed consideration as part of the review process could also identify the most mature metrics and assess whether reasonable assurance could practically be conducted on those metrics. At that point, there will be more information available to support an informed decision, based on multiple years of reporting and assurance across a wider range of entities as well as international experience. This longer runway to reasonable assurance could also help to alleviate the shortage of skilled sustainability assurance professionals.
Proposal 2: Further guidance **Should further guidance be developed to support more efficient and useful climate disclosures?**	ASFI supports the development of further implementation guidance for reporting entities. Clearer guidance will reduce uncertainty among preparers and assurers, and supporting the comparability and quality of reports. This will reduce compliance burden for preparers and improve utility for users. In particular, we have heard strong demand from members for guidance (as well as further capacity building activities and educational materials) on: • "Undue cost and effort", including what this means for different types of entities (based on their size, sophistication, and level of presumed climate risk exposure) • "No material climate-related risks or opportunities" as set out in the legislation, and how this relates to the requirements set out in the standard that refer to "risks and opportunities that might

reasonably be assumed to affect cash flows, access to finance or cost of capital…"

ASFI notes that disclosures to date have focussed on risk identification and management, and less on climate related opportunities. Over time, a stronger focus on strengthening the coverage and credibility of disclosures related to climate-related opportunities – particularly those related to financial metrics (i.e. 29(b)-29(e)) - will support better forward strategy by reporting entities and help investors and lenders identify where finance and investment can support transition, resilience and climate solutions. ASFI would support guidance on opportunity reporting, including how tools such as the Australian Sustainable Finance Taxonomy can support opportunity identification and disclosure.

The Taxonomy provides a common language for green and transition finance and can help entities explain how capital expenditure, transition planning and climate-related opportunities relate to credible decarbonisation pathways. ASFI will include information on this in forthcoming user guidance for the Taxonomy. Guidance from ASIC or the AASB on opportunity reporting could reference this user guidance to illustrate how tools such as the Australian Sustainable Finance Taxonomy or other credible taxonomies such as the EU or Climate Bonds Initiative Taxonomy can be used voluntarily to support integrity in opportunity identification and disclosure.

Another area that would benefit from additional guidance is reporting of physical risk. As climate impacts are rapidly becoming more salient to financial risks, and there is an urgent need to build resilience across the economy. Guidance could support more standardised approaches to physical risk identification and scenario analysis. We have also heard demand for greater guidance on scenario analysis including developments of scenario inputs and assumptions that preparers could adopt or adapt.

ASFI members have underscored the need for care in developing guidance. Guidance should be focussed on clarifying the implementation of the disclosure standards, and should maintain alignment with ISSB to support international interoperability. It should be able to apply across sectors, provide some practical examples, but not undermine the principles-based approach of the standard. It should be able to apply appropriately to large (e.g. Group 1 and 2) and smaller (e.g, Group 3) entities. They have pointed to examples in other markets where the issuance of guidance has increased confusion among market participants, rather than providing clarity and supporting efficiency.

ASFI considers that this underscores the need to ensure that guidance is developed with care, and that bodies developing

	guidance have suitable expertise and experience. See our comments further below with respect to External Reporting Australia's technical standard boards eligibility criteria.
Proposal 3: Scope 3 emissions **Should further guidance and data support be provided for Scope 3 reporting?**	ASFI supports further guidance and clarity on Scope 3 reporting. It is worth underscoring that S2 does not require solicitation of information from an entity's value chain. From an audit perspective direct solicitation of information may not be preferred as it presents verification challenges. Clarifying the expectations for scope 3 data hierarchy through guidance and/or education materials and engagement would be valuable. It would also be helpful to provide further guidance on defining the scope of supply chains across various operating contexts, including financed emissions. ASFI supports Treasury's proposal (3a) to develop guidance on what constitutes a reasonable request from a reporting entity's value chain. Guidance should help preparers to understand how to determine where entity-specific data is genuinely needed versus where relying on emissions factors or other secondary data would be adequate. This could include a data template that could be used by all groups to reduce complexity and effort for suppliers. We also support the proposal to increase availability of publicly accessible emissions factors and data. Common, credible data sets can help reduce duplicated effort for both preparers and users, improve comparability and support more efficient use of disclosed information across the financial system.

5. Additional considerations

- ASFI supports the alignment of NGERS reporting obligations with Sustainability Disclosure obligations wherever possible.
- Also consider that there is a strong justification for making disclosures freely accessible through the ASIC register. Better enabling preparers to access examples of other reports will help to accelerate ecosystem learning and capability uplift. Likewise, free access will remove a barrier to the range of stakeholders seeking to use information contained in disclosures.
- Important for the newly constituted standards body to have appropriate expertise to develop standards, guidance, etc. ASFI welcomes the appointments to the inaugural Governing Council of External Reporting Australia (ERA) which include individuals with strong sustainability experience and perspectives. However, rules that prohibit employees of major accounting and audit firms from serving on ERA technical standard-setting boards mean that some of the most qualified individuals are ineligible for these positions. This could have a material impact on the ability of the ERA to carry out its functions effectively particularly with respect to sustainability standards and guidance where expertise is relatively scarce and the cross-industry experience and perspective of audit firm employees particularly valuable. We recommend that Government consider relaxing these restrictions with respect to sustainability-related roles.