PRI RESPONSE

AUSTRALIAN TREASURY'S CONSULTATION ON CLIMATE-RELATED FINANCIAL DISCLOSURE

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PRI Association

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to Treasury's request for feedback and comments on key considerations for the design and implementation of standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia.

ABOUT THIS CONSULTATION

Recognising that climate change is a material risk to the global financial system, the Treasurer announced the Australian Government's intention to introduce mandatory climate-related financial disclosures as a tool to manage that risk at an address to the Australian Sustainable Finance Institute on 12 December 2022. Accordingly, Treasury simultaneously released a consultation paper to seek initial views on key considerations for the design and implementation of the Government's commitment to standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities.

The current consultation follows a separate but interrelated consultation by Treasury on draft legislation and explanatory material to implement sustainability standards in Australia. It comprises one component of a broader Australian sustainable finance framework that Treasury is currently tasked with developing.

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KEY RECOMMENDATIONS

The PRI supports the Australian Government's commitment to introducing mandatory climate-related disclosure standards as a key pillar of its sustainable finance agenda. Many of the PRI's signatories are both users and preparers of climate change and other sustainability-related information. If implemented effectively, mandatory and standardised disclosure of climate change-related risks, opportunities, and impacts will improve market transparency, assist both companies and investors to navigate the transition and help facilitate two-way global investment flows into Australia.

The Australian Government's consideration of the option to implement the disclosure standards being developed by the International Sustainability Standards Board (ISSB) is particularly welcome. A comprehensive global baseline of sustainability disclosures is required for reporting entities to avoid undue burden and to provide the globally consistent, comparable, and reliable data needed by investors to fulfil their duties.

Many companies already disclose some level of information about the climate change and sustainability-related risks and opportunities facing their business. However, the quantity and quality of those disclosures is often inadequate and a lack of consistency between company reports year-on-year, and comparability amongst related entities, limits investors' ability to fully understand the related risks and opportunities. Accordingly, the PRI strongly supports the ISSB's mission to deliver a high-quality global baseline of sustainability-related financial disclosures.

In order to generate the comprehensive, comparable and decision-useful climate and sustainability-related data that investors require, the Australian Government should build on this global baseline. Mandatory compliance with sustainability disclosure standards should be phased in quickly for larger entities and apply broadly across the market in a short time frame. Climate change-related standards should be implemented first, with a framework that allows efficient expansion to broader sustainability issues in due course. Consideration will need to be given to the integration of taxonomy and transition-plan-related disclosures.

To ensure that disclosed information is high quality and provides a trustworthy basis for investment decisions, it must ultimately be subject to the same legal and regulatory accountability mechanisms as existing financial disclosures. It should also be subject to third party verification and assurance. Given the speed of global developments in this area, effective and efficient governance infrastructure for setting and updating standards over time will need to be established. Our key recommendations relating to these matters are set out below.

Recommendations

- The Australian Government should phase in mandatory climate-reporting disclosure standards on a year-by-year basis beginning for the 2024/25 financial year. Although mandatory reporting should begin with large, listed entities, large financial institutions and select proprietary companies, requirements should progressively expand to include all entities that are obliged to produce a financial report under the *Corporations Act 2001* (Cth) s 292, as well as appropriate Commonwealth reporting entities [See responses to Q2 to Q3.2].

- Mandatory climate-related disclosure standards should be based on the final IFRS S2 Climate-related Disclosures as a minimum baseline. Additional obligations to report on broader sustainability issues should be phased in and should align with IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. The Australian Government should consider additional data needs including product-level reporting, taxonomy reporting, and transition plan disclosures [See responses to Q4 to Q4.2, Q7, Q11, Q14 and Q17].
- Consideration should be given to the establishment of an independent entity or the tasking of an existing independent entity with the development of sector specific decarbonisation pathways and the provision of both general and sector-specific guidance on the development of entity-level transition plans [See responses to Q11, Q14].
- To ensure that reported information is sufficiently high quality to serve as the basis for investment decision-making, reporting against mandatory sustainability disclosure standards should be enforceable and subject to third-party verification. The Australian Government should therefore introduce disclosure requirements through legislation and mandatory standards, and phase in assurance requirements [See responses to Q5, Q8, Q12].
- The existing 'reasonable grounds' requirements provide competent directors with sufficient confidence to robustly disclose Scope 3 emissions and make forward-looking statements without requiring an additional 'safe harbour'. However, if such a safe harbour is implemented, it should be limited in scope, time bound and phased out shortly after an entity begins being required to disclose (e.g., two years) [See response to Q15].
- The Australian Government should establish a new sustainability standards board to oversee and administer sustainability standards that are closely based on the ISSB standards. While this board is being established, the AASB should be temporarily empowered, and appropriately governed and resourced to implement climate and sustainability standards [See response to Q19].

These recommendations broadly align with our recent letters and submissions on climate and general sustainability standards:

- PRI joint statement with IFAC and WBCSD calling for stronger alignment of regulatory & standard setting efforts around sustainability disclosure (June 2022).
- PRI's response to ISSB: Exposure Draft IFRS S1 general requirements for disclosure of sustainability-related financial information and Exposure Draft IFRS s2 climate-related disclosures (July 2022).
- PRI's response to AASB: Request for comment on ISSB Exposure Drafts (July 2022).
- PRI's joint letter with AIGCC, CDP, Ceres, IGCC, IIGCC to the Treasurer and RBA Governor (October 2022).
- PRI's response to Treasury: Empowering the AASB to deliver sustainability standards (December 2022).

DETAILED RESPONSE

COSTS AND BENEFITS

1. What are the costs and benefits of Australia aligning with international practice on climate-related financial disclosure (including mandatory reporting for certain entities)?

The quantity and quality of current climate and broader sustainability-related financial disclosures by Australian companies is inadequate and does not provide investors with a sufficient view of the sustainability risks, opportunities, and performance of their investee companies and assets.[1] Investors regularly report to the PRI that the lack of decision-useful corporate sustainability data globally is a substantial barrier to their investment decision-making.[2]

This lack of robust and consistent sustainability-related information is a potential impediment to Australian investors' ability to take into account sustainability-related risks, impacts and opportunities and thereby act in their beneficiaries' best interests long-term. It could also inhibit the flow of inbound foreign investments into Australia given markets globally are already beginning to require mandatory climate reporting by select companies and are increasingly expanding the scope of mandatory sustainability reporting.[3] This includes:

- **European Union:** Under the Corporate Sustainability Reporting Directive (CSRD), companies in the EU will be required to report on matters relating to environmental, social and employee issues, human rights, anti-corruption, and bribery. The CSRD adopts a "double materiality" principle whereby companies are required to assess and disclose information using tests for both financially materiality (i.e., how a relevant matter impacts a company's financial position) and impact materiality (i.e., how a company's actions impact the relevant matter). Large public entities will initially be required to report in 2025 on the 2024 financial year with requirements being phased in yearly for additional entities.
- **The United Kingdom:** Amendments to the *Companies Act 2006* (UK) now require publicly quoted companies and large private companies to incorporate TCFD-aligned climate disclosures in their annual reports. Quoted companies are also required to report on their performance or position on environmental matters (including the company's impact on the environment), employees, and social, community and human rights issues). The UK is also moving to legislate requirements for entities (beginning with asset managers, regulated asset owners and listed companies) to publish transition plans setting out how their organisation will adapt towards the UK Government's net zero goals. Best practice standards for transition plans across sectors are being developed by an independent body, the UK Transition Plan

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[1] CDP, IGCC & PRI (2021), Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia (p.4-5; p.25-30); ACSI (2022), Climate reporting in ASX200 companies (p.8).

[2] PRI (2020), Driving Meaningful Data: Financial materiality, sustainability performance and sustainability outcomes.

[3] For a comparison of the ISSB exposure drafts, US SEC's proposed climate-disclosure rule, and the ESRS exposure drafts, see PRI (2022), Briefing paper: Draft climate disclosure rules and standards – a comparative analysis.

Taskforce (TPT). The TPT have now released draft sector-neutral frameworks and implementation guidance for consultation.

- **Singapore:** Listed issuers on the Singapore Exchange must disclose TCFD-aligned reports on a "comply or explain" basis for the 2022 financial year. Mandatory disclosures will be phased in for issuers in the financial industry, agriculture, food and forest products industry, energy industry, materials and building industry and transportation industry over the subsequent financial years.
- **New Zealand:** Under recent legislation, large publicly listed companies, insurers, banks, non-bank deposit takers and investment managers in New Zealand will be required to commence climate-related disclosures for the 2023 financial year onwards.
- **The United States:** The US Security and Exchange Commission is progressing a plan to amend the *Securities Act of 1933* and *Securities Exchange Act of 1934* to require public securities issuers to disclose climate-related information in their registration statements and annual reports. Mandatory climate disclosures (including on scope 1, 2 and 3 emissions) are proposed to be phased in based on entity-types, with large accelerate filers being the first entities required to report.

As international investors are increasingly taking sustainability risks, opportunities, impacts, and outcomes into account when allocating capital, some may be prevented or deterred from investing in Australia if reporting by Australian companies is inconsistent and at a comparatively substandard quality to international competitors and industries.[4] Indeed, the absence of a mandatory disclosure framework in Australia is causing investors to unnecessarily spend significant resources engaging with companies trying to influence them to reach best practice on company disclosure.[5]

To attract and retain international capital and reduce the reporting burden for Australian companies, it is therefore imperative that Australia aligns with and builds upon international practice on mandatory climate-related financial disclosures. Australia should introduce internationally consistent standards as a minimum baseline to ensure there is a globally consistent, comparable, reliable, and assurable corporate reporting system that provides all stakeholders with a clear and accurate picture of an organisations' ability to create sustainable value over time.

As such, any Australian standards for mandatory climate-related disclosures should be based on the final IFRS S2 Climate-related Disclosures standard as a minimum baseline,[6] with updates made as necessary to reflect specific Australian circumstances. This will help to provide global financial markets with information on Australian companies' sustainability-related risks and opportunities in a

[4] PRI (2022), A Legal Framework for Impact: Australia (p.13; p.16); PRI (2022), Response to Treasury's consultation on empowering the AASB to deliver sustainability standards (p.3).

[5] AIGCC, CDP, Ceres, IGCC, IIGCC, PRI (2022), Letter to the Treasurer and RBA Governor.

[6] PRI (2022), A Legal Framework for Impact: Australia (p.16).

manner that allows for comparability of data across jurisdictions and supports interoperability[7] (as further elaborated in our responses to Questions 4 to 4.2).

- For reporting entities, a global baseline for capital markets will help reduce cost, complexity, and confusion — increasing the utility, comparability of the information, while serving the fundamental purpose of sustainability reporting, which includes delivering more sustainable outcomes.
- For investors who allocate capital based on comparable financial and sustainability related information, global consistency is a matter of investor protection, growing market demand, and the ability to incorporate ESG issues into investment decisions that contribute to sustainable outcomes.
- For individuals providing assurance on company reporting, global consistency and alignment provide the best foundation for verifying and assessing the robustness of disclosures.

As well as being users of climate change and sustainability-related information, many PRI signatories are also preparers of such information. A recent PRI review of trends in ESG reporting requirements for investors found that number of investment-related ESG reporting requirements on asset owners and investment managers is rising significantly.[8] It also found that for large or listed investors with operations in multiple jurisdictions, this may lead to significant additional reporting. The increased burden imposed by the proliferation of inconsistent and overlapping reporting expectations from the market is also a concern that we hear frequently from our signatories. For this reason, a clear regulatory expectation for standardised reporting from financial institutions that is well-aligned with global standards is welcome and could significantly reduce the existing reporting burden.

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

See response to Q1 above.

1.2 What are the costs and benefits of Australian not aligning with international practice and in particular global baseline standards for climate reporting?

See response to Q1 above.

COVERED ENTITIES AND TIMING

2. Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

Yes – we support the phase in of mandatory climate-related disclosures with reporting requirements commencing for initially covered entities applying for the 2024/2025 financial year.

Given the scale and immediacy of the risks posed by climate change, investors urgently need better climate-related information in order to take investment and stewardship decisions aligned with their long-term investment goals. In our view, commencing mandatory climate disclosure in 2024 would

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[7] PRI (2022), Response to ISSB's consultation on exposure draft IFRS S1. PRI (2022), Response to ISSB's consultation on exposure draft IFRS S2. IFAC, PRI, & WBCSD (2022), Leading Financial Market Participants Call for Stronger Alignment of Regulatory and Standard Setting Efforts around Sustainability Disclosure.

[8] PRI, (2022) Review of trends in ESG reporting requirements for investors,

provide initially covered entities ample time to prepare for these new reporting requirements. Indeed, given longstanding market demand for this information and regulatory guidance that disclosure should be issued in line with TCFD requirements[9] over many years, large, listed companies, and financial institutions are already well placed and resourced to disclose climate-related financial information.

We also consider that this timeframe will provide the Australian Government with sufficient time to implement the infrastructure and legislative reforms required for a mandatory climate disclosure framework, and would ensure mandatory reporting within Australia is consistent with global counterparts.

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

We recommend that climate reporting requirements be phased in for all entities that have existing obligations to produce a financial report[10] as well as appropriate Commonwealth reporting entities (as further elaborated in our responses to Questions 3 to 3.2). Requirements should be phased in on a year-by-year basis with Treasury providing a roadmap with clear direction on the financial year each entity will be required to begin reporting in from the outset. We note that such an approach would be in line with the intended approach taken by comparable jurisdictions.

3. To which entities should mandatory climate disclosure apply initially?

We support Treasury's proposal to initially require mandatory climate disclosures from large, listed entities and large financial institutions but, as elaborated in response to Q3.2 below, recommend that select proprietary companies also be included in the initial phase.

Ultimately, we recommend that mandatory disclosures be extended to all reporting entities that are already obliged to produce a financial report under the *Corporations Act 2001* (Cth) s 292 (including all public companies and all large, proprietary companies[11]), as well as all Commonwealth reporting entities required to prepare annual financial statements of an appropriate and proportionate size.

Financial reporting obligations are imposed on entities, in part, to provide relevant financial information to meet shareholders' and members' needs. Requiring the same entities to apply the final ISSB standards would harmonise reporting requirements for entities and ensures that investors' data needs on climate change and other relevant sustainability matters are met.[12] Additionally, the inclusion of proprietary companies under mandatory climate disclosure requirements can address scope 3 data gaps as discussed further in response to question 3.2 below. Their inclusion is further necessary to avoid incentivising emission intensive, public companies to convert to private entities to avoid disclosure requirements.

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[9] For example, ASIC (2019), RG247 Effective disclosure in an operating and financial review; ASIC (2019), RG228 Prospectuses: Effective disclosure for retail investors; APRA (2021), Climate change financial risks.

[10] See *Corporations Act 2001* (Cth) s 292.

[11] The definition of large proprietary companies should be based on the existing definition under the *Corporations Act 2001* (Cth) to encompass any proprietary company that, along with any entities it controls (if any), satisfies at least two of the following: (a) has a consolidation revenue for the financial year of $25 million or more; or (b) whose value of consolidated gross assets at the end of the financial year is $12.5 million or more; or (c) has 50 or more employees at the end of the financial year.

[12] PRI (2022), Response to AASB's consultation on draft IFRS S1 and IFRS S2 (p.6).

Importantly, the usage of a materiality lens in the application of the ISSB standards means that if these standards are adopted as the basis for reporting requirements, sufficient flexibility is provided to reporting entities to disclose in a way that is proportionate to their size and circumstances.

3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

We recommend that large, listed entities cover ASX300 companies. In order to meet their own duties to act in the best interests of their beneficiaries and clients and to address risks and opportunities that are already materialising, investors rely on as broad a cross section of the market disclosing climate-related information as soon as possible. Without widespread company-level disclosure requirements, investors will also face difficulties in meeting disclosure requirements and expectations form the market, both in Australia and globally. Accordingly, we recommend a transition from only ASX300 companies to all ASX-listed companies is made in relatively quick succession (e.g., 1 year).[13]

We recommend that the threshold for large financial institutions (including banking, superannuation, asset management and insurance) include entities with either a minimum annual consolidated revenue of $100 million or greater than $5 billion in total assets under management.[14]

As noted above, the usage of a materiality lens in the application of the ISSB standards means that if these standards are adopted as the basis for reporting requirements, sufficient flexibility is provided to reporting entities to disclose in a way that is proportionate to their size and circumstances.

3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

We recommend that proprietary companies with an annual consolidated revenue of at least $100 million be required to report against climate standards starting in the 2024/25 financial year.

Signatories report that climate data from private companies is currently limited, which poses challenges for financial institutions to calculate their Scope 3 financed greenhouse gas (GHG) emissions. Furthermore, public companies often rely on disclosures from private companies to calculate their Scope 3 GHG emissions – and even without a formal reporting obligation, private companies may need to respond to their stakeholders' information requirements or risk reduced market and capital access, expansion and other commercial opportunities.

INTERNATIONAL ALIGNMENT OF DISCLOSURES

4. Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

Yes - Any Australian standards for mandatory climate-related disclosures should be based on the final IFRS S2 Climate-related Disclosures standard as a minimum baseline,[15] to provide global financial

[13] CDP, IGCC & PRI (2021), Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia (p.37).

[14] CDP, IGCC & PRI (2021), Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia (p.37).

[15] PRI (2022), A Legal Framework for Impact: Australia (p.16).

markets with information on Australian companies' sustainability-related risks and opportunities in a manner that allows for comparability of data across jurisdictions.[16]

The PRI strongly supports the mission by the ISSB to deliver a high-quality global baseline of relevant, comparable and reliable climate and sustainability-related financial disclosures – and recognises that the ISSB's actions and decisions to date have been important steps towards delivering decision-useful information for global capital markets.[17]

4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosure relating to governance, strategy, risk management and/or metrics and targets?

Yes – Treasury should consider the need to build on the ISSB standards and require additional disclosure requirements for corporate entities and financial institutions that enable and facilitate the use of an Australian sustainable finance taxonomy and any Australian-specific guidance that is developed in relation to transition scenarios, sectoral transition pathways and entity-level transition plans.

In addition to introducing mandatory climate disclosures, the Treasurer has confirmed that Treasury are considering the best role for government in delivering a sustainable finance taxonomy that the Australian Sustainable Finance Institute (ASFI) has instigated.[18]

A sustainable finance taxonomy is a classification system that helps investors and other stakeholders understand whether an *economic activity* is environmentally and/or socially sustainable and relies on accurate reporting by investors and corporate entities.[19] Although complementary, we note that the purposes of the ISSB standards and taxonomy reporting differ. The IFRS S2 Climate-related Disclosures standard will focus on entity-level information in relation to governance, strategy, risk management, metrics, and targets whilst taxonomy reporting focuses on the assessment of *economic activities* against a pre-defined technical screening criteria.

Investors can use a taxonomy as a disclosure tool to report comprehensively and transparently on the sustainability performance of their portfolio holdings, enhance their investment strategies and meet sustainability goals (among other things).[20] Detailed and accurate information about the taxonomy-alignment of investee companies' economic activities is needed to allow investors to accurately disclose the sustainability performance of their portfolios.

PRI signatories have reported that a key challenge with the use of the EU Taxonomy, for example, has been limited sustainability data about their portfolios resulting from the fact that companies have not yet been required to report the alignment of their turnover, capital expenditure, and operating

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[16] PRI (2022), Response to ISSB's consultation on exposure draft IFRS S1. PRI (2022), Response to ISSB's consultation on exposure draft IFRS S2. IFAC, PRI, & WBCSD (2022), Leading Financial Market Participants Call for Stronger Alignment of Regulatory and Standard Setting Efforts around Sustainability Disclosure.

[17] PRI (2023), PRI welcomes progress on IFRS Sustainability Disclosure Standards.

[18] Treasurer, the Hon. Dr Jim Chalmers MP (2022), Address to the Australian Sustainable Finance Institute, Sydney.

[19] PRI, World Bank Group, & Chronos (2022), Implementation Guide for Sustainable Investment Policy and Regulation Tools – Taxonomies of Sustainable Economic Activities; ASFI (2022), Designing Australia's sustainable finance taxonomy.

[20] PRI (2022), Implementing the EU Taxonomy: An update to the PRI's 'Testing the Taxonomy' report (p.6; p.10-11).

expenses with the EU Taxonomy's technical screening criteria.[21] Instead, investors have had to rely on third-party services to provide relevant information and assessments, which could inadvertently lead to investors making inaccurate disclosures.

Accordingly, we encourage Treasury to consider the interlinkages between mandatory climate-related disclosures and the development of an Australian sustainable finance taxonomy to ensure disclosure requirements provide sufficient information for investors to identify whether a companies' activities are taxonomy-aligned.

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

For the reasons set out in response to Q1 and Q4, we believe that the ISSB's final IFRS S2 Climate-related Disclosures standard is the most appropriate standard to apply for entity-level reporting on climate. Both corporate entities and financial institutions would be able to apply this standard to disclose climate-related information on their governance, strategy, risk management, metrics, and targets.

In addition, we recognise that in conjunction with other interventions, disclosure of information on climate-related risks, opportunities, impacts and outcomes of a financial institution's investment portfolios (i.e., at a product-level) can minimise the risk of greenwashing by financial institutions.

As further elaborated in response to Q7, IFRS S2 should be adopted as a minimum baseline for Australian companies and financial institutions at an entity level. Since ISSB standards have not been developed with product-level reporting in mind, we encourage Treasury to give consideration to whether separate standards and directions in relation to product-level reporting should be applied to Australian financial institutions. In that respect, we refer to the EU's direction on sustainability-related financial disclosures (see PRI's response here) and the UK's proposed sustainable disclosure reporting requirements.

REGULATORY FRAMEWORK REQUIRED FOR CLIMATE DISCLOSURES

5. What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

To ensure that investors and other stakeholder can have confidence in the credibility and accuracy of reported information adequate accountability and enforcement mechanisms are essential. As a starting point, this requires implementation through legislation and mandatory standards, rather than through regulatory guidance that may in some cases be unenforceable. Accordingly, we recommend that the Federal Government introduce amendments to the *Corporations Act 2001* (Cth) that would require that phase in of mandatory sustainability reporting standards.[22] The amendments should be supplemented with subordinated legislation the enables the AASB (or a new, separate standard setter

[21] PRI (2022), Implementing the EU Taxonomy: An update to the PRI's 'Testing the Taxonomy' report (p.16). **Nb** taxonomy-alignment reporting against the environmental objectives of the EU Taxonomy began on 1 January 2023 (see PRI (2022), Investor briefing: EU Taxonomy).

[22] PRI (2022), A Legal Framework for Impact: Australia (p.16).

empowered to implement sustainability standards) to phase in requirements to report against IFRS S2 Climate-related Disclosures standards for the entities set out in our response to Q4. Subordinated legislation should further permit the overseeing standard setter to phase in additional sustainability standards as developed by the ISSB in due course.

The same level of legal and regulatory accountability, supervision, and enforcement should apply to information disclosed in relation to such standards as applies to other financially material information that serves as the basis for investment decision-making.

PERIODIC REPORTING REQUIREMENTS

6. Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

PRI signatories acknowledge the importance of integrated reporting, given interdependencies between reporting on the wider business and sustainability-related matters.

Regardless of where climate information is disclosed, it will be important to ensure **connectivity of reporting** (i.e., that climate-related information is not reported or considered in silos). Rather, companies should identify and explain interlinkages between their climate-related risks and opportunities and how this influences information in the general-purpose financial reporting, including the financial statements and other parts of the management accounts. Such reporting is needed for investors to evaluate the extent to which sustainability risks/opportunities are manifested in the financial statements, and integrate this information into their decision-making.[23]

In this respect we note the significant implications that climate-related risks and opportunities can have for items in the financial accounts,[24] which many companies are still failing to adequately disclose.[25]

MATERIALITY AND ASSURANCE OF CLIMATE RISKS

7. What considerations should apply to materiality judgments when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

We support the recent clarifications from ISSB on the key concept of materiality used throughout IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures standards, and encourage Australia to adopt the ISSB's updated definition of materiality in order to progress work towards establishing a global baseline.[26]

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[23] For further commentary see PRI (2022), Response to ISSB's consultation on exposure draft IFRS S1 (p.18-19); PRI (2022), Response to EFRAG's consultation on first set of draft European Sustainability Reporting Standards (p.16).

[24] AASB AUASB (2019), Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2.

[25] Carbon Tracker, PRI (2021), Flying blind, The glaring absence of climate risks in financial reporting; Carbon Tracker (2022), Still flying blind: The absence of climate risk in financial reporting.

[26] PRI (2023), PRI welcomes progress on IFRS Sustainability Disclosure Standards.

We note that the ISSB has clarified that it will remove the concept of 'enterprise value' and remove the word 'significant' from the proposed requirements to describe which climate and sustainability risks and opportunities an entity would be required to disclose.[27] Instead, the ISSB will use the definition of material as defined in the IFRS Accounting Standards being:

> "*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity*."

This clarified materiality definition is a welcome starting point for Australia to adopt as a minimum global baseline for the concept of financial materiality. However, a building blocks approach should be taken to align Australian standards and guidance with the leading markets.

To that end, we note that investors increasingly need information to assess and interpret a company's sustainability performance and their alignment to long-term sustainability goals and thresholds.[28] The EU has therefore adopted the concept of double materiality, which not only covers the financial materiality of climate and broader sustainability-related risks but extends consideration to the impact of a company's activities on the environment and society (i.e., impact materiality). The European Financial Reporting Advisory Group has made considerable efforts to harmonise the EU's definition of financial materiality within that concept with the ISSB's definition. The draft European Sustainable Reporting Standards set to be adopted in June, will therefore align with the minimum baseline set by the ISSB standards. However, the EU's inclusion of impact materiality is an example of a leading jurisdiction building upon the global baseline.

Accordingly, we recommend that Australian standards and guidance uses the ISSB's materiality definition as a minimum baseline for financial materiality while also including provisions to serve disclosure of an entity's sustainability performance and outcomes.[29]

8. What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

Investors are generally supportive of stronger sustainability assurance requirements to enhance trust in the accuracy of sustainability information and underlying mechanisms and controls. This is because sustainability information is material for capital allocation and ownership decisions and should therefore be as reliable as financial statements.

Many investors support initial limited assurance requirements, with a move to reasonable assurance in the future once assurance providers and companies have built capacity – including necessary internal processes and controls needed to ensure data quality and evidence reliability. We note this is the approach being taken in the EU, where the Corporate Sustainability Reporting

[27] ISSB (2022), Update October 2022.

[28] PRI (2022), Response to ISSB's consultation on exposure draft IFRS S1 (p.6).

[29] PRI (2022), Response to AASB's consultation on draft IFRS S1 and IFRS S2 (p.4).

Directive (CSRD), which will apply to c. 50,000 companies,[30] will require limited assurance of sustainability information with a move to reasonable assurance in the future.[31]

- Ultimately, reasonable assurance is preferable because:
- investors are demanding sustainability information that is as accurate and reliable as the financial statements, which are subject to reasonable assurance; and
- reasonable assurance may be more cost effective for companies in circumstances where such assurance identifies significant errors that could lead to litigation or penalties.
- assurance costs may decrease as companies develop experience with sustainability reporting and assurance.

In practice, assurance should be provided on sustainability reporting (including sustainability-related information in the financial statements) through assurance standards, and on individual data points through standards and/or third-party verification – with assurance providers subject to appropriate independence and quality management standards. For this purpose, we note that the International Auditing and Accounting Standards Board and International Ethics Standards Board for Accountants are developing global sustainability assurance and ethical standards. The assurance standards are expected to address some of the challenges associated with assuring sustainability information, including how to deal with more forward-looking, qualitative and/or uncertain information.

The PRI opts not to comment on who should provide assurance on sustainability information.

REPORTING OF METRICS (INCLUDING EMISSIONS), OFFSETS AND TRANSITION PLANS

9. What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

We welcome the inclusion of Scope 1, Scope 2 and Scope 3 greenhouse gas emissions as cross-industry metrics for disclosure. This will help to address the currently low incidence of such reporting, which has led to an elevated reliance by investors on estimated emissions data.

However, in disclosing Scope 1, 2 and 3 GHG emissions, entities should also disclose the significant inputs and assumptions used to calculate these, and a description of the calculation methodology – including organisational scope, emissions factors used and other information on the calculation approach.

This would help investors verify reported GHG emissions, particularly if these have not been subject to third-party verification. Furthermore, it would allow for better global alignment as this approach has also been suggested in both the US Securities and Exchange Commission's Proposed Rule on climate-related disclosures (see page 471) and EFRAG Exposure Draft ESRS E1 on Climate change (see page 31).

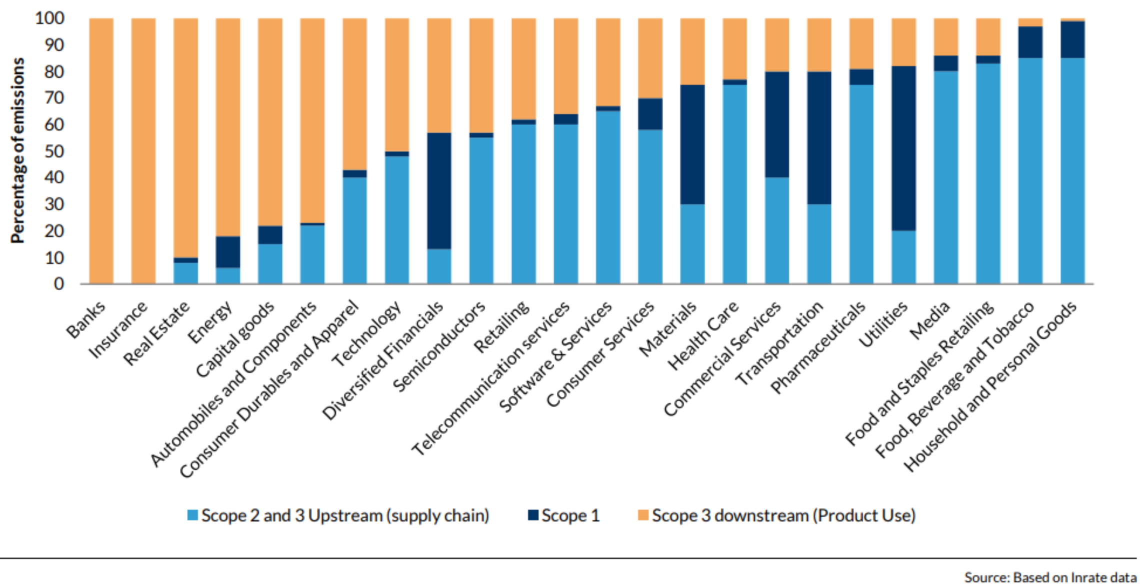
[30] European Parliament (2022), Sustainable economy: Parliament adopts new reporting rules for multinationals.

[31] European Commission (2022), Corporate Sustainability Reporting Directive.

Reporting on Scope 1, Scope 2 and where appropriate, Scope 3 emissions is included in the TCFD's recommendations, which are being adopted in rules or guidance by regulators in many jurisdictions around the globe, including the European Union, the UK and Japan.

We acknowledge that there may be some challenges for certain entities to report on Scope 3 emissions since consensus has not yet been reached on a methodology for their calculation. However, for certain industries, such as oil and gas producers and financial institutions, Scope 3 emissions are their largest and most impactful kind of emissions for (see graph 1 below). Accordingly, disclosure of Scope 3 emissions is highly material information for investors and other stakeholders and should be accompanied by a methodological explanation of the underlying calculations used.

Graph 1: Scope 3 downstream emissions across sectors compared to Scope 2 and 3 upstream and Scope 1. Taken from Kepler Cheuvreux Transition Research (2015), Carbon Compass.



We recommend that entities be required to use the GHG Protocol methodology to report on their GHG emissions. The GHG Protocol is the most widely used and recognised international standard for calculating GHG emissions and, while we recognise outstanding methodological issues, use of the protocol would allow for a standardisation of emissions data across jurisdictions, increasing comparability and facilitating aggregation for investors.

10. Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Yes, PRI would recommend the seven cross industry categories of metrics within the TCFD Guidance on Metrics, Targets and Transition Plans (see pages 16-26) and also industry-specific metrics and corresponding targets for the 12 most energy-intensive sectors, as highlighted by the Net Zero Asset Owner Alliance, would be useful to include in any required disclosure.

A common baseline of metrics should be defined so that there is a degree of consistency between disclosures.

For industry-specific metrics, using the amended SASB standards, including new references to internationally applicable standards, definitions or calculation methods and the provision of general definitions will lead to better comparability for users of such disclosure. These will ease jurisdiction-level adoption of the final IFRS Sustainability Disclosure Standards by:

- creating a level playing field for reporting entities regardless of location; and
- increasing the global applicability of industry-based disclosures by referencing standards that have been designed for application across all jurisdictions.

11. What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Investors expect to understand companies' time-bound action plans to pivot their existing assets, operations, and entire business model to align with a 1.5-degree trajectory. In September 2022, more than 500 institutional investors from around the world issued a public statement to urge governments to step up climate policy ambition, including by requiring the public disclosure of 1.5°C pathway-aligned, science-based, independently verifiable climate transition plans for listed and large non-listed companies, asset managers and regulated asset owners.[32]

Accordingly, investors require companies to disclose credible transition plans which lay out actionable plans and serve as a strong mechanism for accountability and transparency.[33]

Among other things, a credible transition plan should include disclosures that:

- Describe the strategy of the organisation to pivot towards a net-zero future with near term (every five years) science-based targets consistent with the long-term objective of net zero by 2050.
- Contain verifiable and quantifiable Key Performance Indicators (KPIs) which measure the success of an organisation's climate transition strategy and track progress.
- Provide accountability. The plan has clearly defined roles and responsibilities, including an effective governance mechanism. An organisation's plan should be reviewed and updated regularly through the annual reporting cycle.

As detailed in response to Q14, Australian specific guidance on best practice transition plans should be developed by an independent authority.

Regarding offsets, we recommend that Australia reference the Oxford Offsetting Principles, and encourage reporting of relevant information on performance against these principles.

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[32] The Investor Agenda (2022), 2022 Global Investor Statement to Governments on the Climate Crisis.

[33] AIGCC, CDP, Ceres, IGCC, IIGCC, PRI (2022), Letter to the Treasurer and RBA Governor.

12. Should particular disclosure requirements and/or assurance of those requirements commence in difference phases, and why?

As an overarching principle, climate and sustainability disclosure requirements should evolve in line with the best science, policy, and practice and reporting entities should be encouraged to continually build on an and improve their disclosures.

We note that the ISSB Standards builds on the TCFD framework that has commonly be applied by Australian entities on a voluntary basis. Therefore, a phased implementation of disclosure requirements should only be considered for new reporting requirements under the ISSB. Broadly, Treasury should take all steps practicable to promote and achieve international alignment by adopting the approach applied by the ISSB with respect to phasing in particular disclosure requirements. In that regard, we note that the ISSB is considering providing timing relief for companies in respect of Scope 3 emissions to enable them to implement appropriate measurement processes.[34]

In respect to phasing in assurance requirements, we refer to our response at Question 8.

DATA AND CAPABILITY TO SUPPORT CLIMATE REPORTING

13. Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

The PRI is not commenting on this question.

13.1 How and by whom might any data gaps be addressed?

The PRI is not commenting on this question.

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

The PRI is not commenting on this question.

GOVERNANCE OF SUPPORTING INFORMATION FOR DISCLOSURES

14. Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information.

As noted in our response to question 11, investors are increasingly expecting companies to prepare and disclose credible, useful and consistent transition plans. As the development of transition plans is an emerging practice, we consider that companies would benefit from guidance on best practice across the various sectors that they operate in. Accordingly, we recommend that the Australian Government consider establishing an independent entity, similar to the TPT in the UK,[35] or empower

[34] ISSB (2022), ISSB announces guidance and reliefs to support Scope 3 GHG emission disclosures.

[35] The TPT is tasked with developing a framework to assist entities to disclose transition plans and provide guidance, case studies and best practice examples to support entities to prepare gold standards transition plan. The TPT is also publishing sector-specific metrics. For more information, please see TPT (2022), The Transition Plan Taskforce Disclosure Framework and Implementation Guidance.

an existing, independent entity (e.g., the Climate Change Authority) to develop guidance on effective transition plans as well as develop sector specific decarbonisation pathways.

PROPORTIONATE APPLICATION OF LIABILITY

15. How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

We consider that the existing 'reasonable grounds' requirements will provide an appropriate amount of protection for directors with respect to disclosing Scope 3 emissions and making forward looking statements under the ISSB standards in the medium term.[36] As has been noted in a recent legal opinion, the ISSB standards require disclosure of sustainability-related financial risks in a manner which is broadly consistent with existing requirements applying to listed companies in Australia and which company directors should already be considering in proper discharge of their duties. Accordingly, adoption of the ISSB standards in Australia will not increase directors' liability disclosure for forward-looking statements[37] or scope 3 emissions (provided an entity has no reason to mistrust the supplier of the information relied upon to determine their own scope 3 emissions).[38]

However, if Treasury considers that an additional 'safe harbour' is necessary, then any safe harbour must be limited in scope and time bound (e.g., no more than two years from the date an entity was initially required to report) in order to encourage robust climate-related disclosures in the initial years of mandatory reporting. In this respect, we note that effective accountability and enforcement measures are essential to incentivise the provision of comprehensive and trustworthy climate-related information that may be highly material to investors capital allocation and ownership decisions.

INTERACTION WITH OTHER REPORTING OBLIGATIONS

16. Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements and how should these interactions be addressed?

The PRI is not commenting on this question.

[36] Sebastian Hartford Davis and Kellie Dyon (2022), Advice regarding potential liability of directors under the ISSB draft standards for forward looking statements.

[37] Sebastian Hartford Davis and Kellie Dyon (2022), Advice regarding potential liability of directors under the ISSB draft standards for forward looking statements [30]-[35].

[38] Sebastian Hartford Davis and Kellie Dyon (2022), Advice regarding potential liability of directors under the ISSB draft standards for forward looking statements [60].

OTHER IMPLEMENTATION ISSUES

17. While the focus of this reform is on climate reporting, how much flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

Treasury should ensure the structures and infrastructure put in place to introduce mandatory climate reporting provides sufficient flexibility to permit the introduction of broader mandatory sustainability reporting in due course.

Beyond climate, issues like biodiversity loss, human rights violations and income inequality are emerging as material, system-level risks affecting the long-term financial returns of investors.[39] As investors have a fiduciary duty to respond to such risks, they need decision-useful data on their investment's risks, opportunities, and impacts across these sustainability issues.

As noted in our response to Question 1, global jurisdictions are building on mandatory climate disclosures to require entities to report on broader sustainability issues. Frameworks have been and are continuing to be developed to provide entities with appropriate directions on how to report on these issues. Such frameworks include the SASB standards, GRI, and the Taskforce for Nature-related Financial Disclosures. The ISSB is cooperating with these initiatives as it develops additional standards beyond IFRS S1 and S2.

Any legislative requirements should therefore provide standard setters with the flexibility to introduce mandatory sustainability reporting and standards on issues beyond climate that align with and build on international best practice.

18. Should digital reporting be mandated for sustainability reporting? What are the barriers and costs for implementing digital reporting?

Yes, digital reporting should be mandated for sustainability reporting. This would enable investors to more easily and cost-effectively access, use and compare the climate-related information they need to make investment decisions.

We recommend Treasury consider the development of a common, publicly accessible platform allowing access to publicly disclosed financial and sustainability information by corporations and financial market participants. This could enhance the accessibility data and therefore overcome one of the main challenge investors face in identifying sustainability risks and opportunities, understanding sustainability performance and implementing their own disclosure obligations. Information published on this platform should be tagged and in machine-readable formats that correspond to existing reporting standards and requirements. Such a platform has been proposed by the European Commission as part of the efforts to increase transparency and reduce asymmetry of information under the proposed European Single Access Point (ESAP), and might be considered as a blueprint.

The PRI is not able to comment on the barriers and costs to preparers for implementing digital reporting.

[39] PRI (2022), A Legal Framework for Impact: Australia (p.8).

FINANCIAL REPORTING FRAMEWORK

19. What of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

Effectively implementing climate and sustainability standards will require Australia's standard setters to have adequate knowledge of the drivers of sustainability related risks and opportunities, and sufficient skills expertise in relation to the measurement and reporting of climate and sustainability risks, opportunities and impacts. For the effective oversight and administration of these standards, we therefore consider and recommend that Treasury adopt the second option proposed – to create a separate sustainability standards board.

However, given the urgent need for investors have comparable and reliable climate-related financial disclosures, we recommend that Treasury initially empower the AASB to implement IFRS S2. As noted in our response to Treasury's consultation on empowering the AASB to deliver sustainability standards, the AASB should be appropriately governed and resourced during this interim period.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of Treasury further to improve climate and other sustainability-related financial disclosures in Australia.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org