

## Submission to the Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information Exposure Draft SR1 (October 2023)

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### About the authors

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**Assoc. Prof Mukesh Garg** joined Monash University in 2006 and is currently Chair of the Academic Progress Committee and a member of the University Academic Board. He has teaching and interest in financial reporting, financial and valuation impact of climate change and its reporting, auditing, forensic accounting, financial statement analysis, and valuation. His research publications in 'A\*' and 'A' ranked national and international journals are reporting regulations, financial reporting quality, auditing, climate change, sustainability, cost of capital, and valuation of listed companies. Mukesh holds a PhD in Accounting and Finance from Monash University and is a qualified member of CPA Australia. Besides, he has industry and accounting standard-setting experience with the Australian Accounting Standards Board as the Research and Education Principal.

**Dr Bei Cui**, is a Research Fellow at the Monash Centre for Financial Studies since May 2019, and holds a Ph.D. in Finance from the University of Hong Kong. Her role involves conducting research that bridges academic rigour with industry relevance. Dr. Cui specialises in sustainable investment, climate change, modern slavery, and the dynamics of Chinese and foreign capital markets. Her expertise also extends to superannuation funds and market microstructure, contributing to both academic and practical finance realms.

## Summary

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The authors generally support the climate risk disclosure standards proposed by the AASB. Detailed disclosure standards will play an important role in improving transparency around climate-related financial risks and the management of these risks by Australian companies, and, in turn, the use of this information by market stakeholders to help improve the climate resilience of the financial system and the broader economy.

Our previous submissions to the Australian Treasury on these reforms<sup>1</sup> have however noted missed opportunities to strengthen disclosure requirements in ways that would better support the alignment of private capital and resources to achieving the goals of the international Paris Agreement (and away from activities that worsen climate change). Ensuring disclosure reforms assist with Australia's transition to net-zero emissions by 2050 is a key guiding reform principle for the Australian government.<sup>2</sup>

To this end, we have previously argued for:

- A more explicit adoption of a *double materiality* approach in Australia's sustainability-related disclosure frameworks that requires entities to report on climate performance and impacts, as well as exposure to climate-related financial risks; and
- Mandatory climate transition planning, aligned to the specific and ambitious global temperature goal set out in the Paris Agreement (i.e., 1.5 degrees), for select large companies, with the Australian Government taking the lead in providing guidance for the preparation of robust and credible transition plans.

We recognise the policy parameters set by the Australian government<sup>3</sup> mean that such reforms may not be fully implemented through the proposed AASB standard, at least at this point in time.

Nonetheless, our submission identifies some important opportunities to strengthen the proposed disclosure standards in ways that will enhance their contribution to supporting Australia's transition to net-zero emissions by 2050 (see especially responses to Q 10, 11, 13, 18, 20 and 21).

Our submission also identifies opportunities to clarify and specify reporting requirements to enhance the decision-usefulness of information (e.g., comparability, relevance, and reliability), as well as transparency and accountability more generally (see especially responses to (Q 1, 4, 5, 6, 7, 19, 22)).

Finally, we provide some comments on auditing and assurance challenges associated with this reform (see response to Q32).

## Q. 1 – Presenting the core content of IFRS S1 in [draft] ASRS Standards

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We prefer Option 1 for the presentation of the core content disclosure requirements of IFRS S1, that is, one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgments, uncertainties, and errors. This aligns with reform principle 3 that disclosure requirements be well-understood.<sup>4</sup> We consider that Options 2 and 3 – which both involve the presentation of core content disclosure requirements in two

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<sup>1</sup> Anita Foerster, Mukesh Garg, Michal Spencer, *Submission to the Australian Government Treasury Consultation, Climate-related financial disclosure* (17February 2023); Anita Foerster, Mukesh Garg, Michael Spencer, *Submission to the Australian Government Treasury Consultation, Climate-related financial disclosure* (21 July 2023).

<sup>2</sup> Australian Government Treasury, *Climate-related Financial Disclosure* (Consultation Paper, June 2023) 4 (hereafter 'reform principle(s)') Reform Principle 1.

<sup>3</sup> Australian Government Treasury, *Mandatory climate-related financial disclosures* (Policy Position Statement, January 2024); Australian Government Treasury, *Climate-related financial disclosure* (Consultation paper, December 2022); Australian Government Treasury, *Sustainable Finance Strategy* (Consultation Paper, November 2023).

<sup>4</sup> Reform Principle 3.

ASRS Standards – will increase the complexity and thus likelihood of confusion for businesses, investors, regulators, and the public in relation to disclosure requirements.

### **Q. 3 – Entities that do not have material climate-related risks and opportunities**

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The proposed approach of requiring an entity that determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, to disclose that fact and explain how it came to that conclusion, is generally supported. Given the broad exposure of Australian companies to climate-related risks, it is increasingly important that entities that determine they are not exposed, provide sufficient explanation for this determination. This information can be an important indicator of the climate preparedness and resilience of an entity, illustrating either that the entity has robust risk management arrangements in place, or indeed lacks sufficient understanding of their exposure and adequate attention to risk management. If an entity does not have climate change related opportunities then such disclosures would be useful for those who currently provide or intend to provide capital to the entity.

### **Q. 4, Q. 5, Q. 6 – Modifications to the baseline of IFRS S1 for [draft] ASRS 1, sources of guidance and references to SASB Standards,**

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We support the provision of cross-sectoral guidance to entities in relation to their disclosure requirements. However, we support the AASB's intention (outlined in BC41) to publish industry-based guidance accompanying IFRS S2 and include references to SASB Standards once the content has been internationalised by the ISSB and undergone the AASB's due process. **Industry-based guidance will facilitate a more granular understanding of climate risks and opportunities and allow for meaningful comparison between entities in similar sectors and industries.** This will also ensure that disclosure requirements placed on Australian entities are better aligned with international reporting practices pursuant to reform principle 4.<sup>5</sup>

Several sections of IFRS S2 are relevant to the Australian context. In particular, we note the guidance applicable to extractive industries<sup>6</sup> as highly relevant given Australia is the largest exporter of coal in terms of economic value,<sup>7</sup> and the third-largest LNG exporter.<sup>8</sup> The disclosure of information listed in the guidance applicable to extractive industries would assist financial institutions and superannuation entities to make their own comprehensive disclosure about financed emissions.<sup>9</sup> There is a growing global consensus to transition away from fossil fuels in energy systems to meet the goals of the Paris Agreement,<sup>10</sup> yet public and private finance flows for fossil fuels are greater than those for climate adaptation and mitigation.<sup>11</sup> **The publication of industry-based guidance therefore presents an opportunity to strengthen disclosure requirements in ways that would better support the alignment of private capital and resources to achieving the goals of the Paris Agreement.**

In the interim, the proposed approach - whereby an entity can elect to make industry-based disclosures and should thereby consider the applicability of metrics appropriate for its business model or industry as classified in ANZSIC - is

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<sup>5</sup> Reform Principle 4.

<sup>6</sup> IFRS S2 IFRS, *Sustainability Disclosure Standard, Industry-based Guidance on implementing Climate-related Disclosures* (June 2023) Volume 7, 'Coal Operations', 38-47, Volume 11, 'Oil & Gas – Exploration & Production', 79-94.

<sup>7</sup> International Energy Agency, *Coal 2019, Analysis and Forecasts to 2023* (2019) 45-46.

<sup>8</sup> International Energy Agency, *Gas Market Report*, (Q1-2024) 56.

<sup>9</sup> See further our responses to questions 20 and 21 below.

<sup>10</sup> *Outcome of the first global stocktake*, UN Doc FCCC/PA/CMA/2023/L.17 (revised advance version, 13 December 2023) [28(d)]; Intergovernmental Panel on Climate Change, *Climate Change 2022: Mitigation of Climate Change, Working Group III Contribution to the IPCC Sixth Assessment Report* (Summary for Policymakers) [B.7]; International Energy Agency, *Net Zero by 2050 A Roadmap for the Global Energy Sector* (May 2021) 21.

<sup>11</sup> Intergovernmental Panel on Climate Change, *Climate Change 2022: Mitigation of Climate Change, Working Group III Contribution to the IPCC Sixth Assessment Report* (Summary for Policymakers) [B.5.4].

generally supported. Further, we acknowledge that an entity that wishes to make additional, voluntary disclosures using SASB Standards, or the Standards listed in Appendix C of IFRS S1, will be able to do so.

The proposed approach of allowing entities to provide additional disclosures only where they do not obscure or conflict with required disclosures is appropriate. This should encourage entities to provide disclosure that is high quality and comparable and discourage entities from taking advantage of the complexity of available frameworks to obscure the comparability of information provided both between entities and within an entity over time. This approach aligns with reform principle 2 in relation to designing the reforms to improve the relevance, reliability, and comparability of disclosures.<sup>12</sup>

## **Q. 7 – Disclosing the location of the entity’s climate-related financial disclosures**

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We do not support the proposal to require an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures (CRFD) instead of requiring a detailed index table to be included in general purpose financial reports.

It would not be unduly onerous for entities to include a detailed index. Further, the requirement to provide such an index aligns with the reform principles, particularly reform principle 2.<sup>13</sup> We suggest that a pro forma index be prepared and provided to entities to assist them in meeting this requirement. This will also make it easier for users of CRFD to find and compare the information across entities.

Further, in relation to the location of CRFD, Clause 61, ASRS 1, states that there are various possible locations in the general-purpose financial reports in which to disclose climate-related financial information, noting the management report / operating and financial review in particular. The wording of this clause appears to be unnecessarily vague.

**To provide greater clarity and promote consistency, reporting entities should be directed to discuss climate-related risks and opportunities, and responses in the management commentary, to quantify these risks and opportunities as needed in the financial statements, and to cross-reference to a more detailed report embedded within the general purpose financial report.**

## **Q. 8 – Interim reporting**

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The proposed omission of IFRS S1 paragraphs 69 and B48 is a reasonable response to the confusion expressed in relation to the Treasury’s second consultation paper over whether interim reporting of CRFDs would be mandatory. This omission is aligned with reform principle 3, that disclosure requirements should be well-understood by businesses, investors, regulators, and the public.<sup>14</sup>

Given entities will be required to disclose climate-related financial information annually in general purpose financial reports, we consider this frequency of disclosure is sufficient to align with reform principles of supporting Australia’s climate goals and improving information flows,<sup>15</sup> without requiring additional interim reporting. However, if there is a significant change in the risks and/or opportunities between the two annual reporting periods, then the entities should be required to disclose such information in the interim reports (either half-yearly or quarterly as applicable).

## **Q. 9 – Modifications to the baseline of IFRS S2 for [draft] ASRS 2**

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The proposed insertion of draft ASRS 2 paragraph Aus3.1 to clarify the scope of the draft Standard is generally supported as this is a reasonable response to the confusion expressed over what was meant by ‘climate’ and the

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<sup>12</sup> Reform Principle 2.

<sup>13</sup> Reform Principle 2.

<sup>14</sup> Reform Principle 3.

<sup>15</sup> Reform Principles 1 and 2.

boundary of draft IFRS S2. Again, such reasonable clarifications align with reform principle 3, that disclosure requirements should be well-understood by businesses, investors, regulators, and other stakeholders.<sup>16</sup>

## Q. 10, Q. 11 – Climate resilience

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**We strongly support the proposed approach of requiring an entity to provide CRFD to inform stakeholders on its climate resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal of 1.5°C above pre-industrial levels as set out in the *Climate Change Act 2022 (Cth)*. This approach will assist with aligning private capital and resources with Australia’s transition to net-zero emissions by 2050 pursuant to reform principle 1.<sup>17</sup> It will also address current problems with inconsistent and incomparable approaches to the use of climate scenarios in risk assessments, particularly in relation to transition risks.**

We also consider it reasonable to allow entities to select the upper-temperature scenario that an entity must use in its climate-related scenario analysis. This will contribute to the flexibility of the requirements,<sup>18</sup> by allowing entities to model upper-temperature scenarios that they judge to be relevant to their business context. Besides, this approach will prepare them for changes that may be required due to extreme climate conditions (e.g., significant increase in global temperatures).

## Q. 12 – Cross-industry metric disclosures (paragraphs 29(b)–29(g))

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The cross-industry metric disclosures set out in paragraphs 29(b)–29(g) of IFRS S2 (and draft ASRS 2) are appropriate to provide useful information to users about an entity’s performance in relation to its climate-related risks and opportunities. This will facilitate comparison across industries.

## Q. 13 – Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

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**We support the proposed requirements (in draft ASRS 2 paragraphs 29(g) and Aus29.1) to disclose a description of whether and how climate-related considerations are factored into executive remuneration; and the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.**

Factoring climate performance metrics into remuneration is a key element of climate risk governance, that helps to promote and strengthen accountability. Requiring the disclosure of this information responds to well-established investor expectations on climate risk disclosure. Indeed, whether and how climate-related considerations are factored into executive remuneration is a disclosure indicator that has featured prominently in investor advocacy in relation to enhancing accountability around climate risk management.<sup>19</sup> Accordingly, **this aligns well with the information needs of primary users of financial reports**. Further, this approach is likely to become more

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<sup>16</sup> Reform Principle 3.

<sup>17</sup> Reform Principle 1.

<sup>18</sup> Reform Principle 5.

<sup>19</sup> See, e.g., Climate Action 100+, *Net Zero Company Benchmark 2.0* (March 2023) Metric 8.2.a: ‘The company’s CEO and/or at least one other senior executive’s remuneration arrangements specifically incorporate climate change performance as a Key Performance Indicator determining performance-linked compensation (references to ‘ESG’ or ‘sustainability performance’ are insufficient)’.

widespread, as it has also been proposed by the European Commission's Directive on Corporate Due Diligence and Corporate Accountability.<sup>20</sup>

### **Q. 14, Q. 15 – Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19–AusB63.1 and Australian application guidance), definition of greenhouse gases and converting greenhouse gases into a CO2 equivalent value**

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The incorporation of the definition of greenhouse gases from IFRS S2 without any modification in draft ASRS 2 is generally supported.

The proposed approach that an Australian entity should be required to convert greenhouse gases using global warming potential values in line with the reporting requirements under National Greenhouse and Energy Reporting (NGER) Scheme legislation is also generally supported.

Both reforms will promote consistency across relevant Australian climate change laws, which will, in turn, improve the flow of useful information to regulators and investors, as well as ensure businesses have a clear understanding of their obligations across these laws.<sup>21</sup>

### **Q. 17 – GHG emission measurement methodologies**

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We agree with the proposals in draft ASRS 2 paragraphs Aus31.1(b) and AusB25.1 provided there are no significant inconsistencies between the NGER and international standards. If such inconsistencies exist, we recommend the Australian government consider resolving these in the future.

### **Q. 18 – Providing relief relating to scope 3 GHG emissions**

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We do not agree with the proposal (in paragraph AusB39.1 of draft ASRS 2) which would permit an entity to disclose its scope 3 GHG emissions using data for the immediately preceding reporting period if reasonable and supportable data related to the current reporting period is unavailable.

This would allow entities to use data for two different time periods in the same disclosure, that is, data related to the current reporting period for scope 1 and 2 emissions, and data for the immediately preceding reporting period for scope 3 emissions. In addition, some entities may use data related to the current reporting period for scope 3 emissions, whereas others may use data related to the immediately preceding period. **This would create confusion and diminish the quality, and comparability of disclosures which departs from the policy intent behind reform principle 2.**<sup>22</sup>

However, we note that under the NGER and 2023 Safeguard Mechanism reforms, entities have not been required to report on and reduce scope 3 emissions. Accordingly, gathering data on scope 3 emissions may be a new activity for some entities. Therefore, **we suggest a grace period of 3 years in which entities are permitted to use data for the immediately preceding reporting period if reasonable and supportable data related to the current reporting period is unavailable. After this grace period, it would be reasonable to require disclosure only using data related to the current reporting period.**

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<sup>20</sup> See further, Anita Foerster, Mayleah House, Ingrid Landau and Vivien Chen, *Net Zero, Nature Positive and Socially Responsible? Exploring Corporate Law Reform Opportunities in Australia* (Report Prepared for the Australian Conservation Foundation and Jubilee Australia Research Centre, November 2023) 46.

<sup>21</sup> Reform Principles 2, and 3.

<sup>22</sup> Reform Principle 2.

## Q. 19 – Scope 3 emissions categories

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The proposed approach in draft ASRS 2 paragraph AusB33.1 is to include the scope 3 GHG emission categories in IFRS S2 as examples of categories that an entity could consider when disclosing the sources of its Scope 3 GHG emissions, rather than requiring an entity to categorise the sources of emissions in accordance with the categories of the GHG Protocol Standards. **We think that this approach would be counterproductive to the reform intent to move towards a system of clear and comparable information that is internationally aligned.**<sup>23</sup> Clear direction on using internationally recognised categories should be provided.

## Q 20 & 21 – Financed emissions and superannuation entities

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We disagree with the reasoning underpinning the proposal to require an entity to only consider the applicability of those disclosures related to its financed emissions (as set out in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1, and AusB63.1), instead of explicitly requiring an entity to disclose that information. Further, we do not consider that there are circumstances specific to superannuation entities that would cause undue challenges for superannuation entities to comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2. As the AASB notes in BC88, there are already provisions embedded in the draft standard that allow for entities to prepare CRFD based on available information without undue cost and effort.

Financial institutions typically exhibit minimal direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions. However, their Scope 3 emissions, which encompass the emissions from businesses or projects they finance, invest in, or underwrite, are substantially higher. According to the environmental reporting organisation CDP, the Scope 3 emissions of financial institutions are approximately 700 times greater than their direct emissions.<sup>24</sup> **As well as representing the most significant climate impact for financial institutions, scope 3 /financed emissions also represent significant exposure to financial (transition) risks for financial institutions.**

Improving the quantity and quality of disclosure by financial institutions has been a focus of existing frameworks for voluntary climate-related financial disclosures for some time - see for example, the TCFD recommendations,<sup>25</sup> the Net Zero Banking Alliance,<sup>26</sup> Net Zero Asset Owner Alliance,<sup>27</sup> and Net Zero Insurance Alliance.<sup>28</sup> Through their engagement with these initiatives, large financial entities that would be covered by these reforms are already well placed to begin full disclosures of financed emissions. Indeed, a 2023 independent report benchmarking the climate commitments and reporting of Australia's largest banks<sup>29</sup> illustrates that these entities are already responding to stakeholder pressure to disclose their financed emissions, with extensive disclosures already provided, but also considerable scope to improve the relevance, reliability, and comparability of these disclosures. **A clear requirement to extend mandatory climate reporting to financial institutions is important to achieve the required quality improvements in the disclosure of financed emissions.**

Superannuation funds currently exhibit a diverse range of practices in disclosing their financed emissions, with varying degrees of transparency and detail. A notable gap in these practices is the limited focus on indirect emissions from investment portfolios, coupled with a lack of standardised reporting methodologies, which impedes

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<sup>23</sup> Reform Principles 2 and 4.

<sup>24</sup> CDP, *The Time to Green Finance* (CDP Financial Services Disclosure Report, 2020) 3.

<sup>25</sup> *Recommendations of the Task Force on Climate-related Financial Disclosures* (Final Report, June 2017) iii.

<sup>26</sup> Net-Zero Banking Alliance, *Principles for Responsible Banking* <<https://www.unepfi.org/wordpress/wp-content/uploads/2023/03/10-NZBA-PRB-Commitment-statement-D3.pdf>>.

<sup>27</sup> The Net Zero Asset Owner Alliance, *Commitment document for participating asset owners* <<https://www.unepfi.org/wordpress/wp-content/uploads/2022/07/AOA-COMMITMENT-DOC-2022.pdf>> .

<sup>28</sup> The Net-Zero Insurance Alliance, *Statement of commitment by signatory companies* <<https://www.unepfi.org/psi/wp-content/uploads/2021/07/NZIA-Commitment.pdf>> .

<sup>29</sup> Australian Conservation Foundation, *From laggards to leaders: An assessment of Australian banks' climate commitments* (Report, August 2023).

comparability and comprehensive understanding. Particularly challenging is the incomplete data on emissions from investee companies, especially those not subject to mandatory reporting and in developing countries, and the absence of a consensus methodology for measuring emissions from complex, non-traditional, or unlisted assets.

To address these challenges and improve disclosure practices, superfunds should adopt a pragmatic yet ambitious approach. This includes disclosing financed emissions based on the best available information while acknowledging and transparently explaining the limitations and gaps inherent in this data. Where direct data from investee companies is unavailable, reliance on robust modelling techniques for financed emissions estimation is advisable, provided these methods are transparent and subject to regular review. Recognising that the journey towards comprehensive disclosure is incremental, superfunds should focus on continuous improvement, gradually enhancing the detail and coverage of their reporting. Collaboration with other financial institutions and industry bodies to develop and adhere to standardised reporting frameworks can further bridge the gaps in current practices. By adopting these measures, superfunds can significantly enhance the quality of their disclosures, aligning with the broader trend in the finance industry towards greater accountability and transparency in climate impact reporting.

Although superannuation entities will undoubtedly need to invest significant resources to report their financed emissions in line with the proposed requirements in draft ASRS 1 and draft ASRS 2, these entities have already been subject to considerable pressure to report on climate-related financial risks,<sup>30</sup> with several large entities already adopting voluntary disclosures frameworks like the TCFD, which provides guidance to support all sectors and organisations.<sup>31</sup> There has also been growing advocacy from superannuation members seeking improved quantity and quality of disclosure.<sup>32</sup>

**The climate risk disclosure standards proposed by the AASB are an opportunity to strengthen disclosure requirements in ways that would better support the alignment of private capital and resources to achieving the goals of the international Paris Agreement (and away from activities that worsen climate change). Providing reduced obligations for financial and superannuation entities does not accord with the policy intent of these reforms** which provides that ‘separate thresholds or definitions are not considered necessary to ensure large financial institutions make CRFDs’.<sup>33</sup>

## Q. 22 – Carbon credits

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The proposed modification to the definition of carbon credit in draft ASRS 2 to ensure non-Kyoto ACCUs can also be recognised as carbon credits in the context of the draft is generally supported.

In relation to carbon credits, we note also the required disclosures concerning climate targets will include disclosure of the entity’s planned use of carbon credits to offset emissions to achieve net GHG emissions targets (ASRS 2, clause 36(e)). Such disclosures are important to boost transparency and accountability around corporate net-zero climate targets. Many large Australian companies will already be prepared to make such disclosures through their involvement in the Corporate Emissions Reduction Transparency Report program overseen by the Australian Clean Energy Regulator. However, to strengthen this clause, **we suggest that the words ‘and actual’ be inserted after the word ‘planned’.** **Requiring companies to disclose the planned use of carbon credits, as well as carbon credits they have already purchased is better aligned with the policy intent of the reforms as it will allow a fuller view of an entity’s climate plans and risk management strategies.**<sup>34</sup> **For those entities covered by the Safeguard Mechanism, it would also be beneficial to disclose the proportion of ACCUs used or planned to be used to meet compliance obligations, as well as the carbon credits used or planned to be used to meet voluntary net-zero targets.**

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<sup>30</sup> See, e.g., APRA, *Prudential Practice Guide, CPG 229 Climate Change Financial Risks* (November 2021).

<sup>31</sup> *Recommendations of the Task Force on Climate-related Financial Disclosures* (Final Report, June 2017) 19.

<sup>32</sup> See, e.g., *Mark McVeigh v Retail Employees Superannuation Pty Ltd* (Federal Court of Australia, NSD1333/2018, commenced 24 July 2018).

<sup>33</sup> Australian Government Treasury, *Climate-related Financial Disclosure* (Consultation Paper, June 2023) 6.

<sup>34</sup> Reform Principles 1 and 2.

### **Q. 32 – Do the proposals create any auditing or assurance challenges, and if so, explain these challenges?**

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Auditors would have to charge higher fees from their clients considering the impact of climate-related risks on the financials of their clients which was previously not considered. Assurance on the aspects of the impact of climate risk on an entity's financial statements and asset values can be costly and requires specialist skills.<sup>35</sup> Therefore, we recommend that audits of CRFDs be restricted initially to large private and ASX-listed companies. Auditors should also be encouraged to report on concerns related to audit clients' valuation of reported long-term assets considering the impact of climate change on future cash flows as part of the key audit matters (KAM).<sup>36</sup> In light of the high cost of audit and shortage of appropriate skills, auditors may only be able to provide limited assurance considering increased qualifications if reporting entities are pushed too hard and too early. Climate-related litigation cases have more than doubled from 884 in 2017 to 2,180 in 2022 in the U.S. alone.<sup>37</sup> Therefore, limiting mandatory reporting and audits to large entities that have the resources and processes in place would be a recommended approach, while gradually broadening the scope to medium-sized entities, as the process of reporting and audit builds on capabilities.

### **Q. 33, Q. 34 – General matters for comment**

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The climate risk disclosure standards proposed by the AASB will result overall in climate-related financial information that is decision-useful to investors and other end-users, provided the disclosure is specific, comprehensive, clear, consistent over time, and comparable (within an entity over time, and between entities within an industry or sector).<sup>38</sup> In particular, we consider the information that entities are required to disclose under ASRS 1 clause 27 to be a clear articulation of the requirements in line with reform principle 3.<sup>39</sup>

It is clear that the Australian government has determined that large businesses and financial institutions should provide greater transparency and accountability when it comes to their plans for mitigating climate-related risks and harnessing opportunities, so as to support Australia's climate goals,<sup>40</sup> and that this is in the best interests of the Australian economy.<sup>41</sup> Further, these reforms are consistent with developments in a range of comparative jurisdictions including the European Union, United Kingdom, United States, and Canada.

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<sup>35</sup> In their audit report for BHP in 2023, Ernst & Young disclosed that "We involved our valuation and climate change specialists to assist in assessing the reasonableness of commodity and carbon prices ..... and we involved our mining reserve specialists to assist in the assessment of the reserve estimation methodology....."

<sup>36</sup> Impact of climate-change financial disclosures on accounting numbers and assurance practices, [AUASB Agenda Paper 2023](#).

<sup>37</sup> UN Environment program [Climate litigation more than doubles in five years, now a key tool in delivering climate justice](#).

<sup>38</sup> *Recommendations of the Task Force on Climate-related Financial Disclosures* (Final Report, June 2017) Appendix 3: Fundamental Principles for Effective Disclosure.

<sup>39</sup> Reform Principle 3.

<sup>40</sup> Reform Principle 1.

<sup>41</sup> See, e.g., *Climate Change Act 2022 (Cth)*, Revised Explanatory Memorandum [17].