Principles for Responsible Investment

POLICY BRIEFING

AUSTRALIA'S PROPOSED TREASURY LAWS AMENDMENT BILL 2024: CLIMATE-RELATED FINANCIAL DISCLOSURE

November 2024

PRI Association

Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E:info@unpri.org

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 menu 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. More information: www.unpri.org

ABOUT THIS BRIEFING

This briefing summarises the key elements of the Treasury Laws Amendment Bill 2024: Climate-Related Financial Disclosure which makes changes to the Corporations Act 2001 that requires in scope Australian companies to disclose climate change-related financial risks and opportunities. The amendments require these disclosures to comply with the Australian Sustainability Reporting Standards (ASRS) developed by the Australian Accounting Standards Board (AASB). ASRS is composed of AASB S1 and S2, which respectively correspond to IFRS S1 and S2, of which AASB S1 is a voluntary standard, and AASB S2 is mandatory.

The requirements will come into effect for financial years commencing on or after 1 January 2025 and will take a phased approach starting with large entities. The Australian Securities and Investment Commission (ASIC) will be the authority regulating these requirements, and is currently conducting a public consultation until 19 December on a draft guidance to support entities in scope.

For more information, contact:

Margarita Pirovska
Director, Global Policy
margarita.pirovska@unpri.org

Kazuma Osaki
Head, APAC Policy
kazuma.osaki@unpri.org

INTRODUCTION

The Treasury Laws Amendment Bill 2024 is a landmark legislative proposal by the Australian government, encompassing a series of legislative proposals aimed at amending various aspects of Australia's financial, tax, and regulatory frameworks.

The amendments are diverse, covering areas such as foreign investment, climate-related financial disclosure, cost of living tax cuts, financial advice, and multinational tax transparency.

Here, we focus on the Treasury Laws Amendment Bill 2024: Climate-Related Financial Disclosure, a subsection of the Bill, aimed at introducing mandatory climate-related financial disclosures.

This briefing provides an overview of the proposed Climate-Related Financial Disclosure's key features, its development and objectives, the reception it has received, and the challenges and opportunities it presents for in-scope reporting entities.

KEY ELEMENTS

The Climate-Related Financial Disclosure aims to improve transparency by requiring in-scope entities to disclose climate-related financial risks and opportunities.

The mandatory reporting regime will be based on the Australian Accounting Standards Board's (AASB) Sustainability Reporting (SR) 1, which is aligned with elements of the International Sustainability Standards Board's (ISSB) IFRS S1 General Requirements for Disclosure of Sustainability, as well as elements of the ISSB S2 climate-related reporting. The AASB's standards are designed based on the ISSB's standards, but only the climate-related requirements (AASB S2) are mandatory.

The Bill introduces a new "sustainability report" that in-scope entities must prepare in addition to annual financial statements. It also requires entities to keep "sustainability records" to support the assurance process. The reporting requirements will be phased in over a four-year period, with different groups of entities being required to report at different times based on their size and other criteria.

The Bill was developed in response to growing recognition of the financial risks and opportunities associated with climate change. It aims to provide greater transparency for investors and other stakeholders by requiring entities to disclose their exposure to climate-related risks and the steps they are taking to manage these risks.

SCOPE

The Bill proposes a phased implementation approach based on entity size and emissions reporting obligations, with reporting starting from 2024 – 2025 financial year for the largest entities.

Group	Timing	Size of Companies	Additional Info
Group 1	Reporting begins for the 2024 – 2025 financial year	Meet at least two of the following three criteria: consolidated revenue of AUD$500 million or more, consolidated gross assets of AUD$1 billion or more, or 500 or more employees	Includes entities that are registered corporations under the NGER Act or required to make an application to be registered under subsection 12(1) of the NGER Act and that meet a publication threshold in subsection 13(1) of the NGER Act
Group 2	Reporting begins for the 2026 – 2027 financial year	Meet at least two of the following three criteria: consolidated revenue of AUD$200 million or more, consolidated gross assets of AUD$500 million or more, or 250 or more employees	Includes entities that are registered corporations under the NGER Act or required to make an application to be registered, as well as asset owners where the value of assets at the end of the financial year (including the entities it controls) is equal to or greater than AUD$5 billion
Group 3	Reporting begins for the 2027 – 2028 financial year	Meet at least two of the following three criteria: consolidated revenue of AUD$50 million or more, consolidated gross assets of AUD$25 million or more, or more than 100 employees	Includes entities that are registered corporations under the NGER Act or are required to make an application to be registered

REQUIREMENTS

Entities subject to the regime will be required to prepare a "sustainability report" as part of their annual financial report, including:

- Climate statements for the year;
- Notes to the climate statements;
- Any statements prescribed by the regulations for the year; and
- The directors' declaration about the compliance of the statements with the relevant sustainability standards.

The climate statements and notes must disclose:

- Material climate risks and opportunities faced by the entity;
- Two possible future scenarios for their assessments, one of which must align with the most ambitious global temperature goal in the Climate Change Act 2022, i.e., limiting global warming to 1.5 degrees
- Scope 1 and 2 emissions, using estimation methodologies consistent with the National Greenhouse and Energy Reporting (Measurement) Determination 2008 or the relevant annual National Greenhouse Accounts Factors publication; and
- Governance policies related to climate risks and opportunities.

Scope 3 emissions reporting will be required from an entity's second reporting year onwards and must be established in legislation

PENALTIES

The penalties for not complying with the climate reporting requirements under the Australia Treasury Laws Amendment Bill 2024 are embedded within the broader liability frameworks of the Australian Securities and Investment Commission Act 2001 (ASIC Act) and the Corporations Act 2001. These frameworks encompass director's duties, misleading and deceptive conduct provisions, and general disclosure obligations.

However, the legislation introduces some modifications to the statutory liability regime, specifically for a limited period, to alleviate potential liabilities arising from climate-related financial disclosures. These modifications primarily apply to statements made within the sustainability report, focusing on two areas: scope 3 emissions and the scenario analysis required to report on the entity's climate-related risks and resilience.

The Bill proposes a phased approach to assurance requirements, with full auditing of all climate disclosures expected to be required from 2030. The extent and level of assurance required will be set out in Australian assurance standards for climate disclosures, to be developed by the AUASB (the Auditing and Assurance Standards Board).

NEXT STEPS

In August 2024, the legislation was approved in Parliament and shortly after in September 2024, the legislation received Royal Assent. Also in September 2024, the AASB issued the final versions of the ASRSs, which have been made available on the AASB Standards Portal. The Australian Securities and Investment Commission (ASIC) will be overseeing the enforcement of these reporting requirements, and as such, ASIC has opened a consultation in November 2024 on a draft regulatory guide to support reporting entities. The consultation window closes on 19 December 2024. The Commonwealth Treasury has also indicated plans to develop a transition plan disclosure guidance throughout 2025.

POLITICAL CONTEXT

In recent years, climate change policy has been a divisive issue between the major political parties. The Liberal Party has traditionally been more supportive of the fossil fuel industry, while the Labor Party and the Greens have advocated for stronger action on climate change.

Here's a brief overview of relevant climate change-related legislation and actions:

- **Paris Agreement:** Australia is a signatory to the Paris Agreement, which aims to limit global warming to well below 2°C above pre-industrial levels.
- **Emissions reduction targets:** Australia has committed to reducing its greenhouse gas emissions by 26-28% below 2005 levels by 2030. Some argue that this target is insufficient to meet the Paris Agreement goals.
- **Carbon pricing:** In 2012, Australia introduced a carbon pricing scheme under the Labor government, which was later repealed by the Liberal-National Coalition in 2014.
- **Renewable energy:** Australia has seen significant growth in renewable energy investment, particularly in solar and wind power.

- **Bushfires and climate change:** The devastating bushfires in 2019-2020 intensified the debate about climate change in Australia, with many arguing that the government needs to take stronger action to reduce emissions and prepare for the impacts of a changing climate.
- **International pressure:** Australia has faced international pressure to increase its climate ambitions, particularly from Pacific Island nations that are vulnerable to sea-level rise and other climate impacts.

The Treasury Laws Amendment Bill 2024: Climate-Related Financial Disclosure has been generally welcomed as a necessary step towards aligning Australia's financial reporting with global standards on climate-related disclosures. It is expected to enhance the ability of investors to make informed decisions and to drive better corporate management of climate-related risks.

FURTHER RESOURCES AND REFERENCES

- Australian Government Treasury. (2024). Treasury Laws Amendment Bill 2024: Climate-Related Financial Disclosure: https://treasury.gov.au/consultation/c2024-466491
- Australian Government Treasury. (2024). Mandatory climate-related financial disclosures: Policy position statement: https://treasury.gov.au/sites/default/files/2024-01/c2024-466491-policy-smt.pdf
- Australian Government Treasury. (2024). Exposure Draft Explanatory Materials: Treasury Laws Amendment Bill 2024: Climate-Related Financial Disclosure: https://treasury.gov.au/sites/default/files/2024-01/c2024-466491-exposure-draft-em.pdf.
- Deloitte. (2024). Release of Treasury's final consultation on climaterelated financial disclosures: https://www.deloitte.com/content/dam/assets-zone1/au/en/docs/services/audit-assurance/2024/deloitte-au-audit-clarity-final-treasury-consultation-050224.pdf
- EY. (2024). Australia's new climate-related financial disclosure regime: What you need to know: https://www.ey.com/en_au/sustainability/sustainability-disclosure-hub/release-of-climate-related-financial-disclosure
- KPMG. (2024). Treasury releases draft legislation on climate reporting: https://kpmg.com/au/en/home/insights/2024/01/24ru-02-treasury-releases-draft-legislation-on-climate-reporting.html
- PwC. (2024). Australian sustainability reporting update https://www.pwc.com.au/assurance/esg/sustainability-reporting-ESG-reporting-frameworks-are-evolving.pdf
- Chartered Accountants Australia and New Zealand. (2023). Climate-related disclosures: key developments: https://www.charteredaccountantsanz.com/news-and-analysis/news/climate-related-disclosures-key-developments
- Australian Institute of Company Directors. (2024). Climate Governance Study 2024 https://www.aicd.com.au/content/dam/aicd/pdf/news-media/research/2024/climate-governance-study-2024.pdf
- Investor Group on Climate Change. (2024). Submission: Draft legislation for climate reporting critical for attracting investment capital in Australia: https://igcc.org.au/draft_legislation_1march2024/
- ASIC. (2024). Climate reporting and greenwashing: What small businesses need to know: https://asic.gov.au/about-asic/news-centre/articles/climate-reporting-and-greenwashing-what-small-businesses-need-to-know/
- Governance Institute of Australia. (2024). Governance Institute of Australia weighs in on climate reporting legislation https://www.governanceinstitute.com.au/news_media/governance-institute-of-australia-weighs-in-on-climate-reporting-legislation/
- Australian Council of Superannuation Investors. (2024). Climate-related financial disclosure: exposure draft legislation: https://acsi.org.au/wp-content/uploads/2024/02/ACSI-submission-on-Climate-related-financial-disclosure-exposure-draft-legislation.pdf