

MEMO# 34812

January 18, 2023

Australia Consults on Mandatory Climate-Related Financial Disclosure Framework

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TO: ICI Members
ICI Global Members
ESG Task Force
Global Regulated Funds Committee
Global Regulated Funds Committee - Asia
SUBJECTS: ESG
International/Global RE: Australia Consults on Mandatory Climate-Related Financial Disclosure Framework

On December 12, 2022, the Australian Treasury released a consultation paper seeking initial feedback on the design and implementation of a new climate-related financial disclosure regime for listed entities and financial institutions in Australia.[\[1\]](#) This climate disclosure framework will form part of a broader sustainable finance framework being developed by the Treasury, along with the development of new standards or taxonomies for sustainable investment, and further initiatives to tackle greenwashing and strengthen ESG labeling.[\[2\]](#)

The consultation will close on February 17, 2023. The Australian Treasury indicated that submissions will inform the subsequent design of a more specific proposal, setting out detailed reporting requirements and the implementation timeline, for further consultation in 2023. ICI Global has had an initial engagement with the Australian Treasury on this issue and intends to submit high-level recommendations in response to the consultation. This memorandum briefly summarizes the key elements of the proposed climate disclosure framework.

1. Scope of Reporting Entities and Implementation Timeline

The Treasury proposes a phased approach where disclosure requirements will initially apply to (i) "large" Australian listed entities, and (ii) "large" financial institutions (such as banks, insurers, credit unions, and superannuation funds). Disclosure requirements will be gradually expanded to smaller listed entities. The Treasury is seeking feedback on the size thresholds for the initial scope of reporting entities.[\[3\]](#) The Australian Government also

signaled its intent to apply appropriately tailored climate disclosure requirements to investment funds.[4]

For consistency with the implementation timeframe of disclosure requirements in other comparable jurisdictions, the Treasury proposes to require the first reports from the financial year 2024-25.

2. Alignment with International Frameworks

International alignment is one of the guiding principles for the proposed climate disclosure framework.[5] The Treasury intends to align the disclosure requirements initially with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), allowing for flexibility to accommodate the standards being developed by the International Sustainability Standards Board (ISSB). Apart from the considerations for adopting the ISSB standards,[6] the Treasury further seeks views on the level of flexibility needed to incorporate the growth of other sustainability reporting standards, for instance, the Task Force on Nature-related Financial Disclosure (TNFD) framework.[7]

Materiality Assessment. Recognizing that assessing the materiality of climate risks is an evolving practice, the Consultation Paper seeks input on how the materiality of climate risks should be approached, as well as whether the ISSB guidance on assessing materiality is an appropriate reference point.[8]

3. Reporting Metrics and Transition Plans

Greenhouse Gas (GHG) Emissions and Other Metrics. The Treasury intends to require reporting entities to disclose Scope 1 and Scope 2 GHG emissions, as well as Scope 3 GHG emissions in certain circumstances.[9] The Consultation Paper asks for input on considerations around Scopes 1, 2, and 3 reporting, and whether certain disclosure requirements, for example, disclosure of Scope 3 GHG emissions, should be phased in at a later stage.

Aside from GHG emissions, the Consultation Paper also calls for views on whether the new climate disclosure framework should prescribe other metrics for disclosure, including industry-specific metrics.

Offsets and Transition Plans. The Treasury acknowledges the growing focus on greater transparency and comparability in how entities report on their climate-related targets. The Consultation Paper seeks views on how reporting entities should provide transparent information on managing climate-related risks, including disclosures on transition plans and any use of GHG emissions offsets.

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Notes

[1] See Climate-related financial disclosure Consultation Paper, December 2022 ("Consultation Paper"), available at <https://treasury.gov.au/consultation/c2022-314397>.

[2] See Media Release: More transparency and more investment in cleaner and cheaper energy ("Treasurer Media Release"), December 12, 2022, available at <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/more-transparency-and-more-investment-cleaner-and>.

[3] See Consultation Paper, *supra* note 1, at Question 3, p.9.

[4] The Consultation Paper asks whether listed managed investment schemes should be subject to standardized climate disclosure requirements. See Consultation Paper, *supra* note 1, at p.8. Treasurer Jim Chalmers also publicly stated that the Australian Government intends to apply appropriately tailored climate reporting requirements to comparable Commonwealth public sector corporate entities and investment funds. See Treasurer Media Release, *supra* note 2.

[5] See *id.*, at p.6.

[6] See *id.*, at Question 4, p.10.

[7] See *id.*, at Question 17, p.16.

[8] See *id.*, at Question 7, p.12.

[9] The Consultation Paper notes that in order for Australia's regime to align with other international standards, "some requirements to disclose Scope 3 emissions will apply." The Consultation Paper references the U.S. Securities Exchange Commission proposal to require Scope 3 where material, and the European Sustainability Reporting Standards (ESRS), which requires Scope 3 to be reported by covered entities regardless of materiality. See *id.*, at p.13.