AIRA
AUSTRALASIAN INVESTOR RELATIONS ASSOCIATION

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Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: climatereportingconsultation@treasury.gov.au

CC: The Hon Dr Jim Chalmers MP, The Hon Chris Bowen MP

Dear Sir / Madam

Australasian Investor Relations Association (AIRA) submission to the Climate-related financial disclosure exposure draft legislation

The Australasian Investor Relations Association (AIRA) is pleased to submit this response to the Department of Treasury's draft legislation consultation and explanatory materials issued in January 2024.

AIRA is the peak body representing investor relations practitioners in Australia and New Zealand. The Association's 160 corporate members now represent over A$1.2 trillion of market capitalisation, over 80% of the total market capitalisation of companies listed on ASX.

We exist to provide listed entities with a single voice in the public debate on corporate disclosure and to improve the skills and professionalism of members. Our vision and purpose are that investor relations enables and creates sustainable value for all capital market stakeholders by building and strengthening market confidence in listed and unlisted entities.

In line with our previous submissions to the Department of Treasury, we continue to be supportive of a reporting and disclosure regime that supports the alignment and standardisation of sustainability disclosures.

Specifically on the Climate Related Financial Disclosures Exposure Draft (ED) Legislation and explanatory materials, key aspects of the ED that members felt should be key considerations were:

1. **Delayed introduction of reporting requirements:** We would support the proposal for the delayed introduction of mandatory reporting to the 1 July 2025 and would suggest that, should the legislation be passed in FY24 that Group 1 entities commence reporting as at FY26 onwards, then Group 2 entities in FY27 onwards followed by Group 3 entities in FY28. Should the introduction of the legislation be earlier than this, it would be problematic and result in a significant reporting burden for Group 1 entities.

2. **Thresholds for reporting:** Our members remain supportive of the reporting thresholds as they are set out in the draft legislation, with a phased approach.

3. **Terminology – suggest reference should be to Climate Reports NOT Sustainability Reports:** The draft legislation currently refers to an obligation to produce a 'sustainability' report and including this in the annual report. The draft legislation also states that If the company prepares a sustainability report for a financial year, the company must send a copy of the report, free of charge, to each member who has made an election for that financial year by the earlier of: 21 days before the next AGM after the end of the financial year; and 4 months after the end of the financial year. Our members have concern around this and believe that this is likely to cause significant confusion. Many listed entities currently produce sustainability reports that are not currently mandatory. These reports cover a range of issues in addition to climate change and other environmental matters, such as safety, people and culture, community etc. Using the term 'sustainability report', whilst we believe that you are ultimately only referring to mandatory climate-related financial disclosures, is likely to imply that Sustainability Reports are now mandatory. We would strongly encourage you to consider using the term climate related reporting or disclosures, rather than the term 'sustainability report'.

4. **Director liability:** In addition, our members have concern around the requirement for climate reports ('sustainability reports') to include a director's declaration:

   - Whilst we appreciate there is a similar expectation of directors for financial reporting, this is addressed through the numerous assurance reports and statements that are completed across an organisation, thereby providing directors with a significant level of comfort prior to sign off. For sustainability, typically only limited assurance is completed across selected aspects of a sustainability report and not the entire report.
   - This creates significant issues for directors who are then required to satisfy themselves with the completeness of a report and sign off on the report in its entirety, with the proposed commencement of this process as soon as FY25. Reasonable assurance is then not proposed until FY30, which then creates a potential issue with directors being asked to sign off on sustainability reports without the benefit of full and complete assurance.
   - Also arising is the fact that possible protections for directors expire before the end of Year 3 of the phase in of reporting, prior to companies seeking reasonable assurance over their reports. Protections should be reviewed to extend post the rollout of reasonable assurance.
   - The skills matrix and training needs of a Board should also be considered in the transition to the proposed legislation, particularly given the focus on forward looking statements. Reasonable flexibility and timing should be allowed to ensure that directors are adequately skilled or have appropriate training in order to meet the expectations of the proposed legislation and satisfy themselves and the Boards they sit on that any gaps are addressed.

5. **Metrics and Scope 3 reporting boundaries and disclosures:** Issuers and assurance providers should have sufficient time to develop and implement industry-specific metrics and formalise scope 3 boundary methodology prior to any assurance being mandated. Not having a timetable to address these specific issues should the legislation take effect for the first group of issuers for FY25, would result in greater fragmentation rather than alignment for reporting.

AIRA would be delighted to expand on this submission in discussion with the Treasury, and to make available expert resources from our newly established ESG Chapter to provide individual case studies and experiences from our membership of listed entities.

Please do not hesitate to contact me on 0419 444 731 if you would like to take up such a discussion or require any further information.

Yours sincerely

Ian Matheson
Chief Executive Officer