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Dear Claire

## Consultation Paper 380 Sustainability Reporting

As the representatives of over 310,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide feedback to the Australian Securities and Investments Commission (ASIC) on its draft Regulatory Guide 000 *Sustainability reporting* as detailed in Consultation Paper 380 (CP 380) and make this submission on behalf of our members and in the public interest.

We support ASIC's efforts to develop guidance to support the implementation of Sustainability Reporting as introduced by the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (FMI Bill) and appreciate the challenge of interpreting the amendments to the *Corporations Act 2001* (Cth) (Corporations Act) under the FMI Bill.

Our key comments are outlined below and our responses to the specific questions raised in CP 380 are in the Appendix. Our comments combine feedback from our members, many of which are employed by Group 1, 2 and 3 reporting entities, and sustainability assurance practitioners. We have also engaged with a wide range of stakeholders including the investor community (as users of sustainability information).

Overall, we consider it to be critical that any guidance on sustainability reporting aligns (to the fullest extent possible) with existing and well-established financial reporting practice in Australia. This alignment ensures coherence and clarity for reporting entities and consequently will promote better quality sustainability reporting in Australia.

Our concerns and recommendations include:

- The alignment of terminology used in the Regulatory Guide with the needs, expectations and existing understanding of users of sustainability reports.
- The potential difficulties that may be encountered by reporting entities as they apply the various thresholds under s292A of the legislation to determine their reporting requirements. In this instance we seek further guidance and clarity on how ASIC will interpret the thresholds to determine compliance.
- The need for the Regulatory Guide to provide clarity on how the modified liability settings would apply to the voluntary adoption of AASB S2 by entities during the modified liability period. More specifically, whether a reporting entity that elects to report earlier than the applicable threshold date as set out in s292A would be covered by the modified liability settings.

- Clarity being required as to whether existing ASIC exemptions from the preparation and lodgement of financial reports would automatically extend to the requirement to prepare and lodge a sustainability report to avoid any uncertainty and unnecessary work.
- We recommend ASIC urgently considers a class exemption to remove, or limit to Public Interest Entities or Disclosing Entities, the audit requirement for Group 3 entities when there are no material climate-related risks or opportunities to minimise the assurance burden for these entities.
- Concerns about ASIC's proposal to deny audit relief for a sustainability report, even when such relief has been granted for an entity's financial report, which in our view lacks practical considerations regarding the interconnectedness of these two forms of reporting.

Additionally, the International Ethics Standards Board for Accountants (IESBA) has recently revised the Code of Ethics to address the evolving landscape of sustainability reporting. In light of this, we recommend that ASIC's Regulatory Guide remain silent on independence matters, allowing assurance practitioners to refer directly to the IESBA Code of Ethics (or Australian equivalent) for the relevant requirements.

In particular, we recommend the removal of the footnote attributable to paragraph RG000.29, which states: "Note. However, a reporting entity's auditor should not provide this advice. The auditor must be independent from the reporting entity it audits, see Div 3,4 and 5 of Pt 2M.4". This approach will ensure alignment with existing international standards and practices.

Finally, we would suggest ASIC provides ongoing updates to reporting entities and the broader market on its observations during the first years of sustainability reporting and assurance, with guidance being developed and periodically updated as practical experience becomes clear.

If you have any questions about our submission, please contact [REDACTED] (CA ANZ) at [REDACTED] or [REDACTED] (CPA Australia) at [REDACTED].

Sincerely

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## Appendix – Responses to specific questions

### Entities that must prepare a sustainability report.

B1Q1. Do you agree with our proposed guidance?

We are concerned with the lack of alignment between the terminology used in the Regulatory Guide with report users' current understanding and expectations of the content of a sustainability report. In this instance we point to the difficulty in distinguishing between a sustainability report, which historically contained climate information along with other sustainability-related topics and the sustainability report that under the legislation only has climate information.

We agree with the application of accounting principles in the recognition of consolidated revenue and gross assets for the determination of threshold identification. However, we request further clarification and guidance on how ASIC will interpret the definition of specific terms used to determine an entity's reporting obligations. These definitions are of significant importance as they will ultimately determine the course of action for entities and by doing so have cost, time and reporting implications. For example, it will determine the timelines for reporting (being in Group 2 versus Group 3), whether they are captured under the sustainability reporting obligations at all (Group 3 or not in scope), or whether certain relief is available (i.e. the relief under s296B of the Corporations Act).

We also note the potential confusion in the determination of thresholds under s292A of the legislation, notably in the application of the term 'threshold'. RG 000.32 points to entities needing to reflect on both their corporate size threshold (RG 000.32 (a)) and emissions threshold (RG 000.32(b)) in determining reporting requirements.

However, under s292A(3), the corporate size threshold also cascades its own determination with the requirement to meet two out of three subsequent thresholds, consolidated revenue, value of consolidated gross assets or the number of employees. We are concerned that the use of the term 'threshold' for both requirements may be confusing. We suggest that RG 000.32(b) is amended to refer to whether the entity is a registered corporation under NGRS, rather than an emissions threshold.

As noted in our cover letter, we urge ASIC to provide clarity and ultimately clearer guidance on how revenue will be determined for the purposes of the corporate size threshold (RG 000.32). We have provided more detail in our response to F1Q1.

RG 000.48 indicates that: "...an acquisition may complete, a corporate restructure may occur, or market or economic conditions may shift, resulting in a change to the entity's reporting status as at the end of the financial year." We highlight the significant challenges for entities who will be preparing their financial reports, which are needed to determine the thresholds for sustainability reporting requirements, at the same as they would be needing to prepare the sustainability report if such thresholds are exceeded. In particular, we note the effect of the transaction on the financial reporting thresholds may not be clear until the completion of that first reporting period. Whilst we appreciate this will only affect entities on the threshold boundaries and in their first year of sustainability reporting, we recommend the Regulatory Guide provide additional guidance to help such entities navigate this situation.

Finally, we suggest ASIC provides ongoing updates to reporting entities and the broader market on its observations during the first years of sustainability reporting and assurance, with guidance being developed and periodically updated as practical experience becomes clear.

**B1Q2.** What further guidance could we provide to help entities determine whether they are required to prepare a sustainability report?

As noted in our cover letter, we strongly suggest further clarification and guidance is provided as to whether the current forms of relief provided for the preparation and lodgement of financial reports under the Corporations Act would extend to sustainability reporting in Australia. Our stakeholder outreach also reflects confusion relating to consolidation relief available under s292A(2) and suggest guidance is provided for different group structures, to ensure that entities have clarity for application.

We note that some parent entities prepare consolidated financial statements and, in line with the Australian Accounting Standards, disclose their majority investments in entities using the equity accounting method (i.e., investments in entities are disclosed as a single line item on the balance sheet). The legislation indicates that if the parent company prepares a consolidated financial report and a consolidated sustainability report, which include the entity, then the entity is not required to separately prepare a sustainability report. We seek the Regulatory Guide to explicitly clarify that this exemption applies to wholly or substantially owned entities which are equity accounted by the parent entity as an investment interest (as per the Australian Accounting Standards).

Specifically, we understand that in some cases such investment interests would meet the threshold for Group 2 reporting entities. However, it is unclear in the guidance if it is expected that the investment would need to disclose a separate sustainability report or if the parent entity's consolidated sustainability report (which would include the investment entity) would meet consolidated sustainability reporting requirements.

The Regulatory Guide considers the intersection between the climate statement and the Operating and Financial Review (OFR), and the climate statement and forward-looking information. However, it does not appear to consider the intersection between the climate statement and the financial report. Detail should be included in the Regulatory Guide to provide clarity to preparers, and potentially users on this intersection.

Further, we are concerned that whilst the Regulatory Guide reflects on the connectivity between the sustainability report required under the legislation and the OFR, it does not contemplate other reporting mechanisms such as integrated reporting, where the intent may be to report on climate as part of a broader holistic report. This raises concern on the unintended cost of duplication of information for compliance under the legislation and the increased burden on reporting entities

Finally, we have received questions from members asking about the penalties for non-compliance. We note that these are not addressed in the Regulatory Guide and recommend they are included for completeness and transparency.

**B1Q3.** What additional guidance should we provide to clarify how the s292A thresholds apply to RSEs, registered schemes and retail CCIVs?

No comment.

### **Sustainability records, directors' duties and modified liability.**

B2Q1. Does our proposed guidance help you understand the sustainability records that must be kept?

B2Q2. What further guidance should we provide on keeping sustainability records?

We note the detailed guidance ASIC has already provided for financial record keeping under [Information Sheet 76 \(INFO 76\)](#), and would urge closer alignment of guidance as it relates to sustainability records with this existing guidance.

We also recommend ASIC reflects on the recent guidance for climate-related record keeping produced by the [New Zealand Financial Markets Authority \(FMA\)](#).

We also note the absence of the indication of any penalties applicable for a lack of compliance with sustainability record keeping and compliance with the climate disclosure requirements more broadly.

B2Q3. Does our proposed guidance help you understand our expectations for directors in complying with their sustainability reporting requirements?

We note that s296A outlines the content of the annual sustainability report and this includes subsection (2) which states that a climate statement made under s296B is the climate statement for the purposes of s296A. This indicates that entities which make a statement of no climate risks and opportunities would still need to provide a director's declaration.

However, RG 000.54-58 'Directors' declarations' and RG 000.68-71 'Statements of no financial risks or opportunities relating to climate' do not indicate that a director's declaration would be required for entities lodging a statement under s296B. We recommend that the Regulatory Guide explicitly include the requirement for a director's declaration for those entities making a statement under s296B.

B2Q4. Are there any aspects of the sustainability reporting requirements where further ASIC guidance would be helpful for directors?

We urge ASIC to provide a clearer delineation between the references to a climate statement and a sustainability report in the Regulatory Guide. Whilst we appreciate that the terminology is driven by the overarching legislation, the use of the term sustainability report (of which a climate statement is an element) within the Regulatory Guide may be confusing. This may be amplified in instances where reporting entities are already disclosing sustainability information in addition to information about their climate-related risks and opportunities.

Whilst we agree with the Regulatory Guide pointing to the application of AASB S1 as the overarching standard to guide preparation, it does not indicate where or how connectivity should be evidenced between other voluntary sustainability reports.

B2Q5. Does our proposed guidance on the modified liability settings clarify how these settings apply to statements made in sustainability reports and other documents or communications?

Protected statements under the modified liability settings for both directors and sustainability assurance practitioners are of great importance. The provision of modified liability settings will provide reporting entities and sustainability assurance practitioners a transitional period where they will be protected while navigating, for some, their first sustainability-related reporting.

We would seek examples to accompany the first section of Table 3: Protected statements, which explains the modified liability settings for a statement relating to climate and, at the time it is made, is about the future. This would help reporting entities understand the difference between a statement under this section and the second section of Table 3.

We are particularly concerned that it appears the modified liability settings would not apply to the same information disclosed in other publications, such as an investor presentation. Investors are the primary intended audience for climate-related financial disclosures and the investor presentation is a key means of communication with investors. We appreciate the concerns relating to certain climate-related financial information being presented without the full context. However, we anticipate that should the modified liability settings not apply to the same information disclosed elsewhere, entities will instead rely on hyperlinks to the main report and this unlikely to be useful for investors.

B2Q6. What further guidance should we provide about the modified liability settings?

We suggest the Regulatory Guide provide clarity on how the modified liability settings would apply to the voluntary adoption of AASB S2 by entities during the modified liability period. More specifically whether a reporting entity that elects to report earlier than the applicable threshold date as set out in s292A would be covered by the modified liability settings.

### **Statements about no climate risks or opportunities.**

C1Q1. Are there other issues relevant to reporting entities' assessment of whether there are no material financial risks or opportunities?

C2Q1. Do you agree with our proposed guidance? If not, why not?

We agree with ASIC's guidance on the application of AASB S2 in determining material climate-related risks and opportunities and note that the requirement of the application of risk identification and assessment would be pivotal to the determination. Comprehensive guidance will need to support reporting entities in their materiality assessment with many considering climate-related risks and opportunities for the first time.

It will also be important for ASIC to provide practical guidance to support RG 000.71 which requires reporting entities that lodge a climate statement under s296B(1) to establish a robust process. We note that Treasury's assessment indicates 95% of Group 3 entities are expected to adopt s296B(1) and they have assumed this would be at no cost to those entities. However, we acknowledge that these statements will need to have a reasonable basis and be subject to audit. Therefore, guidance as to what constitutes a robust process in



this situation will need to appropriately balance this with the associated costs of implementation.

RG 000.70 provides clarity that sustainability records would still need to be maintained when an entity lodges a climate statement under s296B(1). As they relates to the robustness of sustainability information (CP 380 C2(a),(b)) we are also mindful that the processes used in the determination of the materiality of climate-related risks and opportunities may need to be subject to independent external assurance. They would also therefore be subject to developing market practice.

We have previously expressed our concerns in relation to the audit requirement for the disclosure of no material climate-related risks or opportunities for Group 3 entities.

We recommend ASIC urgently considers a class exemption to remove, or limit to Public Interest Entities or Disclosing Entities, the audit requirement for Group 3 entities when there are no material climate-related risks or opportunities. The assessment of material climate-related risks and opportunities should be limited to a governance process for Group 3 entities. Removing or limiting the audit requirement to Public Interest Entities or Disclosing Entities would better target assurance and avoid the significant and disproportionate costs associated with a significant additional assurance engagement where this is anticipated in most cases to be unnecessary.

Irrespective of the above comments, we consider it important that ASIC includes information in the Regulatory Guide about the audit requirements, particularly as they relate to Group 3 entities lodging a climate statement under s296B(1).

We note that s296A outlines the content of the annual sustainability report and this includes subsection (2) which states that a climate statement made under s296B is the climate statement for the purposes of s296A. This indicates that entities who make a statement of no climate risks and opportunities would need to provide a director's declaration. However, RG 000.54-58 'directors' declarations' and RG 000.68-71 'Statements of no financial risks or opportunities relating to climate' do not indicate that a director's declaration would be still required for entities lodging a statement under s296B. We recommend that the Regulatory Guide explicitly include the requirement for a director's declaration for those entities making a statement under s296B.

### **Statements with forward-looking climate information.**

C3Q1. Do you agree with our proposed guidance?

C3Q2. Should we issue more guidance about the facts or circumstances that are more likely to constitute reasonable grounds for forward-looking information in climate statements? If you consider that we should issue more guidance, please explain:

(a) what it should cover beyond the application guidance in Appendix D of AASB S2;

(b) how you consider that guidance would impact information disclosed under the sustainability standards in Australia, compared to information disclosed under the comparable international standards; and

(c) if there is any resultant inconsistency, how this can be reconciled with the context and purpose of the reforms, which cite international alignment of sustainability reporting to be a key priority.

We agree with the guidance on future looking statements and moreover on the requirements for the use of reasonable grounds as a guiding principle when considering such disclosures.

The current guidance for prospective information (RG170) references reasonable grounds to be supported by the use of independent industry experts' reports (RG 170.30). We would seek additional clarification on how such expert reports and advice would be able to be leveraged from established authoritative sources such as the latest Intergovernmental Panel on Climate Change (IPCC) reports.

A further point of clarification would be around the different application of reasonable grounds in the use of the information contained in such expert reports and its subsequent incorporation into critical components such as scenario analysis and the resulting strategic response in the medium and long term to identified climate-related risks and opportunities.

Additionally, we note RG 000.78 outlines that reporting entities that are not disclosing entities should also provide an update to the market when these relevant facts or circumstances change. This inclusion implies that reporting entities that are not disclosing (ie, unlisted entities) would be required to undertake continuous disclosure with respect to climate-related disclosures. We do not support the inclusion of this requirement and suggest ASIC removes it or provides further clarification and basis for it.

### **Cross-referencing in a sustainability report.**

C4Q1. Do you agree with our proposal? If not, why not?
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We support cross referencing between the directors' report and the sustainability report to avoid duplication, particularly when both reports address similar areas. However, RG 000.113 states "a sustainability report is a separate report to both the directors' report and annual financial report under s314(1)(a). Therefore, the sustainability report cannot form part of a directors' report, including the OFR under s299A(1)(c)" which can be interpreted to contradict the ability to cross reference as per AASB S2.

Further guidance should be provided to give clarity in relation to cross referencing between the two reports and how this can be implemented. In particular, that information required for the sustainability report can be included in the directors' report and cross-referenced to this. However, based on our understanding of RG 000.113, that all information required to be included in the directors' report must be included in the directors' report.

The use of integrated reporting in Australia reports on value creation or erosion alongside material risks and opportunities in a holistic fashion. The separation of climate information as a standalone report that cross references an integrated report may therefore be problematic and could also lead to an additional burden on reporting entities.

We would therefore recommend that illustrative guidance be published to show how the requirements of mandatory reporting under AASB S2 could interface with existing voluntary sustainability and integrated reporting practices to adequately provide reporting entities with a mechanism to determine the scale of impact and subsequent resource planning.

### **Labelling.**

C5Q1. Do you agree with our proposal to encourage specific labelling for sustainability-related financial disclosures?
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C5Q2. If not, what guidance (if any) should we provide to:

- (a) ensure that users of sustainability-related financial information are not misled by unhelpful or inappropriate labels; and
- (b) support investor comprehension and the consistency of information provided across the market?

C5Q3. If you currently prepare voluntary reports covering sustainability, are there other ways to achieve the outcomes our guidance seeks to achieve?

Whilst we appreciate the labelling proposals have been driven by the legislation defining certain terms, overall, we found the labelling proposals in the Regulatory Guide complicated and confusing to follow.

RG 000.83-84 explains the requirements for the sustainability report under s292A to be clearly distinguished from other voluntary reports that to date may have been labelled as 'sustainability reports'. We would point to the fact that existing sustainability reporting in the Australia spans across topics beyond climate and provides users of such reports with relevant information for their decision-making.

We are unclear what such voluntary sustainability reports should be called in the future to ensure compliance under s292A. This is important, as investors are already used to the terminology and would benefit from a unified approach as to what any new naming convention may be. As the sustainability report under S292A only includes a climate statement and accompanying information, we are also concerned that this could mislead the users of the sustainability report given the established precedent for broader voluntary sustainability reporting.

Further, we note the complexity of cross-referencing between the 'sustainability report' (under s292A) and existing sustainability reports in the market. This is because of the interconnectivity between climate and other topics, such as nature, biodiversity and social impact. We recommend ASIC consults with market participants to determine a unified naming convention. This would ensure understanding across reporting, assurance, investors and regulators.

RG 000.88 indicates that the sustainability report should be "clearly distinguished and presented separately from other information in the annual report". This however does not reflect existing reporting practice for integrated reporting. As noted earlier, we would seek illustrative guidance for how reporting entities that utilise integrated reporting would need to restructure their reporting approach.

### Notes to climate statements.

C6Q1. Do you agree with our proposed guidance? If not, why not?

We agree with ASIC's clarification around the notes to the climate statements not being a probable output. This reflects established market practice of a cohesive report, that may not replicate the format and layout of financial reports (RG 000.91).

### Proportionality mechanisms and exceptions under AASB S2.

C7Q1. Do you agree with our proposed guidance? If not, why not?

We agree with the need for proportionality mechanisms and exceptions to be used, particularly for Group 3 reporting entities, who may find it difficult to find the commensurate skills and resources to support not only business model transformation, but also climate-related reporting requirements.

Whilst many Group 1 and 2 entities may hold a deeper understanding of the rigour needed to support climate-related reporting, we have significant concerns this may not be the case for reporting entities under Group 3. Under the current settings for Group 3 entities, to reach a decision that climate-related risks and opportunities would not be material would entail a detailed assessment of its business model, and for this to be overlaid with climate-related knowledge, which may be lacking.

RG 000.92 references AASB S2 providing for both the disclosure of sustainability-related information without undue cost or effort and which is commensurate with the skills, capabilities, and resources that are available to the entity. RG 000.94 further explains the requirement for record-keeping to substantiate relief under these provisions of AASB S2. We suggest further guidance be provided on what information ASIC would view as credible supporting records for the application of these proportionality mechanisms.

In relation to skills and capacity, we note that the availability of sustainability-related professionals in the [market is low](#).

Whilst we, as professional accounting bodies, are actively offering our members the requisite sustainability-related technical skills and capabilities, we urge ASIC's scrutiny of reporting entities approaches in this area to recognise the current limited pool of talent available to reporting entities. However, we anticipate that ASIC's expectations in relation to the application of proportionality mechanisms by reporting entities will change over time as capability is developed and more information becomes available.

RG 000.93 references relief under AASB S2 for limited circumstances where there is measurement uncertainty (i.e. when amounts reported in the climate-related financial disclosures cannot be measured directly but only estimated). However, estimation techniques are permitted under the measurement standards for certain climate-related disclosures (e.g. scope 3 greenhouse gas emissions calculations) and not only in limited circumstances. We would therefore urge further clarity and illustrative examples of such limited circumstances and for the Regulatory Guide to acknowledge when estimation is permitted in disclosures in all circumstances. We would anticipate such examples to outline differing expectations of what would be acceptable depending on the size and scale of the entity as well as the industry.

### **Sustainability-related financial disclosures outside the sustainability report.**

D1Q1. Do you agree with our proposed guidance? If not, why not?  
 D1Q2. Does our proposed guidance strike the right balance between facilitating other sustainability-related disclosures, especially while sustainability reporting requirements are being phased in for reporting entities?

No comment.

## Sustainability-related financial information in the OFR.

D2Q1. Do you agree with our interpretation of s299A(1)? If not, why not?  
 D2Q2. Do you agree with our proposed regulatory guidance? If not, why not?

We note the requirements under s299A(1)(c) for the sustainability report to be a separate document from the OFR. We also concur with ASIC's guidance under RG 000.116 of the positioning of the sustainability report alongside the OFR and financial report as an "expanded suite of statutory materials that form part of the annual reporting to which the OFR relates".

As we mentioned previously, this approach is predicated on the situation where forms of voluntary sustainability or integrated reporting are not already being used by the reporting entity. We reiterate our recommendation for ASIC to provide clear guidance and potentially mapping the requirements of the legislation against existing reporting frameworks being used, to allay concern in the market around compliance.

We note that RG 000.120 alludes to the connectivity between climate-related risks and broader risks being faced by reporting entities and the balance that needs to be struck in the provision of information to users of these reports. We consider connectivity in reporting to be fundamental. As noted earlier, the Regulatory Guide does not address connectivity between the sustainability report and financial report. We also note that integrated reporting would support this principle, as the framework takes a broader view of value creation or erosion and includes consideration of climate under its existing pillars.

## Sustainability-related financial information in disclosure documents under Ch 6D.

D3Q1. Do you agree with our proposal? If not, why not?  
 D3Q2. Are there any practical problems associated with our proposal? If so, please provide details.  
 D3Q3. What reasonable expectation are investors and other professional advisers likely to have about the disclosure of climate-related financial information if required by s710?

No comment.

## Sustainability-related financial information in PDSs.

D4Q1. Do you agree with our guidance? If not, why not?  
 D4Q2. Are there any practical problems associated with our proposal? If so, please provide details.  
 D4Q3. What reasonable expectation are retail investors likely have about the disclosure of climate-related financial information if required by s1013D and s1013E?

Given climate-related disclosures are useful information for investors, we support incorporating them into the PDS. We would suggest that this guidance be provided in the Regulatory Guides relating to PDS rather than this Regulatory Guide for Sustainability report. However, we note that the Financial Markets Authority (FMA) in New Zealand have decided not to proceed with their [guidance around prospectuses](#).

## Guidance on how we will approach sustainability reporting and audit relief.

E1Q1. Does our proposed guidance help you understand how we will approach and assess an application for relief from the sustainability reporting and audit requirements?

E1Q2. Do you have any feedback about any aspect of our proposed guidance on relief?

E1Q3. Are there additional policy considerations that we should address in our guidance to help entities understand when we are likely to exercise or not exercise ASIC's power to grant relief?

E1Q4. Are there any specific areas or kinds of relief that you anticipate will be commonly sought from the sustainability reporting and audit requirements? If so, please inform us what, if any, relief topics or types of applications we should provide further guidance on.

E1Q5. What additional guidance, if any, would help you:

- (a) consider whether to apply for relief from the sustainability reporting and audit requirements;
- (b) prepare applications for relief; and
- (c) understand how to lodge an application for relief?

Section 292A(1) of the Corporations Act indicates that an entity is required to prepare a sustainability report only if it prepares a financial report under Chapter 2M (section 292A(1)(a)). We are concerned that ASIC's proposal to deny audit relief for a sustainability report, even when such relief has been granted for an entity's financial report, lacks practical considerations regarding the interconnectedness of these two forms of reporting.

This position overlooks the challenges auditors face when auditing only sustainability reports without the context of financial statements, as well as the potential for inconsistent reporting between an audited sustainability report and unaudited financial report. Such a disparity could mislead stakeholders and undermine the integrity of the information in both reports.

Auditors face considerable challenges when tasked with auditing only sustainability reports without the context of the financial reports. The interdependencies between these reports mean that insights gained during the financial audit are critical for understanding the sustainability disclosures. Without access to the full financial context, auditors may struggle to assess the accuracy and completeness of sustainability claims, potentially leading to gaps in assurance and increased risk of misrepresentation.

We are of the view that, the reasons to grant audit relief for financial reports would be equally valid for granting the audit relief for sustainability reports. Therefore, it is essential that ASIC grant audit relief for a sustainability report to those entities with existing audit relief from for a financial report.

Further, we continue to have concerns that the legislative timeframe to reach reasonable assurance over all climate-related disclosures is too ambitious. These concerns arise from likely resourcing and capacity issues for audit firms, concerns over the readiness and preparedness of reporting entities, their ability to obtain the data they will be required to report, the relative immaturity of sustainability reporting (which will affect the consistency of implementation), and the need for education and guidance for preparers and those charged with governance.

All these factors make the current proposed timeframe for achieving full reasonable assurance by 2030 challenging, especially for Group 3 entities. Treasury has stated its intention to undertake a review of the regime in 2028-29 which does not allow sufficient time

to amend the mandatory assurance requirements prior to the 2030 deadline. Therefore, we suggest ASIC may need to consider whether a legislative instrument for deferring the reasonable assurance deadline will be needed in advance of this.

### Relief for stapled entities.

E2Q1. Do you agree with our proposal that, for a stapled entity to rely on ASIC Instrument 2023/673, a sustainability report must be prepared on behalf of all members of the stapled group, even if one or more of the stapled entities in the stapled group is not required to prepare a sustainability report under s292A?

E2Q2. We are proposing that relief is available only where the sustainability report is prepared as if all members of the stapled group were a *single entity*. Do you agree with this proposal? Does this proposal for preparation and presentation raise any issues?

E2Q3. If you consider that an alternative basis for the preparation or presentation of sustainability reports for stapled groups is more appropriate, please explain how. Please also explain why this would be more decision useful for users of the sustainability report.

E2Q4. If relief for stapled entities should be provided on an alternate basis, please explain:

- (a) how the relief should apply; and
- (b) the basis for that relief, considering:
  - (i) the statutory preconditions for relief in s342; and
  - (ii) the policy objectives of the sustainability reporting regime.

We note the intent to provide relief to stapled entities and agree that this aligns with existing financial reporting relief provided to these entities under ASIC instrument 2023/673.

### Wholly-owned companies.

E3Q1. What issues or challenges should ASIC be cognisant of, in relation to the intersection between the sustainability reporting requirements and ASIC Instrument 2016/785?

As already mentioned in our response to question E1 above, we are of the view that, the reasons to grant audit relief for financial reports would be equally valid for granting the audit relief for sustainability reports.

### Extending the relief in other ASIC instruments.

E4Q1. Do you consider that we should extend the relief in any of the instruments listed in proposal E4 so that it applies to sustainability reporting or the audit requirements for a sustainability report? Please provide submissions about:

- (a) why the relief is necessary;
- (b) how one of the statutory preconditions for providing relief in s342 would be satisfied in relation to the relevant sustainability reporting requirements;
- (c) any relevant aspects of the relief, or relevant conditions—for example, if we extended the relief in ASIC Instrument 2015/839, how should climate statements of the related schemes be presented in the sustainability report?

E4Q2. Are there any other legislative instruments that should be amended to extend relief so that it applies to sustainability reporting requirements? If so, please provide details, including:

- (a) which of the statutory preconditions for providing relief in s342 would be satisfied in relation to the relevant sustainability reporting requirements, and why; and



(b) why there is a current need for the relief to be extended to those requirements.

No comment.

### Use of ASIC's directions power.

E5Q1. Does our proposed guidance clarify how we may exercise ASIC's directions power under s296E? If not, why not?

No comment.

### Determining revenue, employees and assets for the purposes of applying the sustainability reporting thresholds.

F1Q1. Do you require guidance on how to determine revenue, employees and assets, for the purposes of applying the sustainability thresholds?  
F1Q2. Do you consider that there are uncertainties or potential inconsistencies in how these tests might be applied in practice? What are they and how could they be addressed through guidance?

We request further clarification and guidance on how ASIC will interpret the definition of the specific terms used to determine an entity's reporting obligations. These definitions are fundamental as they will ultimately determine the course of action for entities and by doing so have cost, time and reporting implications. For example, they will determine the timelines for reporting (whether an entity is in Group 2 or Group 3), whether they are captured under the sustainability reporting obligations at all (whether an entity is in Group 3 or not in scope), or whether certain relief is available (i.e. the relief under s296B of the Corporations Act).

For the determination of revenue, whilst there is general consensus that revenue would include amounts determined in accordance with AASB 15 *Revenue from Contracts with Customers*, we are of the view that there is not necessarily a consensus in respect of the inclusion of other items, for example, fair value gains and losses on both financial assets and non-financial assets such as investment properties or share of profit of equity accounted investments. The guidance may need to provide examples of ASIC's considerations when determining revenue for different industry categories, some of which may have more complexity than others.

The AASB Conceptual Framework (CF) does not define "revenue" but does provide a definition (paragraph 4.68) and classification requirements for *income*. According to the CF, *income* is considered an element of the financial statements (paragraph 4.1(b)), and its recognition is discussed in the Statement of Financial Position (paragraph 3.3(b)). In practice, however, the terms *income* and *revenue* are often used interchangeably, which may lead to misunderstandings regarding their technical meanings in the context of using revenue for sustainability reporting thresholds.

Furthermore, the applicability of the AASB 10 *Consolidated Financial Statements* exemption (AG1) and the investment entity consolidation exception (paragraph 31) for reporting threshold purposes remain unclear. Addressing these uncertainties is crucial to ensuring the reporting entities are aware of their obligations under the regime.

For the determination of consolidated revenue, we suggest ASIC could provide explicit references to line items on the face of the Statement of Profit and Loss to have a unified approach across reporting entities.

We would also urge ASIC to consider the future application of AASB 18. AASB 18 has a mandatory effective date of annual reporting periods beginning on or after 1 January 2027. AASB 101 remains applicable for financial reports until AASB 18 becomes effective. To facilitate a smooth transition, ASIC should provide clear guidance on transitioning between the two standards in the context of sustainability reporting thresholds. In the CPA Australia guide, [Redefining the Bottom Line—IFRS 18](#), several potential interpretation issues are highlighted. For example, under AASB 101 “revenue” and “other income” are treated as two separate line items (paragraphs 102-103). AASB 101 also references terms such as *ordinary activities* and *ordinary course of business*, but while it mentions *operating activities*, it does not provide a definition. These inconsistencies in terminology between AASB 101 and AASB 18—for example, *ordinary activities* versus *main business activities*—may create confusion for reporting entities during the transition period.

We would also seek additional clarification on the application of number of employees. One potential issue we foresee is the situation where reporting entities may use seasonal workers, and clarity on how these numbers should be reflected. We suggest that a similar approach could be used in determining the average full-time equivalent (FTE) count at year end as is currently being used for existing financial reporting purposes.

Further we note inconsistencies in language in respect of the asset owners’ threshold. S292A(6) of the Corporations Act specifically refers to the value of assets at the end of the financial year of the entity and the entities it controls (if any). We note that various places in the Explanatory Memorandum for the FMI Bill and the draft Regulatory Guide 000 appear to have substituted this term with the term ‘Assets under management’. The term ‘Assets under management’ is not used in the legislation, nor is it a defined term in Australian Accounting Standards. Further, its generally accepted meaning, being assets managed for the purpose of earning fees, is not consistent with the legislation. We request ASIC clarify the use of the term ‘Assets under management’ and provide an appropriate definition to assist entities to determine compliance.

### Other areas where we can support the transition to sustainability reporting.

F2Q1. Are there any other areas of concern or uncertainty about complying with the sustainability reporting requirements that you consider ASIC could address through F2Q2  
Are there any other issues or additional information that you consider should be explained in draft RG 000 or future guidance? If so, please provide details.  
F2Q3. Are there any other areas where we could help reporting entities develop their capabilities to meet the sustainability reporting requirements?

We urge ASIC to reflect on the work of the External Reporting Board (XRB) and the FMA in New Zealand which has largely completed its first year of reporting under the New Zealand Climate Standards (NZ CS 1, 2 and 3). The feedback to the XRB has resulted in extensions to the transitional relief for both reporting and assurance requirements and therefore could provide early learnings about potential similar complexities in the Australian environment.

We also note that the XRB and FMA have published a guide for users of climate-related disclosures. We consider an equivalent guide would be helpful to users of climate statements

within Australia as well. We encourage ASIC to develop such guidance to support the understanding of climate statements by users.

As a part of our member and stakeholder outreach, we have identified feedback that indicates there is still confusion in relation to specific areas within the ASRS and the forthcoming assurance standards. For example, the definitions of short, medium, and long-term when considering the effect of climate risks and opportunities on financial performance.

We recognise that ASIC's role is not to provide interpretations of the standards but to clarify expectations from a regulatory perspective and as such we suggest that ASIC proactively engages with the standard setters to pass on insights relating to areas of concern that require further guidance or clarity to assist in capacity building as sustainability-related financial reporting evolves in Australia.