

Claire LaBouchardiere, Senior Executive Leader
Companies & Small Business
Australian Securities and Investments Commission
GPO Box 9827
Melbourne VIC 3001

19 December 2024

To whom it may concern,

Climateworks Centre submission on CONSULTATION PAPER 380 Sustainability reporting

Climateworks Centre welcomes the opportunity to respond to the consultation paper on 380 Sustainability Reporting. Climateworks bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University. Climateworks develops specialist knowledge to accelerate emissions reduction, in line with the global 1.5°C temperature goal, across Australia, Southeast Asia and the Pacific.

Climateworks has many years experience of advising on corporate and investor climate reporting and is part of the international effort to establish core principles of 'credible' climate transition plans.

Climateworks is engaging with leading Australian corporations, industry groups, other stakeholders, and international initiatives involved in developing and assessing credible net zero emissions transition plan frameworks to investigate how they will operate in Australia. Climateworks supports the expansion and improvement of sustainable finance as a key lever to decarbonise the economy. Climateworks' CEO, Anna Skarbek, is a member of the Advisory Committee of the Australian Sustainable Finance Initiative, the Glasgow Financial Alliance for Net Zero's (GFANZ) Asia-Pacific Advisory Board, and the Net Zero Economy Agency Advisory Board.

This is especially urgent given the window to keep global warming within 1.5 degrees is still open, but narrowing.

Climateworks is a strong supporter of mandatory corporate reporting on climate-related financial risk and the future extension of this to include nature-related financial risk.

We welcome ASICs guidance and see the following areas for improving the current draft guidance and for future work as mandatory disclosure on climate risks evolves:

1. **We advise ASIC to set out more detailed information for companies on how to ensure credibility in their climate disclosures and how disclosures are to be used and assessed.** We particularly recommend that ASIC prepares additional information during 2025 about transition plans and their constituent elements, to complement and support the guidance that the Australian Treasury is currently developing. **(In response to C3Q2)**

We consider that ASIC has a role to increase clarity about what is credible for corporate action on climate. This would reduce the risk of greenwashing and help ensure the priorities of the Sustainable Finance Roadmap are met. Climateworks recommends that ASIC provides additional guidance on how covered entities can ensure that their disclosures are credible, outlining that many investors are already:

- expecting disclosures that include transition plans
- increasingly examining disclosures for their credibility.

ASIC's understanding of credibility in mandatory disclosures and use of appropriate frameworks in their regulatory duties is crucial. ASIC is the sole industry body in this interim modified liability period to be able to bring legal claims in relation to protected statements in sustainability reports (which include scope 3 greenhouse gas emissions, including financed emissions; scenario analysis; a transition plan; or any forward-looking statements relating to climate).

The increasing disclosure and use of transition plans makes this an emerging area where ASICs guidance will be important. The usefulness of transition plan disclosures will be strengthened if there are agreed standards to ensure comparability. This fits with ASRS D16 that says 'the usefulness of climate-related financial information is enhanced if it is comparable, verifiable, timely and understandable'. As the Australian Treasury creates transition plan guidance, it would be helpful for ASIC to set out further information on what they will be expecting of companies. Climateworks Centre recommends the Transition Plan Taskforce (TPT) framework, now adopted by the ISSB, as best practice for transition plan disclosure, and this would ensure Australian companies align with international expectations.

The TPT framework sets out what a transition plan should contain and how it should be structured. However, these do not address whether it is 'credible', including whether the actions it sets out will result in the emissions reduction required to align with the Paris Agreement.

- 2. Explore additional actions ASIC can take to support capability building in mandatory disclosure of climate-related risk and the emerging area of nature-related risk disclosure.** An area of particular importance is assessing the credibility of transition plans to support the intent of the legislation and Sustainable Finance Roadmap. Building expertise in assessing corporate climate transition plans is essential as mandatory climate disclosures approach, ensuring credibility and reducing greenwashing risks. ASIC could help set standards for the skills and systems required for regulation and provide expert advice on capability building strategies and approaches. **(In response to F2Q1).**

Helpfully, Glasgow Financial Alliance for Net Zero has launched the [Global Capacity Building Coalition](#) which provides guidance and case studies about best practice in relevant skills and processes. Guidance from the Assessing Companies Transition Plans Collective (ATP-Col) (refer to background information) provides targeted information, and Climateworks Centre is supporting Monash University's new [Net Zero Academy](#) to educate leaders across business, finance and government to understand what counts as a credible transition plan.

ASIC could help set standards for the skills and systems required for different actors in mandatory disclosure, working with relevant bodies such as the Australian Accounting Standards Board (AASB) to provide expert advice on capability building strategies and approaches. They could set out advice on requirements, and could call for more direct government interventions where they see important gaps they do not expect to be filled by the private sector, e.g. audit regimes, competency frameworks, training for regulators.

- 3. ASIC to call for and support the development of an enabling government data strategy.** Climateworks recognises that in some areas there are issues about data availability. We recommend that ASIC calls for the development of the Trusted Data Plan, and explain to the government where auditors and disclosing companies are finding data issues. In this way ASIC can guide government support to enable a better data environment for regulation. We also suggest that ASIC works on linking climate disclosure standards to available, trusted data sources and advocating for greater clarity and consistency in data use. **(In response to F2Q1).**

Climateworks Centre recently signed a [public letter](#) along with the Internet of Things Alliance, Carbon Markets Institute, Australia Industry Group, and Tech Council of Australia. The letter calls on the Australian government to coordinate a Trusted Nature and Climate Data Plan (Trusted Data Plan). This plan would improve the quality, availability and consistency of data used by decision-makers to inform sensible decisions on the route to net zero and nature positive. We think ASIC should support the Trusted Data Plan. The Plan aims to build a robust data framework that aligns with global standards, addresses data gaps and improves the transparency and portability of sustainability data across sectors. It would consider and complement existing government initiatives for improved data, such as Environment Information Australia. It would also coordinate the setting of standards, the interoperability and data sharing between existing platforms, technology adoption, and education and training.

Thank you for taking the time to consider our submission. Climateworks Centre's current position on what counts as credible is detailed below in Addendum 1 and 2. We welcome an opportunity to brief your team on our work and provide more context about how we believe it can help inform green audit and assurance.

Yours sincerely,

Tom Wainwright

Sustainable Corporates Lead
Climateworks Centre



Background information

The importance of credibility

Enforcing the regulation of mandatory and voluntary disclosure of climate-related financial risk is an important element in assessing corporate behaviour and financing the transition to a clean economy. From 2025, certain classes of entities in Australia will be obliged to monitor and manage climate-related financial risks and opportunities. There is also an increasingly important role for auditors and assurers to assess and validate these disclosures.

Given climate risk is a financial risk, it is critical that auditors and assurers can assess a company's proposed approach to address these risks and provide constructive feedback. These risks can manifest at the individual company and the macro-financial level, as referenced by the [Australian Sustainable Finance Strategy](#).

While transition plan disclosures are not yet mandatory in most jurisdictions, many large corporate entities have already been disclosing financial risk and producing sustainability reports. The Australian legislation requires companies with a transition plan to disclose it, along with any key assumptions and dependencies underpinning the plan.

Transition plans are a key lever to increasing transparency and raising ambition. Various global initiatives have sought to develop more detailed guidance about how to present transition plans to support clarity, consistency and comparability for end users. The [Transition Plan Taskforce](#) (TPT) has developed the most accepted transition plan disclosure framework and related guidance, which draws on components identified by the [Glasgow Finance Alliance for Net Zero \(GFANZ\)](#) and Climateworks Centre supports its use as the 'gold standard' for how a transition plan should be structured and what it should contain.

Recognising the need for further guidance on transition planning, Treasury will provide guidance on best practice transition plan disclosures in late 2025 (Treasury [2024](#)). Climateworks sees particular value in ASIC providing additional guidance on credible transition plans alongside the better understood elements of financial disclosure.

Ensuring a plan is credible is critical to accelerating progress towards net zero and reducing potential greenwashing risk. We note that [corporate climate progress](#) is not yet on track, particularly in terms of the [quality of transition plan disclosures](#).

Many global thought leaders have recently put forward perspectives on transition plan credibility, most notably the [Assessing Companies Transition Plans Collective \(ATP-Col\)](#), an ad-hoc working group of 90 individual experts from 40 organisations, including Climateworks Centre. The group aims to collectively develop a consensual framework with guidance on how to assess companies' transition plans' credibility. Co-convened by the World Benchmarking Alliance and Columbia University and featuring many other global standard setters like TPT and GFANZ, it launched its inaugural [transition plan assessment framework](#) at New York Climate Week 2024.

Guidance to ensure that transition plans are credible will enable corporations to define and disclose appropriate strategies, facilitating their mandatory reporting journey and mitigating potential greenwashing claims. Crucially, credible transition plans will support corporates, financial institutions and government to achieve the emissions reductions required for the transition to a net zero economy. Aligning with global best practice standards helps companies comply with current mandatory requirements and positions them to be more resilient.

What this means for financial regulation

Regulators have a pivotal role in supporting the market and providing confidence in the robustness of climate-related financial risk disclosures and ensuring that they are appropriately and fairly enforced and ensuring that the legislation is effective. The ramifications of decarbonisation differ across companies and sectors, so informed regulation is crucial in verifying the credibility of the financial implications companies have stated.

Climateworks has heard clearly from industry voices, particularly small and medium-sized enterprises, that their capacity to absorb these significant changes is limited. Thus, the guidance and other support available to them is critical to ensure a smooth implementation of the relevant legislation and stakeholder buy-in.

We have also heard consistent stakeholder concerns about 'greenhushing', i.e. the risk that companies become less willing to disclose because they fear they will open themselves up to scrutiny and that their data is not of sufficient quality to be 'auditable'. Large emitters have cited this perceived need for 'audit-ready' data as a reason not to disclose scope 3 emissions data or targets. These issues are behind the flexibility measures in the legislation - including the delayed coverage of scope 3 emissions and the limited liability period.

In line with the ATP-Col guidance and Climateworks' Australian credibility criteria, we would encourage the following checks for climate credibility:

1. **Completeness:** use a checklist approach familiar to auditors such as by checking if the plan contains all the elements of a robust disclosure framework - such as that developed by TPT.
2. **Consistency:** check that the company's internal and external actions and engagements align with the plan's intent as a test of good corporate operation and governance.
3. **Ambition and feasibility:** This is an assessment of the company's targets and actions against what climate science says is required and would involve cross-referencing against climate scenarios and pathways, as well as credibility criteria relating to the choice of decarbonisation levers. Note:
 - This newer, more technical climate expertise may require guidance for transition plan users and assessors, even if they are already proficient in ESG audits. It might not require an exceedingly detailed review of projects and investments, but sufficient detail so that those reading the transition plan can get a sense of whether the plan is achievable.
 - Until the market has adjusted to these new requirements, lack of capacity and skills will be key challenges.
 - The use of climate scenarios, scope 3 data, and transition plan disclosures are the newest areas of disclosure, particularly at the scale expected as Australia moves from voluntary to mandatory disclosure. They are also some of the most material to climate risk.

Stepping up global climate ambition can help prevent the worst consequences of climate change. Corporations are responsible for the majority of emissions worldwide, both globally and within Australia. However, they have yet to take the necessary actions to decarbonise at the appropriate pace. Sustainable reporting and assurance has a role to play in helping to limit global warming in line with keeping global warming within 1.5 degrees.

Climateworks Centre's expertise and insights

Earlier this year, we conducted a thorough literature review of over 50 leading global and local frameworks and we found that for credibility of transition plans, the most relevant framework is the [Assessing Companies Transition Plans Collective \(ATP-Col\) guidance](#). It launched in June 2023 and was convened by the World Benchmarking Alliance. It aims to collectively develop a consensual framework and guidance for assessing the credibility of companies' transition plans, paving the way for ambitious future standards and regulations. ATP-Col offers in-depth guidance for assessors, helping ensure transition plans are credible.

Many organisations like [Oxford Sustainability Finance Group](#) and [Network for Greening the Financial System](#) are also highlighting the importance of country-specific versions of global frameworks and are beginning to develop relevant guidance. We see an opportunity for the Treasury to build on and tailor the global best practice resources for the Australian context.

In 2024, we focused on consolidating the credibility principles from these global frameworks and establishing credibility criteria for transition plans to be used by the Australian market. The first phase of our work, which is now complete, builds on and is aligned with ATP-Col to set out high-level principles and credibility criteria appropriate for the Australian context (see attached materials). The second phase (in design) will focus on identifying those credibility criteria where country specificity might be valuable and feasible, such as target setting and decarbonisation levers and providing more prescriptive guidance based on our local pathways.

This work has been supported by members of the Australian Transition Plan Working Group¹ (TPWG), which we co-convene on a quarterly basis. The TPWG brings together peak bodies, industry associations and research institutes to support Australian businesses in credibly realising their net zero commitments while enabling investors and consumers to make informed decisions. We also regularly test this content when building the capacity of leading Australian companies, such as through developing [credible transition plan guidance](#) for the Australian Climate Leaders Coalition, and delivering professional development through Monash University's [Net Zero Academy](#). We are collaborating with a group of highly respected and reputable international organisations on the emerging topic of how to tailor target setting and implementation plan assessment criteria by incorporating local pathways.

¹ TPWG members include representatives of Australian Council of Superannuation Investors, Carbon Market Institute, Chartered Accountants, Australian Sustainable Finance Institute, Responsible Investment Association Australasia, Australian Industry Group and Business Council for Sustainable Development Australia, and we have also consulted with Australian Institute Company Directors.