Climate Governance Initiative Australia

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FACT SHEET 1: Relevance of climate reporting

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Directors should not assume that if an organisation they serve is not captured by mandatory climate reporting, they have no climate obligations. Directors are duty-bound to diligently consider relevant foreseeable risks, and to integrate consideration of material climate impacts into strategy, risk oversight and disclosure.

The obligation to consider climate-related risks and opportunities may also form part of directors' duties more broadly. The international (ISSB) and Australian sustainability reporting standards were introduced to provide a framework to report on these risks and opportunities.

The global shift in sustainability and climate reporting is not only being driven by rapidly evolving policy and regulatory baselines, but by investors, customers, suppliers, financiers, employees and other stakeholders. All these stakeholders are demanding greater transparency from organisations on climate impact.

Consideration of the key drivers of each of the main stakeholders is important. We briefly set these out in this Fact Sheet.

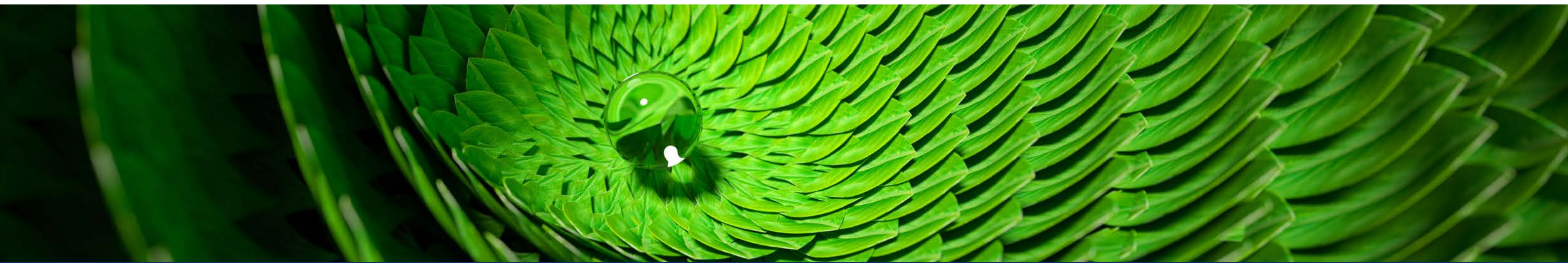
- **Investors:** Investors are seeking proof that organisations have joined the dots between risk and financial impact. There is a growing expectation that organisations communicate how climate-related risks and opportunities affect financial position and performance, business prospects, access to finance and cost of capital over the short, medium and long term. For those organisations which do not fall within the mandatory climate reporting framework (i.e. are not within Groups 1, 2 or 3), international and Australian sustainability reporting standards can be voluntarily adopted as a means of responding to investor concerns and/or to attract investor capital.
- **Regulators:** As organisations respond to investor-led calls for climate action, regulators are also increasingly scrutinising what organisations publicly disclose, including that claims made are accurate and there are reasonable grounds for any representations as to future matters. In Australia, greenwashing has been an ASIC enforcement priority in both 2023 and 2024. Report 791 sets out key enforcement interventions made between 1 April 2023 and 30 June 2024.

ASIC's enforcement covered sectors including corporations, managed funds, superannuation funds, and the wholesale green bond market. Interventions detailed in the report related to:

- Underlying investments that are inconsistent with disclosed ESG claims;
- Investment screens and investment policies;
- Sustainability-related claims made without reasonable grounds;
- Insufficient disclosure regarding the scope of ESG investment screens and methodologies; and
- Sustainability-related claims lacking sufficient detail.

In September 2024, ASIC released **preliminary guidance** on the climate reporting regime, including its proposed **enforcement approach** in the regime's early years. ASIC states that it "recognises that there will be a period of transition as industry continues to build capability and implements the organisational changes that will be required to comply" and that in response, it will take a 'pragmatic and proportionate' approach to supervision and enforcement. ASIC states it will initially prioritise enforcement in relation to "misconduct of a serious nature", such as where misconduct causes loss or harm to investors or other information users.

- **Other climate stakeholders:** Customers, suppliers, financiers, employees, insurers, community groups, government and others are demanding to see information from organisations as to current and anticipated climate impacts, and actions to address these impacts. Inaction will likely impact an organisation's reputation in the market, community standing, and ability to attract capital. If organisations fail to clearly and consistently demonstrate a recognition of climate-related risks and opportunities and their impact on the organisations, employees, customers, suppliers, financiers and other stakeholders could shift to those that are taking action.



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