



9 February 2024

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### **Policy position statement and draft legislation on *climate-related financial disclosure***

Thank you for the opportunity to comment on the Policy position statement *Mandatory climate-related financial disclosures* and the Exposure Draft of the *Treasury Laws Amendment Bill 2024: 3 Climate-related financial disclosure* issued in January 2024.

QBE Insurance Group Limited (QBE) is an Australian-based public company listed on the Australian Securities Exchange. QBE is Australia's largest international insurance and reinsurance company with operations in Australia, North America, Europe, Asia and the Pacific.

Since 2018, QBE has voluntarily applied the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in preparing climate-related disclosures in the Annual Report. We welcome increased disclosure of climate-related financial information within Australia that is consistent with the global baseline being developed by the International Sustainability Standards Board (ISSB) to support international comparability for performance, risks and opportunities.

### **Overall comments and recommendations**

QBE was generally supportive of the proposals in Treasury's June 2023 Consultation Paper *Climate-related financial disclosure*.

QBE welcomes the clarification in the policy statement and draft legislation that climate-related financial disclosures would be required to be made annually and not more frequently. We note that disclosure on the progress of managing climate related risk and opportunities, including metrics and targets, are only likely to be meaningful if they are reported over a period of at least a year.

QBE also welcomes the clarification [Explanatory Memorandum (paragraph 1.36) and draft legislation (s292A(2))] that when a sustainability report is prepared for the consolidated entity for the financial year, separate sustainability reports for controlled entities within the consolidated entity are not required.

We also support determining the consolidated entity for sustainability reporting purposes based on the accounting standards [Explanatory Memorandum (paragraph 1.37)].

However, we also note a number of uncertainties and concerns around the effectiveness and efficiency of the policy settings as set out below.

#### **1. Limited immunity for statements in new sustainability reporting**

We are concerned that the liability provisions will create uncertainty and impede best practice disclosures:

- Immunity for legal action for a fixed three-year period for disclosures is limited to Scope 3 emissions and scenario analysis and it does not provide immunity for other forward-looking disclosures e.g. transition plans and targets.

We believe that the limited immunity should cover all forward-looking disclosures required by the sustainability standards to encourage best practice disclosures without concern for uncertain outcomes and litigation risk. Due to limited availability of quality emissions data and measurement methodologies, there will be significant uncertainty around these types of disclosures.

Furthermore, in view of this being a new area of reporting, we consider there should be a commitment from Treasury that after (say) the first two years, experience is analysed, and the nature of any ongoing relief is considered in light of that analysis. The analysis should consider both the costs and benefits of relief.

- We note that, in general, forward-looking disclosure must be made on 'reasonable grounds' to not be misleading under Australian law. In the context of the likely required disclosures, there is an inherent level of uncertainty and there can be differing views on what is 'reasonable'. Accordingly, the 'reasonable grounds' test may not be clear in this context.

We note that the ISSB Standards and the proposals in AASB Sustainability Reporting Exposure Draft SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* indicate certain disclosures need only be made on the basis of reasonable and supportable information that is available at the reporting date without undue cost or effort. It remains unclear how that notion would interact with the reasonable grounds test.

We are concerned that entities bearing the onus of establishing that they have reasonable grounds for the disclosures expected to be required in AASB Sustainability Standards will act conservatively when applying the Standards, which may curtail the reporting of the most useful information.

Compared with jurisdictions with safe harbour rules for forward-looking information, the reasonable grounds approach may impede Australia's progress in reporting climate-related financial information relative to international peers.

## **2. Commencement date**

The Policy position statement notes that the Government welcomes stakeholder feedback on whether amending legislation to require a 1 January 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year. We consider that a one-year deferral is needed as:

- It will facilitate an orderly adoption of the new requirements and to help ensure useful information is presented in the first year, which will set the tone for subsequent years. This would allow more time for the continued development and refinement of models and techniques, particularly around scenario analysis, on which much of the reported information will be based, and for the development of assurance standards.
- It will allow international convergence on the audit of sustainability disclosures. There is currently an International Auditing and Assurance Standards Board (IAASB) Exposure Draft on the assurance of sustainability reporting. The IAASB's project timeline shows a Standard being approved by September 2024. After allowing for an AUASB due process, it is likely to be some time before the relevant assurance guidelines are in place.

QBE considers that users will be keen to have a level of assurance over the climate-related disclosures, particularly in view of the forward-looking nature of some of that information and we note the phased approach for assurance and the indicated timeframe.

Accordingly, QBE recommends a deferral to a start date of at least of 1 July 2025 to allow for the development of models, techniques and assurance standards.

### 3. Location of sustainability information

QBE notes the draft legislation sets out what constitutes the 'sustainability report', which includes a 'climate statement'.

The term 'climate statement' appears new and it is not clear which information to be required by the AASB's sustainability reporting standards might appear in the climate statement as opposed to the notes to the climate statement. It should be clarified whether, for example, it is intended that the 'climate statement' be a general description of the climate-related risks and opportunities facing an entity.

We also note that IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* does not prescribe that the required disclosures appear in a particular document, provided they are part of an entity's general purpose financial reporting package released at the same time and on the same terms.

QBE recommends that the legislation not be prescriptive about where sustainability information is located within an entity's suite of annual reporting documents, provided the information is available at the same time and on the same terms as the annual report.

Should Treasury have any questions or wish to meet to discuss QBE's comments further, please contact Rachel Poo, Head of Group Statutory Reporting & Accounting Policy at [rachel.poo@qbe.com](mailto:rachel.poo@qbe.com).

Yours sincerely



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