AA & T Consulting

Apr/May 2022 – Regulatory Alerts – ESG Series

Content:

Environmental, Social and Governance (ESG) Reporting:

- *Introduction*
- *Highlights of ESG reporting requirements in Australia*
- *Highlights of ESG reporting requirements in other jurisdictions (UK, HK and others) (to be covered in later newsletters)*
- *Appendix: Highlights of Prudential Practice Guide, CPG 229 Climate Change Financial Risks*

Dear Friends,

ESG or sustainability reporting is no longer some nice-to-have features for governance or reporting processes. While there is yet to have a generally adopted international standard, there are strong calls for convergence.

In this newsletter series, we will highlight ESG reporting requirements in various jurisdictions starting from Australia. There are already many good articles for various ESG requirements. We would only highlight some points of interests for ESG reporting practitioners here. Please enjoy!

If you need any professional assistance on ESG or other risk mgt issues, feel free to contact us via our website or email.

AA & T Consulting Advisory team

Contact us: AA & T Consulting, *Unit 9, 17/F, Citicorp Centre, 18 Whitfield Road Causeway Bay, HK*
Email: advisory@aathk.com; *Tel.: +852 9181 8659 (HK); +61 452 371 753 (Australia)*
Website: HK: www.aathk.com ; Australia: www.aataus.com

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Introduction

- ESG or sustainability reporting is no longer some nice-to-have features for many international corporates in the world.
- There is no uniform disclosure standard internationally.
- Quantity and quality of disclosures vary and are inadequate for: 1) investors to make consistent comparison to manage material climate risks, and 2) governments and financial regulators to address systemic risks to financial stability.

Introduction (continued)

- UK is the first in G20 to make its large businesses to disclose their climate-related risks in line with Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. In April 2022, the new legislation comes into force.
- G7 Finance Ministers and Central Banks stated their support for TCFD reporting.
- Governments and financial regulators are moving to implement TCFD-aligned requirements (incl. EU, HK, New Zealand, Singapore and US) via a range of regulatory and legislative instruments.
- It is a matter of when, not why.

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ESG reporting requirements in Australia

General

- The Australian Securities Exchange (ASX) and other regulators, like the Australian Prudential Regulation Authority (APRA), Australian Securities and Investment Commission (ASIC), have issued separate guidance related to ESG or sustainability reporting.
- Though not all listed or regulated entities are required to report on ESG or sustainability, those with material climate change risks must make relevant disclosures according to the specific or existing reporting requirements.

ASX

- In Feb. 2019, ASX Corporate Governance Council updates ASX Corporate Governance Principles and Recommendations 4th Edition to establish a governance benchmark that listed companies should disclose environmental and social risks *(Amended Recommendation 7.4)*.
- Amended Recommendation 7.4 requires entities to disclose material exposure to "environmental or social risks" (and how it manages or intends to manage those risks) rather than "economic, environmental & social sustainability risks."
- Cross references to report according to International Integrated Reporting Council's framework or a recognised international standard for sustainability can meet this.

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ASIC

- ASIC reviewed existing requirements and guidance (incl. RG 247, RG 228 and Report 593) to ensure that listed companies along with large non-listed companies and asset managers have relevant climate risk disclosures, which may be achieved by making disclosures according TCFD recommendations.
- Directors of listed companies need to consider the requirements relating to operating and financial review (OFR) disclosures in annual reports under s299A(1)(a)(c) of the Corporations Act.

ASIC (continued)

- The ASIC considers that an OFR is required to include a discussion of climate risk when it is material and affects the company's achievement of its financial performance.
- RG 247.66 states that "Climate change is a systemic risk that could have a material impact…. Directors may also consider whether it would be worthwhile to disclose additional information that would be relevant under integrated reporting, sustainability reporting or the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), where that information is not already required for the OFR. "

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APRA

- In Nov. 2021, APRA released its final prudential practice guide on climate change financial risks, following consultation on the draft Prudential Practice Guide CPG 229 Climate Change Financial Risks in April 2021.
- The guide aims at assisting banks, insurers and superannuation trustees to manage the financial risks of climate change.

APRA (continued)

- It imposes no new regulatory requirements or obligations. but assists APRA-regulated entities to manage climate-related risks within their existing risk management and governance practices.
- It is designed to be flexible in allowing each institution to adopt an approach that is appropriate for its size, customer base and business strategy.
- APRA intends to undertake a further survey to align institutions' management practices on climate change financial risks under CPG 229, and the TCFD.

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How can AA & T Consulting help?

The above are some highlights of the current requirements on ESG reporting, in particular with reference to TCFD. Hope that these will help preparing your journey to ESG reporting.

If you need any help, feel free to contact us by phone (+852 9181 8659 (HK); +61 452 371 753 (Aus.)), email (advisory@aathk.com) or via website's "contact us" page at: www.aathk.com or www.aataus.com .