



ASIC

Australian Securities & Investments Commission

Our Reference: 10253/16

31 March 2016

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

By email: economics.sen@aph.gov.au

Dear Senators

Senate inquiry into carbon risk disclosure

The Australian Securities and Investment Commission (**ASIC**) is Australia's corporate, markets and financial service regulator. ASIC's role includes the promotion of confident and informed participation by investors and consumers in the financial system. As the corporate regulator, we monitor public companies' financial reporting and disclosure. We also promote high standards of disclosure through our guidance to industry.

We set out below a brief summary of the requirements in the *Corporations Act 2001* (**Act**) that we consider may be applicable to carbon risk disclosure to assist the Economics References Committee in its inquiries.

Under the Act, all disclosing entities, public companies, large proprietary companies and registered schemes must prepare annual financial reports and directors' reports (see subsection 292(1)). Division 1 of Part 2M.3 of the Act sets out the information that must be set out in these reports.

For listed entities, subsection 299A(1) of the Act provides that the directors' report must contain information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position, business strategies and prospects for future financial years, i.e., an operating and financial review (**OFR**).

Regulatory Guide 247: *Effective disclosure in an operating and financial review* (**RG 247**) sets out ASIC's policy in relation to the OFR requirements. Relevantly, it provides that an entity's discussion about its future prospects should include a discussion of the material business risks that could adversely affect the achievement of those prospects (see RG 247.60 – RG 247.64). This may, for example, include a

Level 5, 100 Market Street,
Sydney NSW 2000

GPO Box 9827, Sydney NSW 2001
DX 653 Sydney

Telephone: +61 2 9911 2000

Facsimile: +61 2 9911 2414

www.asic.gov.au

discussion of environmental and other sustainability risks, where those risks could affect the entity's achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the entity, and its business strategy.

ASIC does not expect an OFR to contain numerical financial forecasts. We consider that prospective financial information should only be included if there are reasonable grounds for its inclusion. Our policy in relation to the disclosure of financial forecasts and projections is contained in Regulatory Guide 170: *Prospective financial information*.

In our recently issued Report 469: *ASIC regulation of corporate finance: July to December 2015*, we reminded companies of the importance of including considered risk disclosure in the OFR, including about environmental, social and governance issues (see paragraph 144).

Yours sincerely

John Price
Commissioner
Australian Securities and Investments Commission