

January 2024

Australian sustainability reporting update



On 12 January 2024, the Australian Treasury released the **Exposure Draft Treasury Laws Amendment Bill 2024: Climate-related financial disclosure (Exposure Draft legislation)**. It builds off previous consultations focused on the Government's objective to improve the transparency and comparability of information available to investors regarding Australian entities exposures to climate-related financial risks and opportunities as well as their plans and strategies in response to those exposures.

This Exposure Draft legislation proposes requirements in relation to who needs to report, what is required to be reported and when and where information should be disclosed.

If the proposed amendments are adopted it will pave the way for the Australian Accounting Standards Board (AASB) to make sustainability standards which would then be given legal effect through amendments to the *Corporations Act 2001* (Corporations Act) and *Australian Securities and Investments Commission Act 2001* (ASIC Act 2001).

Proposed implementation of climate-related disclosure standards in Australia

The International Sustainability Standards Board (ISSB) issued its inaugural sustainability disclosure standards (IFRS S1 & S2) on 26 June 2023. The Standards will form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of capital market stakeholders.

- [IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information'](#) provides guidance on identifying sustainability-related risks and opportunities, and the relevant disclosures to be made in respect of those sustainability related risks and opportunities.

- [IFRS S2 'Climate-related Disclosures'](#) is a thematic standard that sets out the requirements for identifying, measuring and disclosing climate-related risks and opportunities.
- [ED SR1 ASRS Standards](#) was issued on 23 October 2023 by the AASB for consultation, providing further clarity on how IFRS S1 and S2 will be adapted for implementation in Australia under a 'climate first' approach.
- Treasury issued [Exposure Draft legislation](#) on 12 January 2024 following previous discovery and design consultations in December 2022 and June 2023, respectively. Comments are invited by 9 February 2024.

The objectives of the standards include providing capital market stakeholders insight into how sustainability and climate-related risks and opportunities affect a company's enterprise value.

The ISSB is also consulting on further agenda priorities such as:

- biodiversity, ecosystems and ecosystem services;
- human capital;
- human rights; and
- connectivity in reporting with the IASB.

Headline proposals contained in Exposure Draft Treasury Laws Amendment Bill 2024: Climate-related Financial Disclosure

1 Who would be required to report?

- Entities that report under Chapter 2M of the Corporations Act, including listed and unlisted companies and financial institutions, registrable superannuation entities and registered investment schemes, that meet any one of the following for a financial year:
 - 2 of the 3 stipulated size criteria (consolidated revenue, consolidated gross assets and consolidated number of FTE employees);
 - is a registered corporation under the NGER Act (or required to make an application to register);
 - **is an asset owner where the value of assets at the end of the financial year (including the entities it controls) is equal to or greater than \$5 billion**
- Exemptions would be available for:
 - Small and medium businesses below the relevant size thresholds
 - **Entities exempted from lodging financial reports (ASIC class orders, registered Australian Charities and Not-for-profits)**

2 What would be required?

- **Reporting would need to be consistent with the relevant sustainability standards issued by the AASB.**
- **The proposals include amendments to the ASIC Act to empower the AASB to make sustainability standards which would then be given legal effect by amendments to the Corporations Act.**
- The AASB has previously issued the exposure draft for the ASRS Standards (ED SR1) which are closely aligned to the requirements in IFRS S1 and S2. Final issuance of these standards is expected for Q2 2024.
- ED SR1 covers some of the proposals within the previous Treasury consultation paper, including:
 - Entities would be permitted to disclose in current period its Scope 3 emissions using data for the immediately preceding reporting period.
 - Entities would be required to disclose their transition plans and targets (or lack thereof) and industry-based metrics.
- **Group 3 entities that do not have material climate risks and opportunities will only be required to disclose a statement to that effect.**

3 Where would the reporting be disclosed and when would this reporting commence?

- **The amendments proposed by the Exposure Draft legislation include a new annual 'sustainability report' which entities will need to prepare, consisting of:**
 - a climate statement for the year;
 - notes to the climate statement;
 - any statements required by a legislative instrument relating to matters concerning environmental sustainability; and
 - a directors' declaration
- The climate statement would be required to include disclosures for the financial year covering:
 - material climate-related financial risks and opportunities the entity faces;
 - any governance or risk management processes, controls and procedures of the entity related to these matters; and
 - any metrics and targets of the entity related to climate, including scope 1, 2 and 3 emissions of greenhouse gas (NB. disclosure of the quantity of scope 3 emissions would not apply to Year 1 of reporting).
- Group 1 entities (as described below) will be required to report for 2024-25 financial year, with phased reporting for other entities to FY2027-28.

4 Directors' obligations and liability framework

- The proposed amendments would modify liabilities and offences that apply generally to corporate reporting, **in relation to disclosures on Scope 3 emissions and scenario analysis, for a three-year transitional period.**
- **For reports prepared for FY commencing between 1 July 2024 and 30 June 2027, only regulators will be able to bring action, with remedies limited to injunctions and declarations.**
- **The directors' declaration issued would be required to cover the compliance of the climate statement and notes with the relevant sustainability standards issued by the AASB.**

5 Assurance requirements

- **Sustainability reports would be audited by the auditor of an entity's financial report, supported by technical climate and sustainability experts where appropriate.**
- **The Auditing and Assurance Standards Board (AUASB) would set out a pathway for phasing in assurance requirements over time, commencing with limited assurance of Scope 1 and 2 emissions disclosures from Year 1 of reporting and ending with reasonable assurance of all climate disclosures made from 1 July 2030 onwards.**
- **The AUASB would develop sustainability assurance standards which align with the final overarching standard for assurance on sustainability reporting issued by the International Auditing and Assurance Standards Board.**

Highlights denotes updated proposals within 12 January 2024 Exposure Draft Legislation when compared to June 2023 Consultation Paper

Proposed timeline for phasing climate-related financial disclosures

A three-phased approach is proposed, starting with a relatively limited group of very large entities that expands to apply to progressively smaller entities. The following table sets out the proposed reporting and assurance timeframes for each of the three groups of reporters within Treasury’s Exposure Draft Legislation.

First annual reporting periods starting on or after	Large entities and their controlled entities meeting at least <i>two of three</i> criteria:			National Greenhouse and Energy Reporting (NGER) Reporters	Asset Owners	Assurance requirements		
	Financial year consolidated revenue	End of financial year consolidated gross assets	End of financial year full time equivalent employees			Year 1 of reporting	Intervening period	From 1 July 2030
1 July 2024 Group 1	\$500 million or more	\$1 billion or more	500 or more	Above NGER publication threshold (50 ktCO ₂ -e Scope 1 and 2 emissions)	N/A			
1 July 2026 Group 2	\$200 million or more	\$500 million or more	250 or more	All other NGER reporters	\$5 billion assets under management or more			
1 July 2027 Group 3	\$50 million or more	\$25 million or more	100 or more	N/A	N/A			

Legend

Limited assurance – Scope 1 & 2 GHG emissions

Scope and level of assurance based on phasing to be set out in AUASB pathway

Reasonable assurance – all climate disclosures

All entities within Group 1 and Group 2 would be required to prepare climate statements for the year consistent with the relevant sustainability standards issued by the AASB. All entities within Group 3 are also proposed to be subject to this requirement unless the relevant entity does not have material climate risks and opportunities, whereby only disclosure of a statement to that effect would be required.

The core content currently proposed by the AASB within ED SR1 aligns with the 4-pillars approach originally included in the TCFD recommendations, as detailed below:

1 Governance

Disclosures on governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.

3 Risk management

Disclosures on material climate-related risks and opportunities to the business, as well as how the entity identifies, assesses and manages risk and opportunities.

2 Strategy

Results of qualitative, and if applicable, quantitative assessment of their climate scenario analysis, including how the assessment was carried out and its time horizon.

Disclosures on climate resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the Climate Change Act 2022 (Paris aligned).

Disclosures on transition plans including information about offsets, target setting and mitigation strategies.

4 Metrics and targets

Disclosure of scope 1 and 2 (location-based) emissions would be required from Year 1 of reporting, including information on any eligible units and/or certificates accounted for.

Disclosure of material scope 3 emissions would be required from Year 2 of reporting onwards.

Scope 2 (market-based) emissions should also be disclosed if required under the NGER Act and no later than in the fourth financial year that an entity reports under ASRS Standards.

Disclosure of emissions data against transition plans / reduction targets.

Disclosure of industry-based metrics would also be required by end state.

ED SR1: Australian Sustainability Reporting Standards

The AASB developed [Draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* based on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information but with a scope limitation to climate-related financial disclosures.

[Draft] ASRS 2 *Climate-related Financial Disclosures* was developed based on IFRS S2 Climate-related Disclosures. However, to minimise duplication, the core content in ASRS 2 on governance, strategy, risk management and metrics and targets cross-references ASRS 1 significantly.

The AASB also proposed a service standard that would be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.





A summary of key differences proposed in the Draft ASRSs when compared to IFRS S1 and S2 is outlined below.

	IFRS S1	Draft ASRS 1
Scope	<ul style="list-style-type: none"> Applies to the reporting of all sustainability-related financial information, including but not limited to climate related financial information No explicit requirement to disclose a conclusion that there are no material climate-related risk and opportunities. 	<ul style="list-style-type: none"> Applies only to the reporting of climate-related financial information Requires an entity that determines that there are no material climate-related risks and opportunities to disclose this fact and explain how it came to this conclusion.
Industry based disclosure	<ul style="list-style-type: none"> Requires an entity to refer to and consider the applicability of SASB standards in the absence of an appropriate IFRS Sustainability Disclosure Standard. 	<ul style="list-style-type: none"> To consider Australian and New Zealand Standard Industrial Classification (ANZSIC) when determining what industry-based disclosures to make.

	IFRS S2	Draft ASRS 2
Scope	<ul style="list-style-type: none"> Applies to climate-related risks and opportunities 	<ul style="list-style-type: none"> Limited to climate-related risks and opportunities related to climate change and does not apply to other climate-related emissions (e.g. ozone depleting emissions)
Climate resilience	<ul style="list-style-type: none"> Requires an entity to use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances 	<ul style="list-style-type: none"> Requires assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the Climate Change Act 2022 (1.5°C above pre-industrial levels)
GHG emissions	<ul style="list-style-type: none"> Use global warming potential (GWP) values based on a 100-year time horizon from latest Intergovernmental Panel on Climate Change (IPCC) assessment available at reporting date (currently the 6th edition - AR6) Permit use of a different method to GHG Protocol for measuring GHG emissions when required to do so by a jurisdictional authority or an exchange on which the entity is listed Requires disclosure of location-based Scope 2 emissions Permits an entity to use information from a reporting period that is different from the entity's reporting period, in specific circumstances 	<ul style="list-style-type: none"> Use GWP values from the same IPCC assessment report as referred to in NGER Act 2007 and Paris Agreement, which is currently AR5. Requires an entity to prioritise applying relevant methodologies in NGER Scheme legislation as the default methodologies before referring to foreign/other measurement frameworks Requires the disclosure of market-based Scope 2 emissions in addition to location-based emissions, except for first 3 years Permits an entity to disclose Scope 3 GHG emissions measured using data for the immediately preceding reporting period in specific circumstances
Financed emissions	<ul style="list-style-type: none"> Requires an FS entity to make additional disclosures taken from the GHG Protocol (Scope 3) relating to its financed emissions 	<ul style="list-style-type: none"> Requires an FS entity to consider the applicability of those additional disclosures related to its financed emissions

The ESG reporting landscape is evolving rapidly

'No regret' moves to prepare for the changes ahead.

<p>Mobilise a working group</p> 	<p>Understand legal entity requirements and governance obligations</p> 	<p>Perform gap analysis</p> 	<p>Agree priorities and develop sustainability reporting roadmap</p> 
<ul style="list-style-type: none"> • Mobilise a cross-functional Sustainability Reporting Working Group with representatives from functions such as: Sustainability; strategy; finance; risk; legal; investor relations. • Establish roles/governance that will enable compliance with new sustainability reporting requirements. • The working group should have appropriate executive level sponsorship. 	<ul style="list-style-type: none"> • Consider legal entity size thresholds within Australian Exposure Draft Legislation and its potential applicability to your enterprise. • For entities with foreign operations and subsidiaries, consider current and monitor proposed future sustainability reporting requirements that may impact the Group or its subsidiaries arising from other jurisdictions (e.g. EU, NZ, UK, USA). • Also consider emerging risks associated with greenwashing across different publications. • Brief directors and educate management on sustainability reporting requirements and associated governance risks. 	<ul style="list-style-type: none"> • Examine proposed requirements within Draft Australian Sustainability Reporting Standards and compare against existing climate disclosures. Consider potential gaps in existing disclosures practices, reporting policies and processes relative to these requirements. • Reperform across sustainability reporting requirements arising from other jurisdictions. • Identify options to respond to disclosure requirements including: closing gaps in existing disclosures; potential changes in underlying climate governance, strategy, risk management, metrics and targets; and addressing differences that may exist in disclosure requirements across jurisdictions. • Consider adequacy of systems, processes and controls required to underpin future disclosures and assurance requirements. 	<ul style="list-style-type: none"> • Obtain alignment and agreement regarding changes required in Sustainability: <ul style="list-style-type: none"> – Policies; – Operating model and capabilities; – Processes and controls; – Systems, and data; • Agree project milestones, workstreams and resourcing. • Agree auditor engagement and pre-assurance activities. • Establish ongoing project reporting to Executive and Board.

How we can support you

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