

# An update on the requirements for climate-related financial disclosures in Australia

May 2024



Inbound Australian subsidiaries of international groups are within the scope of the mandatory climate-related financial disclosure regime that the Australian government is introducing to apply to Australian entities.

## What you need to know

The Australian mandatory climate-related disclosure regime that is being incorporated into the *Corporations Act 2001* will apply to more than just companies listed on the Australian Securities Exchange.

Inbound subsidiaries that meet the reporting criteria will be required to prepare climate-related financial disclosures that comply with Australian Sustainability Reporting Standards. Climate disclosures prepared in accordance with these standards may not necessarily comply with sustainability disclosure standards being applied by the inbound entity's parent.

The Corporations Act will not permit an inbound subsidiary to meet its reporting obligations by lodging its parent entity's consolidated sustainability report. Inbound subsidiaries must lodge their own report containing climate-related financial disclosures that are prepared at the inbound subsidiary reporting entity level and in accordance with Australian Sustainability Reporting Standards.

## This update discusses the following matters:

- ▶ Overview of the disclosure regime
- ▶ Scope and effective date
- ▶ Reporting entity considerations
- ▶ Assurance
- ▶ Record keeping
- ▶ Directors' obligations
- ▶ Finalising the reporting requirements
- ▶ Next steps for an inbound subsidiary

## Overview of the disclosure regime

The introduction of mandatory climate-related financial disclosure requirements in Australia involves two separate, but related, policy and standard-setting processes.

### Policy to introduce the mandate

The most recent step in the policy process occurred on 27 March 2024, when a Bill to amend the *Corporations Act 2001* was introduced into the Australian Parliament. The Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 will require entities that lodge financial reports under Chapter 2M of the Corporations Act to also comply with new climate-related financial reporting requirements. For each financial year that an entity is within the scope of the requirements, the Bill will require that:

- ▶ The entity must prepare a sustainability report that contains climate-related financial disclosures that are prepared in accordance with Australian Sustainability Reporting Standards (ASRS).
- ▶ The directors of the entity must make a declaration that, in their opinion, the entity's climate-related financial disclosures comply with the ASRS.
- ▶ The auditor of the entity's financial report must also provide assurance over the entity's sustainability report (noting that assurance will be progressively phased in, as outlined further in the Assurance section below).
- ▶ The entity must lodge its financial report and sustainability report with the securities regulator (the Australian Securities and Investments Commission) at the same time.



The climate-related disclosure requirements in the Bill have been developed to deliver on the Australian government’s commitment to “ensuring large businesses and financial institutions provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities.”<sup>1</sup>

## Disclosure Standards

The ASRS contain specific climate-related financial disclosure requirements. The Standards, which are currently in draft form, are broadly aligned with the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (being IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*) except that the ASRS will not require an entity to disclose sustainability-related financial information for topics other than climate.

## Scope and effective date

The Corporations Act will require an entity to prepare a sustainability report containing climate-related financial disclosures in accordance with the ASRS if:

Both of the following criteria must be met	Commentary
The entity is required to lodge financial reports under Chapter 2M of the Corporations Act <sup>2</sup>	<p>Entities that meet this first criterion include companies listed on the Australian Securities Exchange as well as unlisted companies (such as large proprietary companies). Large proprietary companies include Australian-registered private entities that are:</p> <ul style="list-style-type: none"> <li>▶ Australian-owned</li> <li>▶ Owned by various international shareholders (i.e., not controlled by another entity)</li> <li>▶ Australian inbound subsidiaries of a multinational group</li> </ul> <p>All these entities are required to prepare and lodge financial reports.</p>

<p>The entity is either:</p> <ul style="list-style-type: none"> <li>▶ Prescribed size thresholds</li> <li>Or</li> <li>▶ Is a ‘registered corporation’ under the <i>National Greenhouse and Energy Reporting Act 2007</i> (NGER Act)</li> </ul>	<p>The second criterion is used to determine:</p> <ul style="list-style-type: none"> <li>▶ Which entities are within the scope of mandatory climate-related financial disclosures</li> <li>▶ When they will first be required to report</li> </ul> <p>This is because the Bill will implement mandatory climate reporting over three phases that are essentially based on the size of the entity or the scale of its greenhouse gas emissions.</p> <p>The implementation timing is set out in the following table.</p>
--	--

Mandatory climate disclosure will begin for financial years starting on or after 1 January 2025. When an entity is first required to report depends on whether it meets the criteria for a Group 1, Group 2 or Group 3 entity.

Group	Timing of reporting	Climate reporting criteria and thresholds		
		Size test (two or more are met)	Asset owners	NGER Act reporters
1	1 Jan 2025 onwards <sup>3</sup>	<ul style="list-style-type: none"> <li>≥ 500 employees</li> <li>Consolidated total assets ≥ \$1b</li> <li>Consolidated revenue ≥ \$500m</li> </ul>	Not applicable	Above NGER publication threshold (50kt)
2	1 July 2026 onwards	<ul style="list-style-type: none"> <li>≥ 250 employees</li> <li>Consolidated total assets ≥ \$500m</li> <li>Consolidated revenue ≥ \$200m</li> </ul>	Assets under management ≥ \$5b	All other NGER reporters
3	1 July 2027 onwards	<ul style="list-style-type: none"> <li>≥ 100 employees</li> <li>Consolidated total assets ≥ \$25m</li> <li>Consolidated revenue ≥ \$50m</li> </ul>	Not applicable	Not applicable

## General size test

The general size test requires meeting two of three tests relating to revenue, assets and employee counts. This size test applies to both listed and unlisted entities. Ultimately all large proprietary companies will be in scope because the size threshold for Group 3 entities (i.e., the third and final phase for implementing mandatory climate reporting) is the same as the large proprietary company threshold that is used to determine whether the company is required to lodge financial reports.

## Asset owners

An asset owner is a registered scheme, a registrable superannuation entity or a retail corporate collective investment vehicle with assets of \$5b or more. An ‘asset owner’ will be a Group 2 entity even if it would otherwise meet the criteria to be a Group 1 entity.

## NGER reporters

Even if it does not meet the general size test or asset owner test, an entity that exceeds specified emission or energy production or consumption thresholds under the National Greenhouse and Energy Reporting (NGER) scheme will meet this second criterion. Depending on whether those entities meet the publication threshold, they will be either Group 1 or Group 2 entities. The NGER Scheme is administered by the Clean Energy Regulator, which publishes a list of all NGER-registered corporations, including Australian subsidiaries of multinational companies.

<sup>1</sup> Australian Government: The Treasury Climate-related financial disclosure: Consultation paper June 2023, page 3

<sup>2</sup> Refer to [Do you need to lodge financial reports with ASIC? | ASIC](#) for more information

<sup>3</sup> Represents a six-month deferral of the ‘Group 1’ effective date proposed in Treasury’s exposure draft legislation





## Practical considerations

### Group reporting

The reporting obligations under the Corporations Act are set at the individual entity level, which would generally mean that if an individual entity meets the criteria to lodge a sustainability report, a report needs to be prepared and lodged for that reporting entity. However, if an entity is a subsidiary within (an Australian) consolidated group and the parent entity of that group prepares and lodges a consolidated sustainability report, the entity and any other subsidiaries within that consolidated group do not need to prepare their own sustainability reports.

An inbound subsidiary cannot meet its reporting obligations by lodging its parent entity's consolidated sustainability report.

### Multiple entry groups

There are no concessions in the Bill for multiple entry consolidated groups. Therefore, on that basis, each multiple-entry subsidiary (i.e., each Australian subsidiary with an international parent) that exceeds the size thresholds would need to prepare separate, and lodge separate, sustainability reports.

## Australian reporting entity considerations

The sustainability report is prepared for the Australian reporting entity that meets the criteria outlined on the previous page. That is, the climate disclosures will focus on the entity's own assets and operations and the entity's value chain (i.e., not the global assets, operations and value chain of its international parent entity and consolidated group). This means that an entity cannot simply lodge its global sustainability report and meet its reporting obligations under the Corporations Act.

Similarly, when an entity identifies the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (i.e., its cash flows, access to finance and cost of capital), the entity must make this judgement based on the effects on the Australian reporting entity's prospects. This means that, for materiality reasons, the climate-related risks and opportunities identified at the Australian reporting entity level might not be the same as the climate-related risks and opportunities disclosed in the international parent's consolidated climate-related financial disclosures.

In applying ASRS, an entity is required to make disclosures about matters such as its governance arrangements to oversee its climate-related risks and opportunities, and its strategy for managing those risks and opportunities.

To the extent that it is the inbound subsidiary's international parent that oversees climate-related risks and opportunities and sets and monitors the strategy in response to those risks and opportunities, the inbound subsidiary (as the Australian reporting entity) will be required to disclose those facts.

However, this does not mean that the entity can avoid disclosing the information required by the ASRS. Regardless of the entity's governance arrangements and strategies, the reporting entity will at a minimum need to disclose the following information from the perspective of the Australian reporting entity:

- ▶ Information about the Australian reporting entity's exposure to climate-related risks and opportunities that could reasonably be expected to affect the reporting entity's prospects, including:
  - ▶ Where in the entity's business model and value chain that those risks and opportunities are concentrated
  - ▶ Current and anticipated financial effects of those risks and opportunities
  - ▶ Assessing the resilience of the entity's strategy and business model (using scenario analysis)
- ▶ Cross-industry metrics, including disclosures about the Australian reporting entity's Scope 1, Scope 2 and Scope 3 greenhouse gas emissions, which must be measured in accordance with the NGER Scheme legislation unless it is not practicable.
- ▶ Information about any climate-related targets set by regulation, even if the Australian reporting entity itself has not set its own targets.

## Why are private companies included?

Treasury has described the policy intent of mandatory climate-related financial disclosures as:

"Climate change is recognised internationally as presenting material risks to the global financial system – risks which need to be managed by capital markets, regulators and corporations. ...Improving climate-related financial disclosures will support regulators to assess and manage systemic risks to the financial system as-a-result of climate change and efforts taken to mitigate its effects."<sup>1</sup>

"...covering private companies improves alignment with the approaches taken internationally (for example the UK and EU also cover private companies). Including private companies ensures equal treatment of reporters, which should improve information flows and promote transparency."<sup>2</sup>

<sup>1</sup> Explanatory Memorandum to Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024, paragraphs 4.6 and 4.8  
<sup>2</sup> Treasury, *Climate-related financial disclosure Consultation paper* June 2023, page 6



## Considering international parent's reporting obligations

An international parent of an Australian reporting entity that is well progressed to comply with its own reporting requirements does not necessarily translate to preparedness of the Australian reporting entity to comply with the ASRS requirements. This is because the standards and frameworks and timelines for reporting that apply at the parent/international level (such as the European Union's Corporate Sustainability Reporting Directive (CSRD) or the US Securities and Exchange Commission's climate rule) differ from the requirements of the ASRS. It cannot even be assumed that information prepared by an international parent that is reporting under ISSB Standards can be used by its Australian subsidiary for reporting under the ASRS because of local differences that, as an example, require the use of NGER Scheme legislation to measure greenhouse gas emissions (GHG) emissions.

For example, Australian reporting entities with US-based parent companies may be required to report certain metrics or include certain disclosures (and receive assurance on those disclosures) sooner than their parent entity will be required to in the US. Similarly, Australian reporting entities with a European parent entity will need to re-assess the risks, opportunities and metrics at the Australian entity level, using materiality set for that entity, which may result in differing or increased Australian specific disclosures that were not required at the parent level.

## Assurance

The Bill requires that an entity's sustainability report (which contains the entity's climate-related financial disclosures that are prepared in accordance with the ASRS) must be audited. This applies to sustainability reports for financial years commencing on or after 1 July 2030. For earlier years, the Bill confirms that the Auditing and Assurance Standards Board (AUASB) will make an auditing standard to specify the phasing in of assurance requirements for each of the components of the sustainability report. Assurance pathways will be determined for Group 1, 2 and 3 entities starting from the commencement date of reporting for each group and the requirement for reasonable assurance for all climate-related financial disclosures by no later than FY31.

Australian reporting entities need to be aware that the timing and scope (limited versus reasonable) of these assurance requirements may differ from that of the overseas parent entity.

More broadly, as the sustainability report will form part of the Australian reporting entity's Annual Report, the abovementioned assurance will need to be provided by the Australian entity's financial auditor. As the disclosures will need to be 'auditable' by the Australian auditor, the way in which large multinational organisations with shared service centres and centralised processes manage this information flow, will need to be carefully considered.

## Record keeping

An entity must keep records that correctly explain and record the preparation of its sustainability report for seven years. The entity can decide where those records are kept and, if the entity keeps records outside Australia, it must keep sufficient information in Australia that enables the substantive provisions of the sustainability report to be prepared.

## Directors' obligations

Directors have a duty of care and diligence under both general law and the Corporations Act. Specifically in relation to climate disclosures, directors of Australian reporting entities will be required to issue a directors' declaration on the sustainability report included within the annual report. Similar to the directors' declaration currently issued on financial statements, this additional statement will require the directors to opine on the compliance of its climate-related financial statements with the ASRS.

The Bill provides some modified liability relief for misleading and deceptive conduct in relation to the most uncertain parts of the climate statements for the first three years of reporting from the 1 January 2025 effective date. This includes statements made about an entity's scope 3 GHG (including financed emissions), scenario analysis and its transition plan.

## Finalising the reporting requirements

The Bill is expected to be debated when Parliament sits in May 2024. Before it becomes law, the Bill must pass both Houses of Parliament and receive Royal Assent. A start date of 1 January 2025 for the mandatory climate-related financial disclosures is predicated based on the amendments receiving Royal Assent on or before 1 December 2024.

The AUASB requested comments on its Consultation Paper by 3 May 2024. The AUASB has indicated that it intends to publish an Exposure Draft of its assurance proposals in July / August 2024 and to issue an assurance pronouncement by the end of 2024.

The Australian Accounting Standard Board (AASB) is currently considering the feedback received on its draft ASRS and is about to begin redeliberating its proposals. The AASB has set an aspirational deadline to issue the final Standards by the end of August this year.





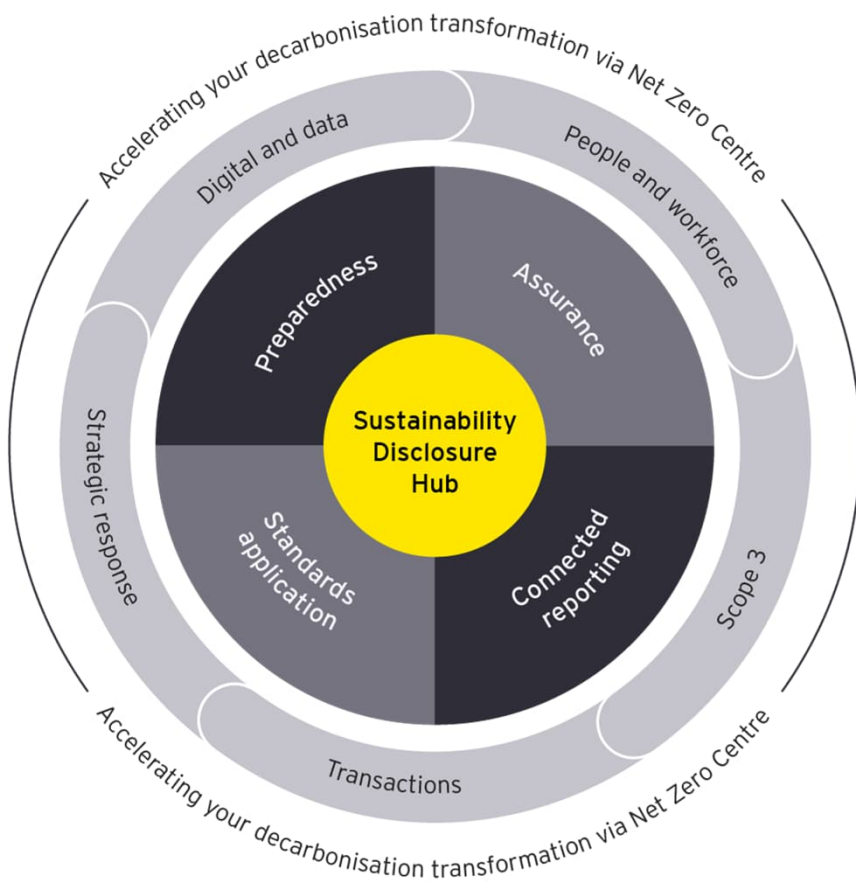
## Next steps for an inbound subsidiary

Ahead of the effective date of these upcoming requirements, inbound subsidiaries should look to build or mature their local sustainability reporting function by establishing and embedding new processes and practices. Maturity will look different for each inbound entity based on the individual circumstances and starting points and support from group finance and sustainability functions. To prepare for mandatory climate-related financial disclosures, inbound subsidiaries should consider performing the following next steps to prepare:

- ▶ **Gap assessment and action plan** - Identify gaps against the upcoming requirements in both internal processes and external disclosures across governance, strategy, risk management and metrics and targets. Develop an action plan to address gaps, which considers responsibilities and time horizons for reporting.
- ▶ **Cross collaboration** - Support cross collaboration within your organisation to consider the connectivity of climate and financial information, and begin to understand the potential short-, medium- and long-term impacts of climate on financial performance, position and cash flows.
- ▶ **Roles and responsibilities** - Assess and establish roles and responsibilities over sustainability reporting within the organisation, by understanding who will be responsible for preparing and reviewing climate-related reporting. Ensure this is articulated within role descriptions and is well communicated.
- ▶ **Capability building** - Build capabilities within the sustainability and financial functions to ensure that staff are ready to deliver the new standards. This will involve upskilling staff with both climate and financial requirements across all levels of the organisation.
- ▶ **Reporting processes** - Extend the financial reporting process to incorporate sustainability and climate risks and opportunities, such as embedding climate considerations into financial planning processes.
- ▶ **Controls** - Expand existing control frameworks and processes to include climate. This could include incorporating climate into the internal audit rotation plan or risk control matrix.
- ▶ **Data governance** - Understand the availability of data and information for climate and explore ways to implement or improve IT systems. Enhance data governance by reducing manual intervention and providing opportunities for audit trails and automated controls, such as access restrictions.

Mandatory climate-related financial disclosures are fast approaching from 1 January 2025, with additional assurance requirements soon to follow. Responsibility for preparing these disclosures sits with the directors of the inbound subsidiary who cannot simply rely on the data gathered and reporting prepared by a parent's finance and sustainability teams to meet the reporting obligations under the Corporations Act. It is critical for Group 1 or Group 2 entities, to be starting the journey now so that they are ready for future success and to ensure that disclosure requirements have been addressed and are ready to be assured in future reporting periods.

# Sustainability Disclosure Hub



The EY Sustainability Disclosure Hub offers practical guidance to assist companies across the region prepare for mandatory reporting of climate and sustainability-related reporting.

Headed by Oceania market-leading financial and non-financial reporting professionals, the Sustainability Disclosure Hub brings together EY capability locally and across the globe – coupling financial and non-financial reporting strategy, readiness and assurance capabilities that have intimate knowledge of the work of the ISSB and local market insights, including the development of the climate-related disclosure requirements by the AASB.

The Sustainability Disclosure Hub collaborates closely with the EY Net Zero Centre, which helps EY clients to make the right decisions at the right times and set themselves on a pathway for growth in a net zero economy.

Please reach out to our Sustainability Disclosure Hub team to discuss what the requirements in the exposure draft mean to you.

## Contact us

### Sustainability Disclosure Hub



**Meg Fricke**

Climate Change and Sustainability Services  
meg.fricke@au.ey.com



**Nicky Landsbergen**

Climate Change and Sustainability Services  
nicky.landsbergen@au.ey.com



**Megan Wilson**

Assurance  
megan.wilson@au.ey.com



**Megan Strydom**

Financial Accounting Advisory Services  
megan.strydom@au.ey.com



**Rebecca Dabbs**

Climate Change and Sustainability Services  
rebecca.dabbs@au.ey.com



**Glenn Brady**

IFRS Professional Practice  
glenn.brady@au.ey.com



**Murray Anderson**

Assurance (Financial Services)  
murray.anderson@au.ey.com



**Shae de Waal**

Climate Change and Sustainability Services  
shae.de.waal@au.ey.com

### Net Zero Centre



**Emma Herd**

Climate Change and Sustainability Services  
emma.herd@au.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

© 2024 Ernst & Young, Australia  
All Rights Reserved.

EYSCORE 004360-24-AUNZ

ED None

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

[ey.com](https://ey.com)