Mandatory climate - related financial disclosures update

ISSB Matters
January 2024

What was announced?

On 12 January 2024, Treasury released its *Climate-related financial disclosure: exposure draft legislation*.

The exposure draft builds on the proposals contained in Treasury's second consultation paper: Climate-related financial disclosure that was released for public comment on 27 June 2023.

The exposure draft legislation proposes amendments to the *Corporations Act 2001* that will introduce a mandatory climate-related financial disclosure regime, including specifying:

- Reporting entities and phasing
- Assurance requirements
- Reporting framework (i.e., location)
- Liability framework and enforcement

The mandatory disclosure of sustainability-related financial information other than climate, is not being proposed at this time.

Treasury is requesting comments on the exposure draft by 9 February 2024. Comments should focus on whether the exposure draft appropriately reflects and gives effect to the Government's policy intent.

Key requirements

Coverage

Climate-related financial disclosures will become mandatory for entities that are required to lodge financial reports under Chapter 2M of the *Corporations Act 2001* (Corporations Act) and either meet prescribed size thresholds or are a 'registered corporation' reporting under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act).

Timing

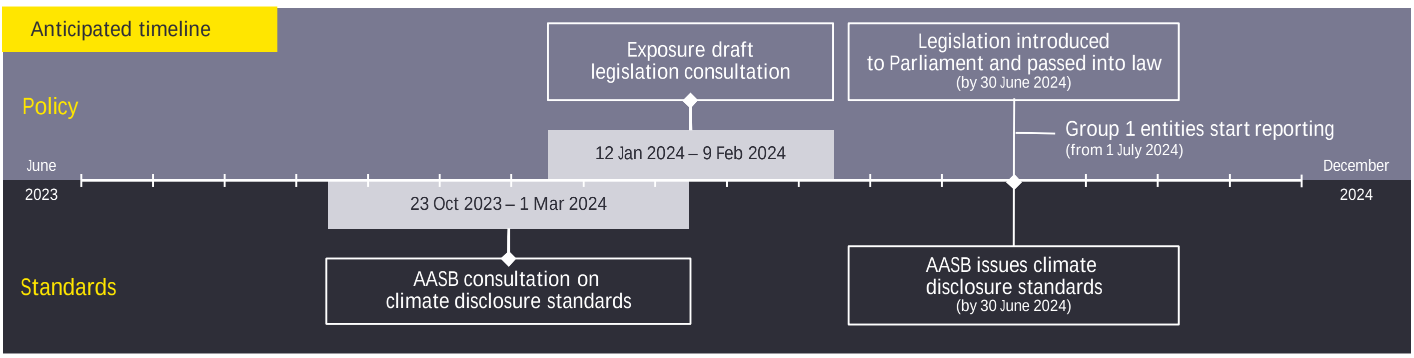
Mandatory climate reporting will be implemented in three phases, based on the size of the entity. For the largest entities (i.e., Group 1 entities), the first set of climate disclosures will be required for 30 June 2025 year ends. Group 2 entities and Group 3 entities will commence reporting two years and three years later respectively. Treasury is seeking feedback on whether the commencement date for Group 1 entities should be deferred until 1 January 2025.

Assurance

Assurance of climate-related disclosures will be required, commencing with limited assurance of Scope 1 and Scope 2 greenhouse gas emissions for reports prepared from 1 July 2024. The Auditing and Assurance Standards Board (AUASB) will set out a pathway to phase in additional assurance requirements so that reasonable assurance will be required for all climate disclosures by no later than 1 July 2030.

Content

The amendments to the Corporations Act will require entities that are within scope of the mandatory climate-related financial disclosure regime to prepare a 'sustainability report' in accordance with Australian Sustainability Reporting Standards (ASRS Standards). In October 2023, the Australian Accounting Standards Board (AASB) released an Exposure Draft ED SR1 *Australian Sustainability Reporting Standards– Disclosure of Climate-related Financial Information*, which sets out what entities will need to disclose to comply with the mandatory climate disclosure requirements introduced by the Corporations Act.



Who is required to report?

The exposure draft legislation specifies that an entity will be required to make climate-related financial disclosures if the entity is required to lodge financial reports under Chapter 2M of the Corporations Act and either the entity:

- Meets the prescribed size thresholds (see below)

  Or

- Is a 'registered corporation' under the NGER Act (or required to make an application to be registered)

A three-phased approach to implementation will apply based on the following thresholds, noting that both listed and unlisted entities that meet these criteria and thresholds will be within the scope of mandatory climate disclosures:

Group	Timing of reporting	Climate reporting criteria and thresholds		
		Size test (two or more are met)	Asset owners**	NGER Act reporters
1	2024-2025 onwards*	> 500 employees Consolidated total assets > $1b Consolidated revenue > $500m	Not applicable	Above NGER publication threshold
2	2026-2027 onwards	> 250 employees Consolidated total assets > $500m Consolidated revenue > $200m	Assets under management > $5b	All other NGER reporters
3	2027-2028 onwards	> 100 employees Consolidated total assets > $25m Consolidated revenue > $50m	Not applicable	Not applicable

*Treasury is asking whether a 1 January 2025 commencement date for Group 1 would improve reporting quality in the transition year.

** Includes registrable superannuation entities and registered schemes. Asset owners that meet the Group 1 size test could still be in 'Group 1'.

In a change from Treasury's second consultation paper, Group 3 entities only need to provide climate-related financial disclosures if they identify material climate-related risks or opportunities for that reporting period. Group 3 entities that do not have material risks or opportunities would be required to disclose that fact and keep records that explain the methods, assumptions and evidence used in reaching that conclusion.

Some frequently asked questions about mandatory climate disclosures in Australia relate to the topics listed below. In particular, the exposure draft clarifies the application of mandatory climate disclosures to consolidated groups, inbound subsidiaries, wholly-owned subsidiaries and not-for-profit entities.

Consolidated groups

If the entity is required to prepare financial statements on a consolidated basis, the entity can also prepare its sustainability report on a consolidated basis. Individual entities within the consolidated group that are controlled by the parent entity will not be required to prepare a separate sustainability report.

Inbound subsidiaries

Mandatory climate-related financial disclosures will apply to inbound Australian subsidiaries of international groups if the inbound subsidiaries are required to lodge financial reports under Chapter 2M of the Corporations Act and the size thresholds are met or they are within scope of the NGER Act.

Exempt entities

Treasury has clarified that entities that are relieved from lodging financial reports by ASIC class orders are not required to make climate-related financial disclosures.

ASX listed foreign entities

A change to the Australian Securities Exchange (ASX) listing rules will be needed before foreign entities listed on the ASX are required to prepare a sustainability report.

Not-for-profit entities

Entities registered with the Australian Charities and Not-for-profits Commission will not be required to make climate-related financial disclosures. Other not-for-profit entities that are companies limited by guarantee will be required to prepare a sustainability report if they meet the size thresholds plus have revenue of at least $1 million.

Commonwealth Government entities

Commonwealth Government entities will be required to provide climate-related financial disclosures. In November 2023, the Department of Finance announced the Commonwealth Government's climate disclosure policy which will require all Commonwealth entities and Commonwealth companies to make climate disclosures in their annual reports.

What needs to be reported?

The exposure draft legislation specifies that an entity's sustainability report must be prepared in compliance with ASRS Standards. The AASB has published exposure draft ED SR1, which includes three proposed ASRS Standards:

- Draft ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* – outlines the general requirements for the preparation and presentation of climate-related financial disclosures, including core content disclosures relating to governance, strategy, risk management and metrics and targets.
- Draft ASRS 2 *Climate-related Financial Disclosures* - specifies the climate-related financial disclosures that an entity is required to make, including disclosures about climate resilience, greenhouse gas emissions and climate-related targets.
- Draft ASRS 101 *References in Australian Sustainability Reporting Standards* - represents a 'service standard' to enable the AASB to manage the legal effect of any references in the ASRS Standards to non-legislative documents (such as the Greenhouse Gas Protocol). ASRS 101 does not include any additional requirements.

It is anticipated that the final ASRS Standards will be finalised prior to 1 July 2024 commencement of the mandatory climate disclosure regime. When issued, the AASB's intention is for the Standards to apply to annual reporting periods beginning on or after 1 July 2024.

What are the standards based on?

- Draft ASRS 1 and draft ASRS 2 are closely aligned with the corresponding International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB).
- However, unlike IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, draft ASRS 1 does not require an entity to disclose sustainability-related financial information for topics other than climate.
- Other than limiting the scope of ASRS Standards to climate and extending their application to not-for-profit entities, the main differences between ASRS Standards and IFRS Sustainability Disclosure Standards relate to amendments and clarifications proposed by the AASB so that the climate-related financial disclosure requirements fit within the context of the Australian legislative and regulatory environment.

An entity that complies with the ASRS Standards cannot automatically assume that it would be also able to simultaneously claim compliance with the IFRS Sustainability Disclosure Standards. At a minimum, for an entity applying ASRS Standards to be in a position to also claim compliance with IFRS Sustainability Disclosure Standards each reporting period, the entity will need to provide additional disclosure where ASRS Standards are less prescriptive (e.g., subcategories of Scope 3 greenhouse gas emissions), and voluntarily apply IFRS S1 and disclose information about all of its sustainability-related risks and opportunities.

Governance	Strategy	Risk management	Metrics and targets
Information about the governance processes, controls and procedures that a reporting entity uses to monitor and manage climate-related risks and opportunities.	Information about an entity's strategy for managing climate-related risks and opportunities.	Information about how climate-related risks and opportunities are identified, assessed, prioritised and monitored, and whether and how these processes are integrated into its overall risk management framework.	Information about how an entity measures, monitors and manages climate-related risks and opportunities and assesses its performance, including progress towards the targets it has set.

► Board governance, including oversight of targets
► Management's role in governance
	► Identify climate related risks and opportunities
	► Current and anticipated effects on the entity's business model and value chain
	► Strategy and decision making, including information about the entity's transition plans (if any)
	► Current and anticipated effects on the entity's financial position, financial performance and cash flows
	► Climate resilience and scenario analysis
		► Processes and policies used to identify, assess, prioritise and monitor climate-related risks and opportunities
		► Assess the entity's overall risk profile and its overall risk management process
			► Climate-related metrics:
			  ► Scope 1, 2 and 3 greenhouse gas emissions
			  ► $/% assets or business activities vulnerable to climate-related risks and opportunities
			  ► capital deployment
			  ► internal carbon prices
			  ► remuneration
			► Industry-based metrics
			► Climate-related targets set with supporting information on approach, scope, progress

Other key information

Reporting location

Climate disclosures will be required to be published in a new 'sustainability report' which will form part of an entity's annual reporting package that typically will be comprised of the following:

The sustainability report for a financial year includes:

- The climate statements for the year
- Any notes to the climate statements, and
- The directors' declaration about the statements and notes

To improve the readability of annual reports containing climate disclosures, Treasury has indicated that entities should include an index within their annual report that displays climate disclosure requirements (i.e., governance, strategy, risk management, metrics and targets) and the corresponding disclosure section and page number.

Frequency and timing of lodgement

A sustainability report will be required to be prepared annually. An interim sustainability report is not required.

An entity's sustainability report will need to be lodged with Australian Securities and Investment Commission (ASIC) at the same time as its other reports. The timing of lodgement will stay consistent with current requirements under Section 319 of the Corporations Act for lodging annual reports, which is:

- For disclosing entities and registered schemes: within three months after the end of the financial year
- All other entities - within four months after the end of the financial year

An entity will also be required to make its sustainability report publicly available on its website one day after the report is lodged with ASIC (unless it is required to disclose this report to its members).

The ISSB allows an entity, in its first year of application of the IFRS Sustainability Disclosure Standards, to release its first sustainability report after it has released its financial report. This relief is not available for use under the exposure draft legislation or ASRS Standards.

NGER reporting considerations

The exposure draft legislation does not make any consequential amendments to the Scope 1 and Scope 2 greenhouse gas emissions reporting requirements in the NGER Act.

Therefore, entities that do not have 30 June year ends will be required to measure and disclose their Scope 1 and Scope 2 greenhouse gas emissions for the year ended 30 June (for NGER reporting purposes) and separately measure and disclose their Scope 1 and Scope 2 greenhouse gas emissions at each financial year end as well (for sustainability reporting purposes in accordance with the Corporations Act and ASRS Standards).

Liability and enforcement

Climate disclosures will be subject to the existing liability framework embedded in the Corporations Act and *Australian Securities and Investment Commission Act 2001*. These laws address matters such as directors' duties, misleading and deceptive conduct and general disclosure obligations.

Under the modified liability approach included in the exposure draft legislation, liability for misleading and deceptive (and other) conduct in relation to the most uncertain parts of a climate statement is temporarily suspended to ensure that entities are allowed time to develop experience and practice to report to the required standards.

This limited immunity applies to statements in sustainability reports prepared for financial years commencing between 1 July 2024 and 30 June 2027. During this time, only ASIC will be able to bring action relating to breaches of relevant provisions made in disclosures of Scope 3 greenhouse gas emissions and climate-related forward-looking statements. The remedies available to ASIC for those breaches will be limited to injunctions and declarations. However, this does not prevent criminal proceedings.

The exposure draft legislation identifies scenario analysis as the specific disclosure involving forward-looking information to which this modified liability approach would apply. It is unclear whether Treasury intends for this approach to also apply to other forward-looking information that is required to be disclosed such as the anticipated financial effects of an entity's climate-related risks and opportunities.

After this period, the existing liability arrangements will apply.

Assurance

Treasury has maintained its proposal for entities to obtain independent assurance of their climate-related financial disclosures from their financial auditor. This decision re-affirms the Government's position that assurance plays a critical role for enhancing the credibility of climate disclosures. However, the phased-in approach and timetable for assurance requirements has been revised from its June 2023 consultation paper, with the original four year timeframe to progressively reach reasonable assurance for all climate-related financial disclosures by 2027-28 now extended to 2030. Further clarity on the assurance pathway is now pending further detail from the AUASB.

The exposure draft legislation's revised approach to assurance is as follows:

- Assurance requirements will commence with limited assurance of Scope 1 and Scope 2 greenhouse gas emissions for reports prepared from 1 July 2024.
- The AUASB will set out a pathway to phase in additional assurance requirements, such that by no later than 1 July 2030 reasonable assurance will be required for all climate disclosures.*

The impending assurance pathway for Group 1, 2 and 3 entities from the AUASB will clarify what will be required, by when and to which level of assurance. However, we anticipate many entities will obtain assurance beyond what is currently proposed in exposure draft legislation to:

- Safeguard the integrity of published information
- Meet expectations of capital providers
- Manage the Board's liability risks (modified liability of Scope 3 greenhouse gas emissions and scenario analysis is only available until 30 June 2027)
- Ensure comparability with foreign reporting and assurance requirements, such as those under the EU's Corporate Sustainability Reporting Directive (CSRD)

Reports prepared between 1 July 2024 and 30 June 2030	Limited assurance of Scope 1 and 2 greenhouse gas emissions

AUASB to determine phasing in requirements for this period

Reports prepared from 1 July 2030	Reasonable assurance of all climate-related disclosures

Who can provide assurance of climate-related disclosures?

Financial auditors will lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, when required. The register of Greenhouse and Energy Auditors from the Clean Energy Regulator is offered as a source to connect with audit leaders with technical experts.

Requiring a blended assurance team of financial accounting and climate/ sustainability skillsets aligns with the general expectation that climate is a material risk for most entities, and as such, it is important that the information included in the preparation of the entity's financial statements and the information disclosed in the entity's sustainability report is connected and internally consistent.

Which Assurance Standards will need to be applied?

The International Auditing and Assurance Standards Board is currently developing an enhanced assurance standard for sustainability assurance engagements: International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*. Once finalised, ISSA 5000 will provide a comprehensive, stand-alone standard suitable for limited and reasonable sustainability assurance engagements. An Australian-equivalent of ISSA 5000 is expected from the AUASB shortly after the international standard is finalised (expected to be approved in late 2024).

How should entities be preparing for assurance?

Whilst we wait for confirmation on the assurance pathway from the AUASB, the additional time should be used to uplift reporting systems and processes to be able to meet reporting deadlines and future assurance expectations. Whilst many entities obtain assurance of sustainability disclosures, the shift to regulatory, financially aligned assurance suggest all entities should consider:

- Undertaking assurance readiness activities via a 'dry-run' pre-assessment. This will help ready personnel for the audit process and provide insights into the 'assurability' of climate data and information so that the entity can amend processes before being subject to mandatory assurance requirements.
- Developing a Basis of Preparation outlining all assumptions, judgements and methodologies. Revisit this regularly as reporting processes develop and consult the assurance provider to aid the assurance process.
- Assessing how the internal audit function (if the entity has one) can support readiness and provide further guidance on elevating controls and systems effectiveness.
- Leveraging existing financial audit processes and controls and capability to align and improve the robustness of sustainability reporting.

**Note: An audit constitutes reasonable assurance, which is equivalent to the current level of assurance provided over full year financial statements. Limited assurance is a lower level of assurance, where a review conclusion is issued and assurance procedures are limited to enquires of management and analytical procedures.*

Next steps

Ahead of the upcoming requirements, entities should look to mature their sustainability reporting function by establishing and embedding new processes and practices. Maturity will look different for each entity based on the individual circumstances and starting points. To prepare for the upcoming requirements, entities 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 across all levels of the organisation, in both climate and financial requirements.
- 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.

The exposure draft confirms that mandatory climate disclosures are fast approaching, with additional assurance requirements soon to follow. Starting the journey early is critical for future success and to ensure that the disclosure requirements have been addressed and are ready to be assured in future reporting periods.

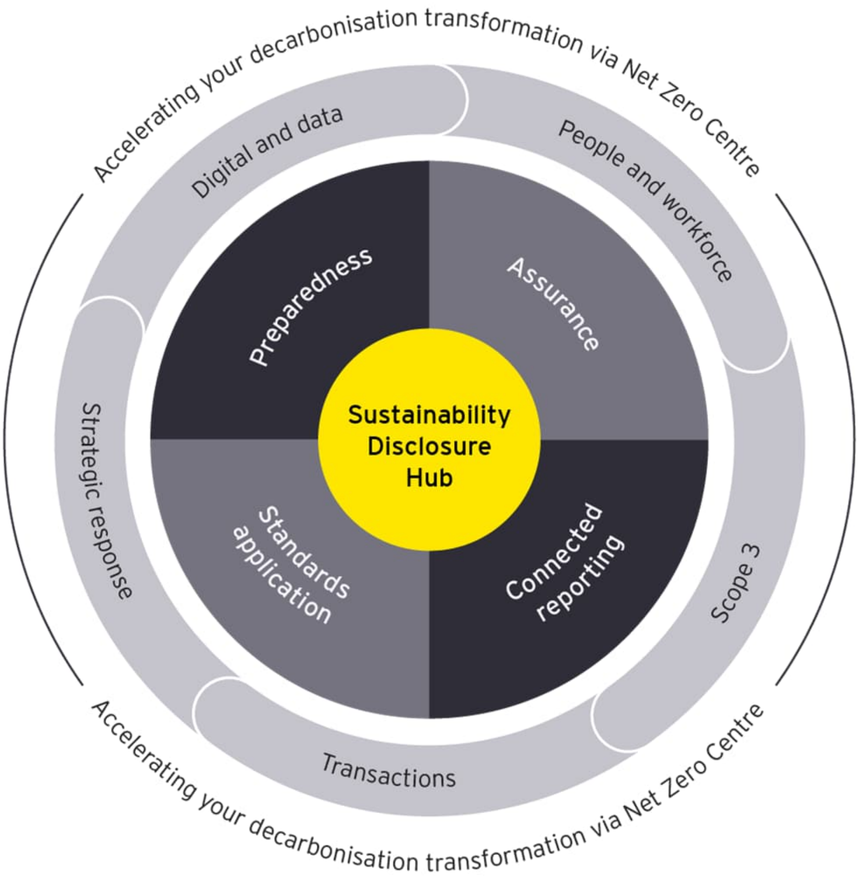
Preparedness and early adoption will be key in minimising disruption and maximising efficiencies and benefits to organisations.

Integration and connectivity are critical principles to apply across all aspects of preparation.

Suggested focus areas for entities planning to implement climate disclosures:

Identify gaps and develop action plan	Support cross collaboration	Define roles and responsibilities	Build capability across relevant functions
Extend financial reporting processes	Expand existing control frameworks	Enhance data governance	Prepare for assurance

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 success 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

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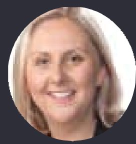

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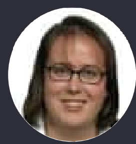

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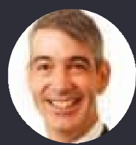

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