SUSTAINABILITY REPORTING IN AUSTRALIA

What you need to know about the mandatory climate-related financial disclosures

9 Sept 2024

Sustainability reporting

On 9 September 2024 mandatory sustainability reporting became a reality in Australia as the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (schedule 4)* passed both houses of parliament and will become legislation once royal assent from the Governor General is obtained in the coming days.

This legislation provides the legislative framework for mandatory sustainability reporting in Australia, which initially will only mandate reporting of climate related financial disclosures.

REPORTING ENTITIES IN SCOPE AND APPLICATION DATE

Mandatory Sustainability Reporting commences for years beginning 1 January 2025 but implantation will be a three phase approach, depending on the size and nature of the organisation.

Reporters must be required to prepare financial reports in accordance with Chapter 2M.3 of the *Corporations Act (2001)* and meet any of the following categories:

	Meet any two of the following			**National Greenhouse Energy Reporters (NGER)**	**Asset Owners**
	Consolidated Revenue	**Consolidated gross assets**	**Employees**		**(Registered scheme, registrable uperannuation entity or retail CCIV)**
	For the financial year	At the end of the financial year			
Group 1 Years beginning on or after 1 January 2025	≥ $500 million	≥ $1 billion	≥ 500	Above the NGER publication threshold	N/A
Group 2 Years beginning on or after 1 July 2026	≥ $200 million	≥ $500 million	≥ 250	All other NGER reporters	$5 billion assets under management
Group 3 Years beginning on or after 1 July 2027	≥ $50 million	≥ $25 million	≥ 100	N?A	Refer to general reporting thresholds

- All size assessments should be determined on a consolidated basis including all other entities that the reporting entity controls in accordance with Australian Accounting Standards
- Revenue and gross assets and assets under management should be determined in accordance with Australian Accounting Standards
- When counting employees, part-time employees are taken into account as an appropriate fraction of a full-time employeeSubsidiaries

Exemptions from preparing sustainability reports

SUBSIDIARIES

If a parent entity that prepares consolidated financial statements is required to prepare a sustainability report and prepares that sustainability report on a consolidated basis, any subsidiaries of that parent, that would otherwise be required to prepare a sustainability report, are exempted from preparing it on the basis that it is included in the parents consolidated sustainability report.

COMPANIES LIMITED BY GUARANTEE

Companies limited by Guarantee that have revenue of greater than $1 million and meet the above thresholds are in scope for preparing sustainability reports, if they report under Chapter 2M.3 of the *Corporations Act (2001)*. For those companies limited by guarantee who are regulated and prepare financial reports for the Australian Charities and Not-for-Profits Commission (ACNC), they are not in scope and are not required to prepare sustainability reports.

At this stage there is no intention for the ACNC or any other regulator to expand the requirements for entities within their remit to have to prepare sustainability reports in accordance with the Australian Sustainability Reporting Standards.

EXEMPTIONS FROM PREPARING FINANCIAL REPORTS

If companies have exemptions from preparing financial reports due to ASIC class orders or other means, then they will also be exempted from preparing mandatory sustainability reports.

JUNIOR EXPLORER AND OTHER LISTED START-UPS

Companies are only required to prepare sustainability reports if they meet the mandated size thresholds. There is no mandatory requirement for public companies or for all companies listed on the ASX to prepare sustainability reports. Accordingly, for some listed Junior Explorers or other listed start-up companies it is possible that sustainability reporting will not be required if they do not meet the size thresholds.

Timing and Location of Sustainability Reporting

The Sustainability report will form part of the Annual Reporting suite along with the

- Financial Report
- Directors Report
- Audit Report

As part of the annual reporting suite, inline with the existing requirements the sustainability report will have to be finalised and **assurance obtained** and be lodged with ASIC:

- Within **3 months** after the end of the financial year for disclosing entities (including listed companies), registered schemes and registerable superannuation entities
- Within **4 months** after the end of the financial year for all other entities, including private companies.

Completing the sustainability reporting within the same timeframe as financial reporting will be challenging, especially when taking into account the assurance requirements (see discussion below). You must ensure that they have planned appropriately, have adequate resources, including staffing, and consider what can be completed prior to year-end to ensure that you can meet this challenging deadline.

Structure and Content of Sustainability Reporting

The sustainability report will consist of the following elements:

- The climate statements for the year
- Any notes to the climate statements
- Other information prescribed by legislative instrument (none currently)
- The directors' declaration about the statements and the notes

In addition to assist with transition, in the first year of reporting, comparative information is not required.

The sustainability report will be prepared in accordance with the Australian Sustainability Standards that will be issued by the Australian Accounting Standards Board (see below).

GROUP 3 REPORTERS WITH NO MATERIAL CLIMATE RELATED RISKS AND OPPORTUNITIES

If you are an entity that only meets the group three requirements but not the thresholds for group two or one and you have no material climate related financial risks and opportunities, the climate statements for the year can merely be a statement to that fact. This statement is still subject to assurance and a directors' declaration.

Whilst this exemption from having to prepare full blown climate statements and notes will provide significant relief for relevant organisations, it will still involve significant work and documentation to achieve this outcome. As this statement is subject to assurance, you will have to undertake sufficient work documentation and evidence that there are no material financial risks and opportunities, and have it accepted by your auditors. This will not be a single transitional exercise and will be required to be performed each year and reconsidered as facts and circumstances change.

If there is the possibility that in the near term you will increase in size so meet the group two thresholds, or another change in circumstance such as change in operations or expansion into another industry or physical location which would expose you to material climate-related financial risks and opportunities, we recommend that you continue to progress on an implementation project, as if you meet the size thresholds after the application dates for that group, there will be no transitional relief and you will need to comply with the disclosure requirements immediately.

Directors Liabilities

Sustainability reports will be subject to the same legal framework that exists for financial reporting under the *Corporations Act 2001*, as well as other related legislation. Accordingly, the directors are responsible for ensuring that the information is true and fair and not misleading and in accordance with the Australian Sustainability Reporting Standards.

As part of the transition phase up to the end of 2028, it will be regulator-only actions that can be taken against directors (or auditors) in relation to misleading and deceptive conduct relating to statements made within the sustainability report and the assurance report there on, on the following areas:

- Scope 3 emissions
- Scenario analysis
- Transition plan

Similarly, it will be limited to regulator-only actions on any forward looking statements in the Sustainability Report, but only for the first year of application, i.e. Group 1 entities.

Australian Sustainability Reporting Standards

The Australian Accounting Standards Board (AASB) are expected to imminently release two Australian Sustainability Reporting Standards

- AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (Voluntary)
- AASB S2 *Mandatory Climate -related Disclosures*

These standards are broadly consistent with the International Sustainability Standards issued by the International Sustainability Standards Board (ISSB), with the AASB backing away from earlier proposals that were further removed from those standards. In order to keep the standards consistent with the ISSB standards and make them operatable in Australia the AASB has taken the following approach:

- AASB S1 is a voluntary standard that entities may elect to adopt if they wish to align with the International standards issued by the ISSB. AASB S1 requires entities to provide disclosures relating to all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. This is therefore wide reaching and will require disclosures about a broad range of environmental, social and governance issues.

- AASB S2 is a mandatory standard that entities will be required to comply with when preparing mandatory sustainability reports and focuses solely on climate-related disclosures. As globally IFRS S2 was designed to be adopted along with IFRS S1, to make the AASB S2 operable in Australia as a standalone standard, some of the fundamental requirements from AASB S1 around structure, judgements, restatements etc have been replicated in an appendix to AASB S2. One change that the AASB has made to IFRS S2, is the removal of any requirements to make industry based metrics and removes all references to the Sustainability Accounting Standards Board (SASB) standards, whilst they undertake a separate project on industry specific climate disclosures.

AASB S2 REQUIREMENTS

AASB S2 requires entities to provide disclosures regarding all climate-related risks and opportunities that it is exposed to. This includes both climate-related physical risks and climate-related transition risks. The specific disclosure requirements are divided into the following categories:

Governance	Strategy	Risk Management	Metrics and Targets
What are the governance processes, controls and procedures that the organisation uses to monitor, manage and oversee climate-related risks and opportunities. Including: • Which governance body is responsible for climate and how it is reflected in their mandate • How you determine whether there are appropriate skills and competencies to respond to the climate related risks and opportunities	Identification of the climate-related risks and opportunities that could reasonably affect the entity, their anticipated effects and how these affects are being reflected in the organisations strategy and business plan. Including: • Expected impacts of climate on customers and supply chain • The effects of climate change on the financial statements in the current year and the expected in impact in the future • Scenario analysis of the impacts on the company if different levels of global warming eventuate	How climate-related risks are identified, assessed, prioritised and monitored, including whether and how those processes are integrated into and inform the entity's overall risk management process Including: • How an entity prioritises climate risks relative to other risks • How it monitors climate related risks	Intended to ensure there is an explanation of the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation. Including: • Greenhouse Gas Emissions (GHG emissions) • Linkage between executive remuneration and climate related considerations

GREENHOUSE GAS EMISSIONS

Greenhouse Gas (GHG) emissions should be measured in accordance with the Greenhouse Gas Protocol, unless another authority requires you to use a different methodology, including the NGERs requirements. In accordance with the GHG Protocol, entities are required to provide disclosures of scope 1, 2 and 3 greenhouse gas (GHG) emissions. Scope 3 emissions are generated external to your organisation up and down your value chain and can be complex to estimate. To assist with transition, Scope 3 emissions are not required to be disclosed in your first year of adoption.

Assurance Timeframe

Sustainability Reports will be required to have assurance provided over them. This assurance will need to be completed by the same auditor that completes the audit of your annual financial report and will be completed in accordance with the Australian Auditing Standards. The auditing standards for sustainability assurance are yet to be finalised but are expected to be finalised by the end of 2024.

The Australian Auditing Assurance Board (AUASB) has also been tasked with determining how assurance will be phased in, with the legislation merely requiring that by years beginning on or after 1 July 2030 reasonable assurance (an audit) is provided over the entire sustainability report.

The AUASB's proposed assurance phase in model (as per the August 6th Board Papers) is:

Reporting year	First*	Second	Third	Fourth**	Fifth	Sixth
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and Opportunities***	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate resilience assessments/ scenario analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	LImited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related metrics and targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

* Group 1 – Years commencing 1 January 2025, Group 2 – years commencing 1 July 2026, Group 3 - years commencing 1 July 2027

** Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1 July 2030

*** The phasing for assurance on Statements where there is no material climate-related financial risks and opportunities is the same as for 'Strategy – risks and opportunities

Limited assurance is the level of assurance for an interim financial statement review. Reasonable assurance is the assurance provided for a financial statement audit.

The AUASB will be publishing an exposure draft shortly with a final standard expected in December.

As the sustainability report will be subject to assurance, similar to your financial reports, it will be essential to ensure that you have documented policies and procedures as well as appropriate systems in place to track and capture relevant data, to provide an accurate audit trail for your auditor to follow. Due to the reporting deadlines, it is going to be essential that you are well prepared to ensure that your auditors can complete their procedures over the sustainability report alongside the financial report audit and provide their opinion to you prior to your reporting deadline

Implications for non-mandatory reporters

If you are not captured by the mandatory sustainability reporting requirements then there is no obligations to prepare any sustainability reporting information. However, if you are in the value chain (either the supply chain or the customer chain) of a larger organisation, or are seeking finance from a financial institution that is captured by the mandatory reporting requirements it is likely that there will consequential impacts.

Due to the nature of GHG emissions reporting in particular, more questions may be asked on requests for tenders or as part of loan applications procedures to understand what you are doing to manage climate-related risks and GHG emissions. There is potential that this may also progress to request for information regarding the GHG emissions associated with a particular product or service that you provide to allow them to develop more accurate emissions reporting. Accordingly, although there is no current mandate to keep GHG records or other sustainability information, market factors may require you to do so. Similar to financial reporting, smaller companies might not lodge financial accounts with ASIC, but still have to keep the financial records and often have to prepare special purpose accounts for lenders or other relevant parties. Carbon accounting and GHG emissions may ultimately be seen in exactly the same way.

How Moore Australia Can Assist

Identifying climate-related risks

Update risk management processes

Capture GHG emissions data

Drafting your sustainability report

Moore Australia can assist you wherever you are on your sustainability reporting journey. For those of you starting out, we can assist you in identifying your climate-related risks and opportunities.

We can also work with you in updating your risk management processes to incorporate climate-related risks and ensure that your governance processes are sufficient.

We can help you to implement systems to capture GHG emissions data and undertake the financial modeling for your scenario analysis.

Ultimately, we can assist you in drafting your sustainability report and providing pre-assurance readiness assessments and completing your sustainability assurance.

For further information on Sustainability reporting, please reach out to your local Moore Australia contact.

Contact Us

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