ESG Reporting & Governance trends 2023

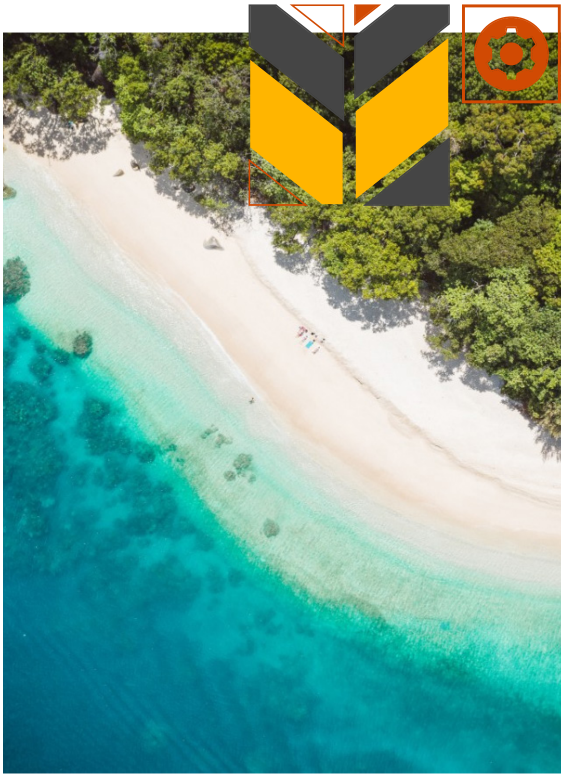
What's in store for the year ahead

pwc

Looking at the next 12 months - ESG reporting & governance

Trust - never has it been more valuable or fragile for organisations to build and retain. Effective sustainability reporting and governance provides leaders the opportunity to build and secure trust across broad groups of stakeholders. To keep pace with the changing reporting and governance landscape, companies need to be alert to the following developments in 2023:

- **Breadth of reporting:** Preparation of sustainability reporting needs to span all levels of an organisation, from reporting functions, to governance, to data and systems.
- **Climate leads the way:** Climate-related financial disclosures are dominating sustainability agendas of many organisations thanks to the establishment of the International Sustainability Standards Board (ISSB) and the Task Force on Climate Related Financial Disclosures[1] (TNFD).
- **More than just the environment:** And while climate definitely leads the way, expectations for environmental, social and governance (ESG) reporting will change. Expectations for companies to report on other key areas such as human rights, diversity and inclusion, and indigenous engagement for example, are rising, and companies need to prepare and meet these.
- **Government reform is taking shape:** Federal government policies (including the safeguard mechanism and the Rewiring the Nation program) will impact businesses; the ISSB and TNFD will also play out and see changes to the Australian reporting landscape.



Dust settling on standardised reporting

The appetite for a global set of standards for sustainability and climate reporting has grown among investors, government, businesses, and other stakeholders. This year, the newly formed International Sustainability Standards Board (ISSB) is forging ahead with finalising international standards for sustainability and climate reporting (effective from 1 January 2024), while the Australian Accounting Standards Board consults on how this will be applied locally.

Some companies may choose to adopt the proposals voluntarily before they're finalised, for instance those responding to investor or societal pressure. Australian businesses that are part of a multinational network, or have a footprint in other territories such as the European Union may have an added incentive to establish robust ESG reporting regimes. Their organisations could be required to disclose information consistent with the reporting requirements of various jurisdictions (such as the European Sustainability Reporting Standards).

While we've seen a positive change in ESG reporting in Australia, just a third of the ASX200 have their sustainability report externally assured[2]. Our analysis of current reporting across this group, found many companies would require significant enhancements to meet the ISSB's draft standards.

While the future of ESG reporting and assurance expectations are still to be finalised for Australia, our experience working with market-leading first movers is that there are several steps organisations can take now to get ready for the mandatory regime:

1. **Assemble a cross-functional team**: ESG reporting should not sit within a single department, but be a shared responsibility using a range of skill sets across the organisation.
2. **Understand and evaluate ESG reporting requirements**: for example, reviewing draft standards from the ISSB and AASB, and guidance provided by the likes of ASIC. Also by considering what ESG information is important to your stakeholders, and what is material to your organisation.
3. **Inventory of existing climate and sustainability disclosures, controls, and related data**: for example, identifying any reporting your organisation already does in areas such as energy consumption and waste management; including understanding the credibility of the process through which data is generated, stored, reported and verified.
4. **Plan to address gaps**: for example, at PwC Australia, we're working on pre-assurance engagements for companies, to help them understand their degree of readiness for assurance - is there appropriate underlying subject matter, is there suitable criteria upon which to measure and is there an ability to obtain sufficient and appropriate assurance evidence? - and identify gaps.

[1] https://www.pwc.com.au/publications/audit-risk-insights/climate-risk-reporting.html

[2] https://www.pwc.com.au/assurance/esg-reporting-in-australia-2022-v2.pdf

Scope 3 emissions and reporting on the radar

As Australia's energy transition gradually gains momentum, companies are becoming more sophisticated about measuring their scope 1 and scope 2 emissions. While scope 3 emissions remain a vexed issue, reporting standards will make this an imperative for many companies (albeit with some relief provisions).

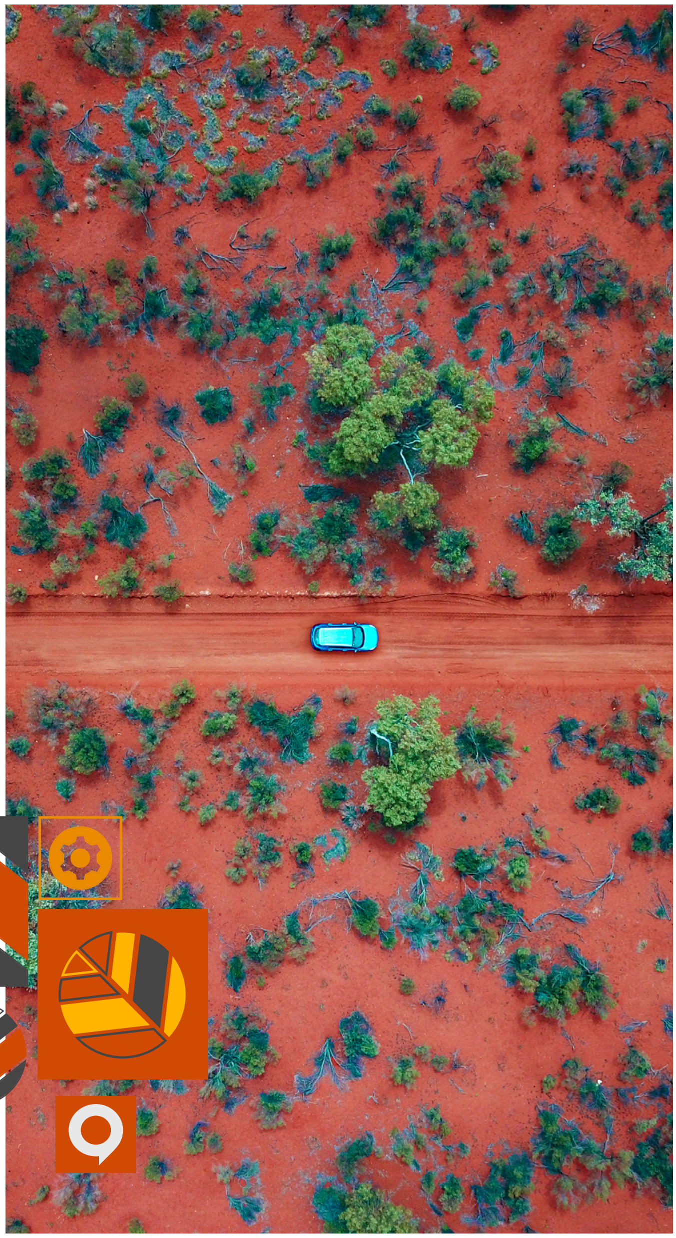
Scope 3 emissions emanate from the activities in a company's value chain; capturing emissions not controlled by the company but caused by their activities. To measure (and, indeed, to report) scope 3 emissions, companies need to work with customers and suppliers to collect accurate data. If any organisations in the value chain struggle to provide such data, companies could support them by providing education, advice, and resources. (At PwC Australia, we recently worked alongside CEOs from the Australian Climate Leaders Coalition to develop a scope 3 roadmap to support getting started on addressing scope 3 emissions.)

Heightened scrutiny over greenwashing - accurate reporting not negotiable

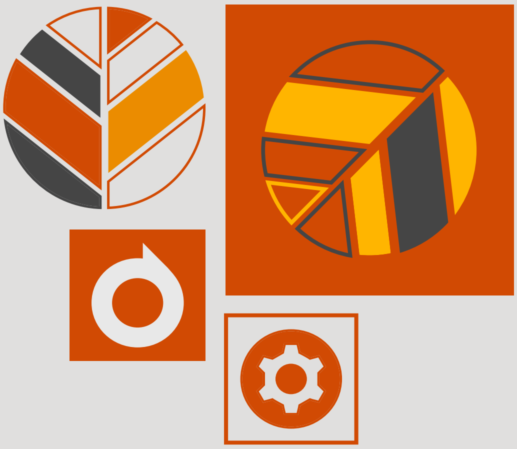
In their eagerness to cast themselves in a positive light, several organisations have been selective with the truth about their performance in areas of ESG. Celebrating good news while burying the bad – otherwise known as 'greenwashing' – is not only disingenuous but also fraught with risk.

Both the Australian Securities and Investments Commission (ASIC) and the Australian Competition & Consumer Commission (ACCC) are cracking down on greenwashing. Indeed, ASIC has already issued enforcement notices about misleading and deceptive disclosures, while the ACCC is targeting false environmental claims by companies. So for boards, executives and leaders, it's more important than ever to ensure their organisations' claims and reporting about ESG can be substantiated and, importantly, stand up to scrutiny from well-informed stakeholders.

Disclosing targets, then being consistently transparent about your progress, can actually build a company's credibility in the marketplace. Long-term targets (e.g. net zero by 2050) need to be backed by clear milestones and methods, with explanations of any built-in assumptions. And to keep ESG strategies on track, a governance structure is required that gives boards and executives not only oversight, but also accountability. Given the changing regulatory landscape, it's increasingly common to see audit committees, risk committees and finance committees actively involved.



For a more in depth discussion about ESG at your organisation, please contact one of our experts below.



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PWC200679149