Sustainability reporting standards and legislation finalised: mandatory sustainability reporting begins

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Key points

The Australian Accounting Standards Board (AASB) met to approve the final Australian Sustainability Reporting Standards (ASRSs) on 20 September 2024.

The final version of the ASRSs are broadly aligned with the IFRS® Sustainability Disclosure Standards.

In addition to the mandatory climate reporting standard AASB S2 Climate-related Disclosures (AASB S2), the AASB has issued a voluntary reporting standard AASB S1 General Requirements for Disclosure of Sustainability-related Financial Information (AASB S1) to enable entities to voluntarily report on sustainability topics broader than climate.

What are the Australian Sustainability Reporting Standards?

The International Sustainability Standards Board (ISSB) issued its inaugural sustainability disclosure standards (IFRS S1 & IFRS S2) on 26 June 2023. The Standards 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.

The Australian Accounting Standards Board (AASB) issued the final ASRSs on 20 September 2024 following a consultation period relating to the draft ASRSs (Exposure Draft ED SR1) that ended in March 2024. The AASB has taken a 'climate first' approach to adopting IFRS S1 and IFRS S2 to align with Government commitments to introduce mandatory climate reporting in Australia. Therefore, the final standards issued by the AASB are:

- AASB S1 - General Requirements for Disclosure of Sustainability-related Financial Information which is a voluntary Standard covering sustainability-related financial disclosures and aligns with the scope of IFRS S1.
- AASB S2 - Climate-related Disclosures which is a mandatory Standard that incorporates the necessary content presented in IFRS S1 allowing it to function as a standalone, climate-only Standard.

What has changed since the Exposure Draft?

Based on feedback from the consultation period the AASB has sought to re-align the ASRSs with the ISSB's IFRS S1 and IFRS S2 baseline.

The key changes from the proposals in the exposure draft to the final ASRSs have been outlined below:

Key changes from exposure draft proposals

1. AASB S1 has broadened to become a voluntary standard that can be applied to make sustainability disclosures for topics beyond climate (eg biodiversity, water usage).
2. The AASB has sought to re-align the ASRSs with the ISSB's IFRS S1 and IFRS S2 baseline.

Key changes as a result include:

- Adoption of the greenhouse gas measurement hierarchy in IFRS S2 which prioritises the GHG Protocol Corporate Standard, but permits an entity to use a different method to the GHG Protocol when required to do so by a jurisdictional authority. This means that entities that are required to report under the NGERs reporting framework will be able to use the NGERs measurement methodology or the GHG protocol for their ASRS greenhouse gas emission reporting. However, entities that do not have a requirement to report under the NGERs reporting framework will not be permitted to use the NGERs measurement methodology for their ASRS reporting, and will instead have to use the GHG protocol.
- Additional disclosures related to financed emissions will now be required for entities participating in asset management, commercial banking or insurance. Previously the AASB had proposed that an entity just consider making these disclosures.
- Removal of requirement to disclose market-based Scope 2 greenhouse gas emissions. Therefore, ASRS reporters will only be required to disclose location-based Scope 2 greenhouse gas emissions.

Key differences to IFRS Sustainability Disclosure Standards that remain

Whilst the AASB have sought to align AASB S2 with IFRS Sustainability Disclosure Standards as much as possible, some of the key differences that remain are:

1. AASB S2, which includes the necessary components of IFRS S1, is a climate-only Standard and is the only mandatory standard for all in-scope entities. Given IFRS Sustainability Disclosure Standards would cover topics beyond climate, this means that the scope of mandatory reporting under ASRSs is narrower.
2. The IFRS Sustainability Disclosure Standards require an entity to refer to and consider the SASB Standards and the IFRS S2 Industry-based Guidance, and provide industry specific disclosures. AASB S2 does not include this requirement, however the AASB have committed to a project to consider how to introduce a requirement to make industry specific disclosures in the future.
3. In respect of scenario analysis, the AASB have removed the requirement to assess climate resilience against at least two relevant possible future states, including one consistent with the most ambitious global temperature goal set out in the Climate Change Act 2022, aligning with the IFRS S2 requirement which leaves the number of scenarios to the judgement of management. However, the legislation passed by parliament enacting mandatory sustainability reporting retains the requirement to assess two climate scenarios, being a scenario where global temperature increase is maintained below 1.5 degrees, and one where it well exceeds 2 degrees.

Core mandatory content of Australian Sustainability Reporting Standards

The core content of the final ASRSs largely aligns with the content of the IFRS Sustainability Disclosure Standards, and with the four pillars approach originally included in the Task Force on Climate Related Financial Disclosures (TCFD) recommendations. The core disclosures required by ASRSs are:

1

Governance

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

2

Strategy

Assessment and disclosure of material climate-related risks and opportunities affecting entities business model and value chain including the effect on financial position, financial performance and cash flows.

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

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.

4

Metrics and targets

Disclosure of Scope 1 and 2 (location-based) greenhouse gas emissions would be required from year one of reporting, including information on any eligible offsets and/or certificates accounted for.

Disclosure of material Scope 3 greenhouse gas emissions would be required from year two of reporting onwards.

Disclosure of emissions data against transition plans / reduction targets.

Disclosure of metrics used to measure progress towards a climate-related target, in addition to several cross-industry metrics that are disclosed regardless of whether they are monitored by management.

Who is required to report and when does it apply?

The scope of who is required to prepare a sustainability report, and when they must begin this reporting, is set out in the legislation passed by Parliament on 9 September 2024.

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 are required to prepare a sustainability report in line with the timeline set out in the table below:

- Two of the three stipulated size criteria (consolidated revenue, consolidated gross assets and consolidated number of full-time equivalent employees); or
- is a registered corporation under the NGER Act (or required to make an application to register); or
- is an asset owner (defined as registerable superannuation entities, registered schemes and retail Corporate Collective Investment Vehicles (CCIVs)) where the value of assets at the end of the financial year (including the entities it controls) is equal to or greater than $5bn.

Exemptions would be available for:

- Small businesses below the relevant size thresholds.
- Entities exempted from lodging financial reports under Chapter 2M of the Corporations Act (e.g. ACNC registered Australian Charities and Not-for-profits).

Who is required to report and when does it apply?

First annual reporting periods starting on or after	Large entities and their controlled entities meeting at least **two of three** criteria:			National Greenhouse and Energy Reporting (NGER) Reporters	Asset Owners (Registerable Superannuation Entities, Registered Schemes and Retail CCIVs)
	Financial year consolidated revenue	End of financial year consolidated gross assets	End of financial year full time equivalent employees		
1 January 2025 Group 1	$500m or more	$1bn or more	500 or more	Above NGER publication threshold *(50 ktC02-e Scope 1 and 2 emissions)*	N/A - entities are explicitly excluded from Group 1
1 July 2026 Group 2	$200m or more	$500m or more	250 or more	All other NGER reporters	$5bn or more assets
1 July 2027 Group 3	$50m or more	$25m or more	100 or more	N/A	N/A

An asset owner is a registered scheme, a registrable superannuation entity or a retail corporate collective investment vehicle. An 'asset owner' cannot be a Group 1 entity, even if it would otherwise meet the criteria to be a Group 1 entity. An asset owner can be a Group 2 entity either by meeting the criteria applicable to all entities, or by having $5bn or more in assets.

All entities within Group 1 and Group 2 would be required to prepare a sustainability report for the year consistent with the relevant sustainability standards issued by the AASB. All entities within Group 3 are also subject to this requirement, unless the relevant entity does not have material climate risks and opportunities, whereby they are exempt from preparing a full sustainability report. Instead, these entities need to make a disclosure of a statement that they do not have material climate risks and opportunities, and the reasons why.

Group 1 entities must report for financial years beginning on or after 1 January 2025. Group 2 and Group 3 entities must report for financial years commencing on or after 1 July 2026 and 1 July 2027, respectively.

What form does the reporting take and where does the reporting need to be disclosed?

The legislation requires an 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 report must be provided to the members and lodged with ASIC.

There is no exception available in the legislation for subsidiaries of overseas groups to lodge an overseas parent’s consolidated sustainability report in lieu of a local Australian report. Therefore, if an Australian group that is a subsidiary of an overseas parent meets the criteria to prepare a report set out above, sustainability reporting will have to be prepared at the Australian level, approved by the Australian directors, and lodged with ASIC.

Directors’ obligations and liability framework

The legislation introduces a transitional limited immunity for directors related to some information within the sustainability report.

- No action can be brought in relation to disclosures on Scope 3 greenhouse gas emissions, scenario analysis, and transition plans for financial years commencing during a three-year period from 1 January 2025.
- No action can be brought in relation to climate disclosures made about the future, for financial years commencing during a one-year period from 1 January 2025.

The above limited immunity does not apply if the action is brought by ASIC or is criminal in nature.

As noted above, the directors will be required to make a specific directors’ declaration with respect to the sustainability report. 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.

Timeline and new standard for assurance

Assurance over climate-related disclosures

On 28 January 2025, the Auditing and Assurance Standards Board ('AUASB') approved ASSA 5000 *General Requirements for Sustainability Assurance Engagements (ASSA 5000)* and ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports*, which outlines the timeline for phasing in assurance requirements.

ASSA 5000 is a new sustainability assurance standard which will be used to assure an entity's climate-related disclosures. It outlines the baseline requirements, covering the end-to-end process of a sustainability assurance engagement, from acceptance and continuance to reporting.

The assurance timeline outlines the extent to which information in sustainability reports for financial years commencing 1 January 2025 must be audited (reasonable assurance) and/or reviewed (limited assurance). The phasing of assurance requirements has been outlined in Table 1 and Table 2 on the following page.

In the first year of an entity's mandatory reporting, limited assurance is proposed over Scope 1 and 2 emissions, governance and selected paragraphs of the strategy disclosure requirements related to risks and opportunities. The AUASB has clarified that Group 1 companies with fiscal years commencing between 1 January and 30 June 2025 will have two periods of Year 1 limited assurance for these areas. This means that the assurance provided for fiscal years commencing between 1 January and 30 June 2025 will be the same as for fiscal years commencing 1 January to 30 June 2026.

These companies will need to disclose Scope 3 emissions for reporting periods commencing between 1 January and 30 June 2026, but these emissions will not require mandatory assurance.

Based on an entity's fiscal year end, either in the second or third year of an entity's mandatory reporting, limited assurance is required over all other disclosures. Reasonable assurance will be required over all disclosures by the fourth or fifth year of reporting. Refer to Table 1 and Table 2 on the following page for details on the phasing of the type of assurance required.

Key changes from Exposure Draft ASSA 5010 are outlined as follows:

- Disclosures will not be subject to reasonable assurance until either year 4 of year 5.
- The strategy disclosures in scope for limited assurance in year 1 have been reduced.

Reporting and assurance timeline

Table 1: Reporting and assurance timeline for Group 1 entities with years commencing from 1 January to 30 June 2025

Disclosure topic area	Reporting Year				
	1st	2nd	3rd	4th	5th
Governance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Strategy – Risks and Opportunities*	Disclosure – Limited assurance **	Disclosure – Limited assurance **	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Climate Resilience Assessments / Scenario Analysis	Disclosure – No assurance	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Transition Plans	Disclosure – No assurance	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Risk Management	Disclosure – No assurance	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Scope 1 and 2 Emissions	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Scope 3 Emissions	No disclosure	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Climate-related Metrics and Targets	Disclosure – No assurance	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance

Legend

No disclosure | Disclosure – No assurance | Disclosure – Limited assurance | Disclosure – Reasonable assurance

* The phasing for assurance on statements that there are no material climate-related risks and opportunities would be the same as for 'Strategy – Risks and Opportunities'.

** Only subparagraphs 9(a), 10(a) and 10(b) of AASB S2 *Climate-related Disclosures*.

Table 2: Reporting and assurance timeline for Group 1 entities with years commencing from 1 July 2025, and Group 2 and Group 3 entities

Disclosure topic area	Reporting Year			
	1st	2nd	3rd	4th
Governance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Strategy – Risks and Opportunities*	Disclosure – Limited assurance ***	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Climate Resilience Assessments / Scenario Analysis	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Transition Plans	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Risk Management	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Scope 1 and 2 Emissions	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Scope 3 Emissions	No disclosure	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance
Climate-related Metrics and Targets	Disclosure – No assurance	Disclosure – Limited assurance	Disclosure – Limited assurance	Disclosure – Reasonable assurance

Legend

No disclosure | Disclosure – No assurance | Disclosure – Limited assurance | Disclosure – Reasonable assurance

* Years commencing from 1 July 2030 to 30 June 2031 for Group 3 entities. From that time reasonable assurance is required by the Act for all mandatory climate disclosures.

** The phasing for assurance on statements that there are no material climate-related risks and opportunities would be the same as for 'Strategy – Risks and Opportunities'.

*** Only subparagraphs 9(a), 10(a) and 10(b) of AASB S2 *Climate-related Disclosures*.

For those Group 3 entities that determine that they do not have any material risks or opportunities, and prepare a statement stating as such, would be subject to the same level of assurance over that statement as for identified climate-related risks and opportunities.

What should you do now?

The sustainability reporting landscape is evolving rapidly

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

Mobilise a working group

- 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.

Understand legal entity requirements and governance obligations

- Consider legal entity size thresholds within Australian 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.

Perform gap analysis

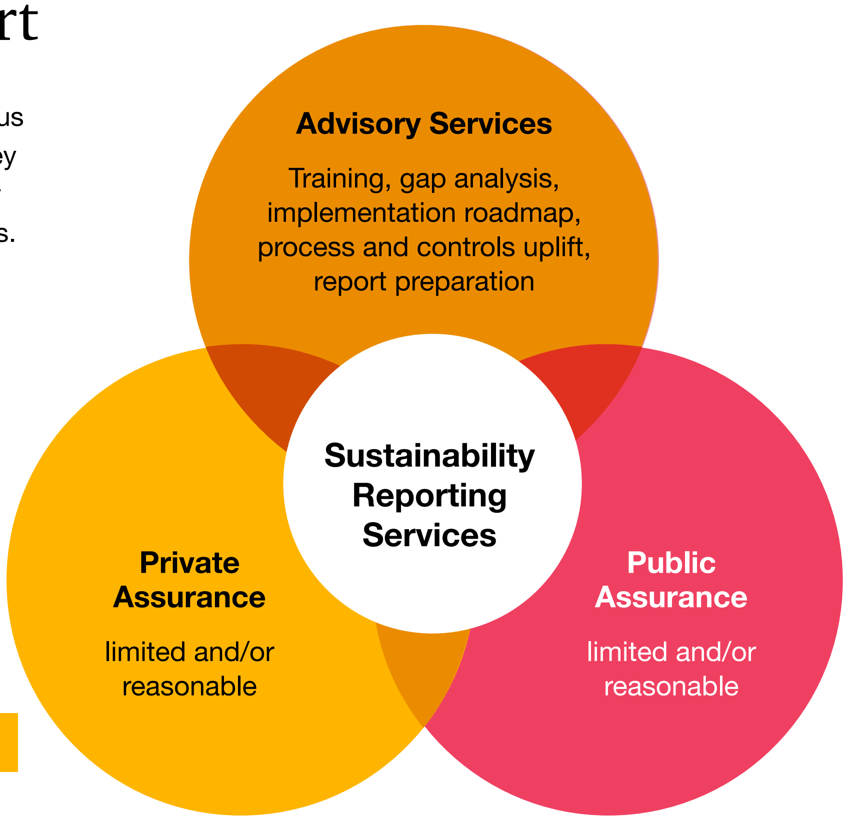
- Examine proposed requirements within Australian Sustainability Reporting Standards and compare against existing climate disclosures. Consider potential gaps inexisting disclosures practices, reporting policies and processes relative to these requirements.
- Reperform across sustainability reporting 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.

Agree priorities and develop sustainability reporting roadmap

- Obtain alignment and agreement regarding changes required in Sustainability:
  - 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

We work with thousands of clients of various reporting maturity on their individual journey so no matter where you are in your journey we can tailor our offering to suit your needs.



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