Sustainability Reporting in Australia

A tipping point

March 2024

Introduction

Sustainability reporting has reached a tipping point.

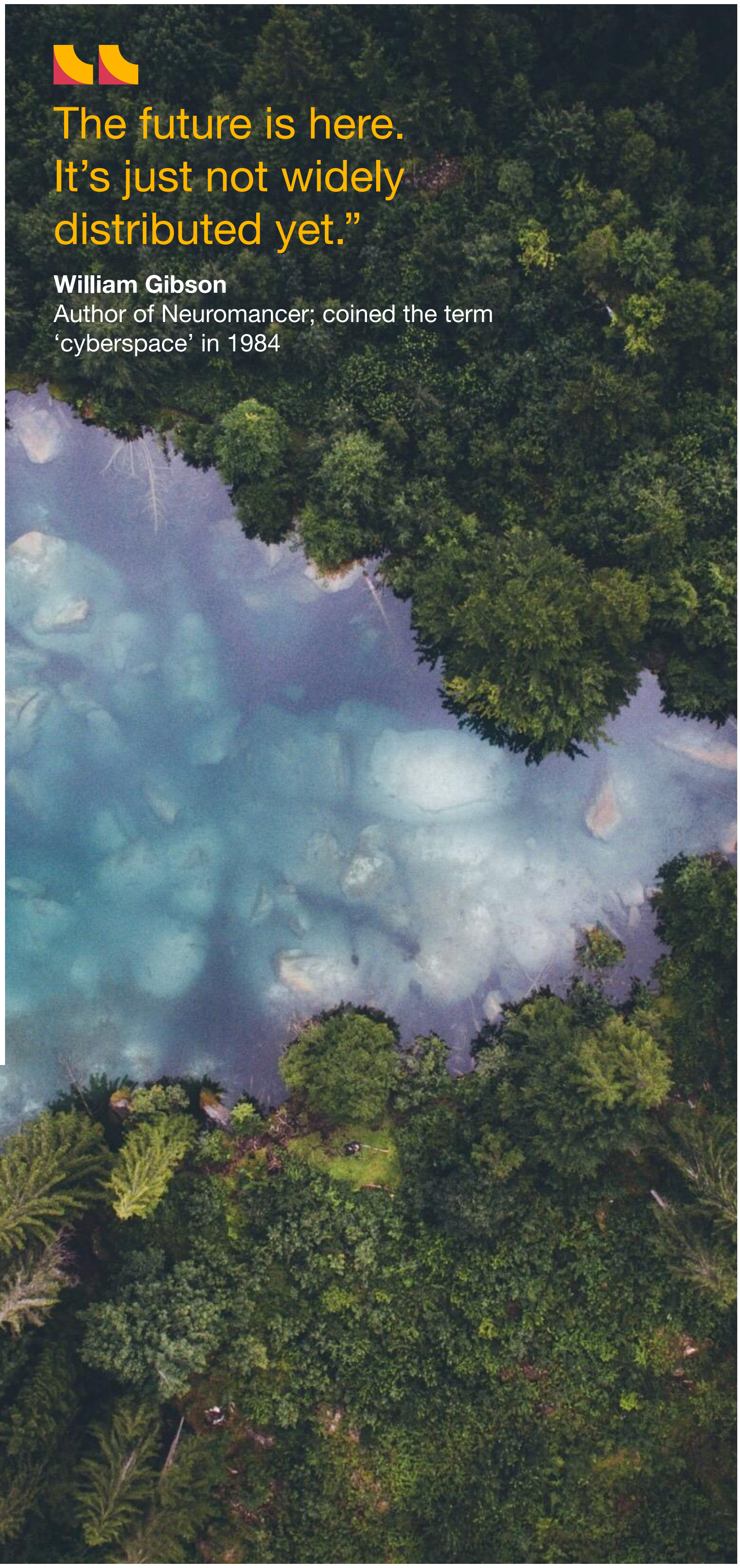
Over the past few years, we've seen a gradual increase in demand from investors for companies to explain their approach to sustainability in a more meaningful way.

The simple question for boards and management teams is: how are your company's financial prospects affected by sustainability-related risks and opportunities in the short, medium and long-term?

While investors are raising the bar higher, so too, is the Australian Government, having set itself a sustainable finance strategy aimed at providing capital markets with better quality information around climate risks, opportunities and impacts.

Key to its policy priorities is the introduction of mandatory climate-related financial disclosures for Australia's largest companies, potentially beginning as soon as 1 July 2024.

Herein lies the tipping point: while the past was largely driven by voluntary adherence to multiple sustainability reporting guidelines, future reporting obligations will be determined by consistent standards mandated by regulators (although these standards will vary across jurisdictions worldwide).



> The future is here. It's just not widely distributed yet."
>
> **William Gibson**
> Author of Neuromancer; coined the term 'cyberspace' in 1984

Australia vs the world

Australia is not alone in adopting its own sustainability reporting requirements.

There has been an explosion of proposals in different jurisdictions, including in Europe, with the Corporate Sustainability Reporting Directive, Taxonomy Regulation, and Sustainable Finance Disclosure Regulation now in place.

In the United States, the Securities and Exchange Commission proposed climate-related disclosure rules in March 2022 (with the final rule released in March 2024). California also passed its own climate disclosure laws in October 2023, impacting businesses operating within that state.

Beyond Europe and the US, countries including the United Kingdom, Singapore, Japan, and Canada are all considering adopting International Sustainability Standards Board (ISSB) standards, while others like New Zealand and India have developed their own sustainability disclosure requirements.

These global shifts represent a rapidly evolving landscape of sustainability reporting regulation. This may pose a challenge for Australian companies operating in other parts of the world.

What needs to happen?

As local and global momentum towards mandatory sustainability reporting intensifies, organisations must quickly adapt to evolving investor and regulatory expectations.

There will be consequences for getting it wrong, including reputational damage, and both criminal and civil liability.

But as this report shows, embracing sustainability reporting not only aligns with emerging legal requirements – it also serves to build trust with stakeholders, and positions businesses to thrive in a rapidly changing global economic landscape. In this dynamic environment, proactive engagement with sustainability initiatives will be essential for long-term resilience and competitiveness.

In this report:

Part one examines investor perspectives on raising the bar of sustainability integration, drawn from our 2023 PwC Global Investor Survey.

Part two explores the key findings of our 2023 study of ASX 200 companies and how they are responding to evolving Sustainability reporting requirements.

Part three looks to the challenges and opportunities ahead, and includes practical strategies for ASX 200 companies to bolster their sustainability reporting in 2024 and beyond.

We're at a tipping point: voluntary disclosures are vanishing into an increasingly regulated future."

John Tomac
Partner | PwC Australia

The ‘tipping point’ of sustainability disclosures

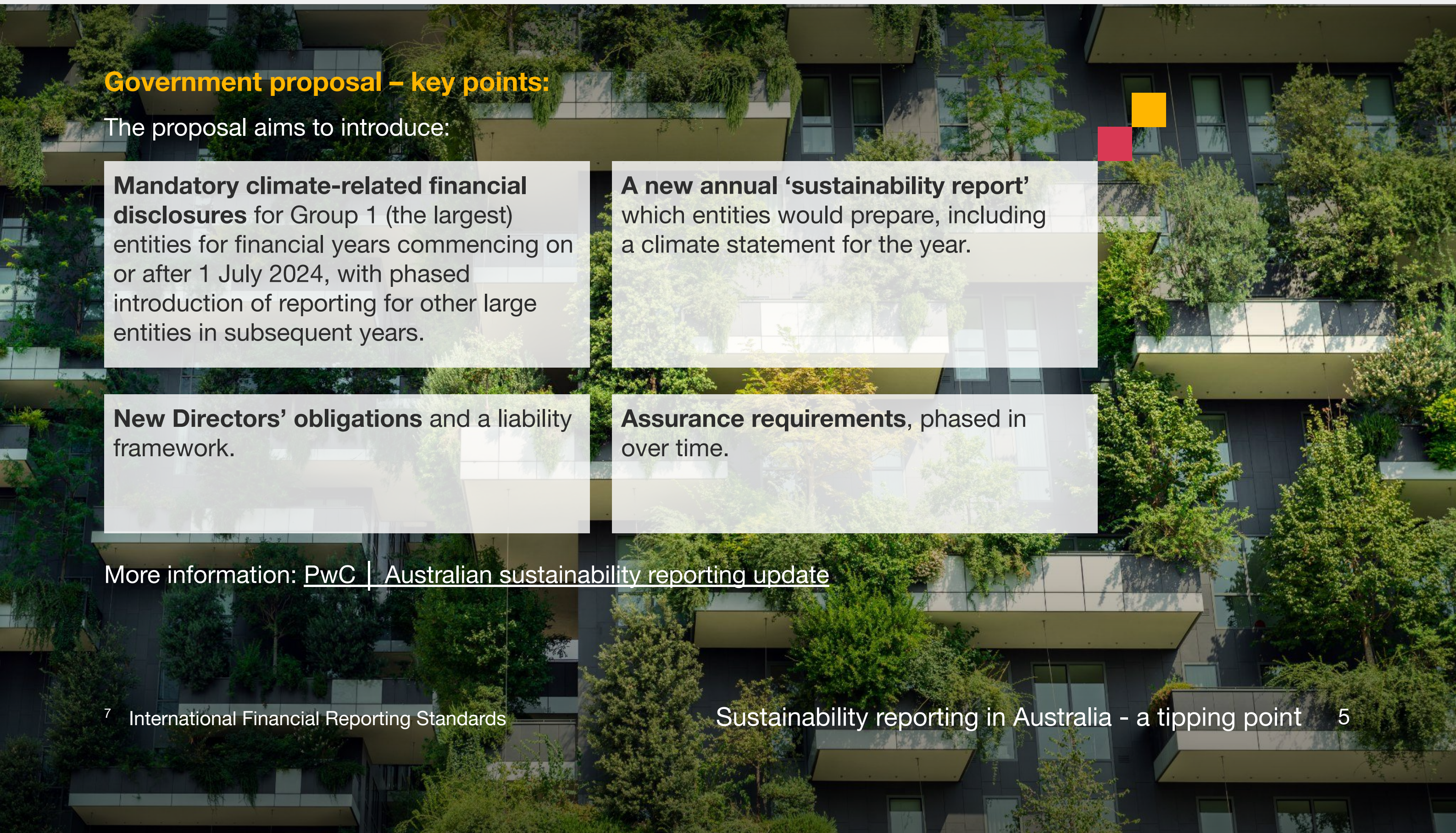
	Past (largely voluntary)	Future (increasingly mandatory)
‘Why’ Reason for preparing sustainability disclosures	• Build trust with stakeholders (e.g. customers, employees, communities, investors and policy makers) • Respond to responsible investment focus of investors/ESG ratings • Demonstrate corporate social responsibility.	• As in the past, plus: – Provide investors with information relevant in assessing sustainability-related risks and opportunities relevant to a company’s financial prospects – Comply with the law.
‘What’ Focus of disclosures	• Group level • Corporate responsibility commitments and initiatives • Largely focused on environmental and social impact of business (i.e. ‘inside-out’) • Bias towards ‘positive impacts’ and ‘good news’.	• Group level and subsidiary level for legal entities in selected jurisdictions • Materiality: financial materiality (‘outside-in’: risks and opportunities from ESG factors on the business) plus continued expectations to consider disclosure of ‘inside-out’ impacts. • Balanced disclosure on positive and negative impacts, risks and opportunities • No tolerance for greenwashing.
‘How’ The basis upon which sustainability disclosures are made	• Selected by the company with reference to a raft of voluntary guidance, including the GRI[1], IR framework[2], TCFD[3] and various investor ratings (e.g. CDP[4], DJSI[5], GRESB[6]).	• Consistently prepared in accordance with standards required by regulators • Differing requirements in different jurisdictions.
Risk of getting it wrong	• Reputational damage.	• Reputational damage • Criminal liability • Civil liability.

1 Global Reporting Initiative
2 Integrated Reporting Framework
3 Task Force on Climate-related Financial Disclosures
4 Carbon Disclosure Project
5 Dow Jones Sustainability Indices
6 Global Real Estate Sustainability Benchmark

Update on Australian climate-related disclosure standards

Timeline

September 2022	The Australian Government sets itself a legislative target to achieve net zero emissions by 2050 and an objective of reaching emissions levels of 43% below 2005 levels by 2030.
October 2023	The Australian Accounting Standards Board (AASB) released draft Australian Sustainability Reporting standards for consultation until 1 March 2024. The draft standards focus on climate-related disclosures and consider other Australian-specific modifications to the ISSB standards IFRS S1[7] and IFRS S2[7].
November 2023	The Australian Government shares its proposed Sustainable Finance Strategy. The objective is to provide capital market stakeholders with more transparent, and comparable, insight into how sustainability and climate-related risks and opportunities affect a company's enterprise value.
January 2024	The Australian Treasury releases the Exposure Draft Treasury Laws Amendment Bill 2024: Climate-related financial disclosure (Exposure Draft legislation). If adopted, the next step will be Australian legislation.
March 2024	The Auditing and Assurance Standards Board (AUASB) is expected to commence consultation on proposed assurance requirements for climate-related financial disclosure.



Government proposal – key points:

The proposal aims to introduce:

- **Mandatory climate-related financial disclosures** for Group 1 (the largest) entities for financial years commencing on or after 1 July 2024, with phased introduction of reporting for other large entities in subsequent years.
- **A new annual 'sustainability report'** which entities would prepare, including a climate statement for the year.
- **New Directors' obligations** and a liability framework.
- **Assurance requirements**, phased in over time.

More information: PwC | Australian sustainability reporting update

[7] International Financial Reporting Standards

Part 1

Investor perspectives on sustainability integration

While regulation of sustainability reporting accelerates around the world, investors are weighing in.

According to PwC's 2023 Global Investor Survey, investors are pressing to understand how companies incorporate sustainability considerations into their strategic decision-making, risk management, and financial statements. They want to know how a company's sustainability plans align with its business model and, ultimately, its prospects for creating long-term value.

Arguably, investors are driving the bar higher on sustainability reporting standards. They want clearer, more consistent and more comparable information on the material issues facing companies.

Most investors still think sustainability is important

Our research shows that a substantial majority of investors (70%) continue to advocate for the integration of ESG factors into corporate strategy. While this sentiment isn't as strong compared to previous years, the proportion of investors who *strongly disagree* that sustainability is a crucial factor in their decision-making process has also declined.

This may suggest a more nuanced understanding among investors: they acknowledge the importance of sustainability but have recalibrated their expectations in an environment of rising inflation and macroeconomic volatility.

Climate change risks are a key concern

The share of investors who identified climate change as a key risk for companies surged in the past year to 32%, up from 22%. Clearly, investors are focused on how climate change will impact a company's financial prospects.

Globally, 44% of investors (51% of those investing in Australia) anticipate that climate change will have a sizeable influence on how companies create value over the next three years. It follows that companies will need to demonstrate improved understanding of climate-related risks and opportunities, and how their strategies are proactively aligned.

Investors are continuing to push for clarity that goes beyond today's net zero commitments and want information regarding what those commitments mean over the short, medium and long term.

Demand for comprehensive disclosures

In response to escalating concerns about climate-related risks, investors around the world are increasingly vocal about the need for comprehensive disclosures aligned with the TCFD recommendations relating to governance, strategy, risk management, and metrics and targets.

However, existing disclosures often remain narrative-led, with limited quantitative metrics, primarily focused on greenhouse gas emissions and progress against targets.

There is a growing consensus among investors that this information should be translated into financial terms: more than three-quarters (76%) of investors say it's important to report the cost to meet the sustainability commitments the company has set and 73% say the roadmap to reach those targets should also be disclosed.

A similar proportion (75%) say it's important for companies to report the impact of risks and opportunities in their financial statements.

Assurance as a confidence-building measure

Many investors lack confidence in the sustainability information disclosed by companies. Our research highlights a strong undercurrent of doubt among investors as they assess the reliability of the information they use. Nearly all (94%) of investors believe that corporate reporting on sustainability performance contains at least some level of unsupported claims, often referred to as 'greenwashing'.

These perceptions of greenwashing may explain why investors are looking to regulators and standard setters to create clarity and consistency in corporate reporting.

We know that investor confidence in sustainability reporting grows significantly with assurance. The overwhelming majority of investors (85%) express that 'reasonable assurance' (the level of assurance obtained in an audit of financial statements) would instil confidence to a significant extent.

Investors want assurance practitioners to have:

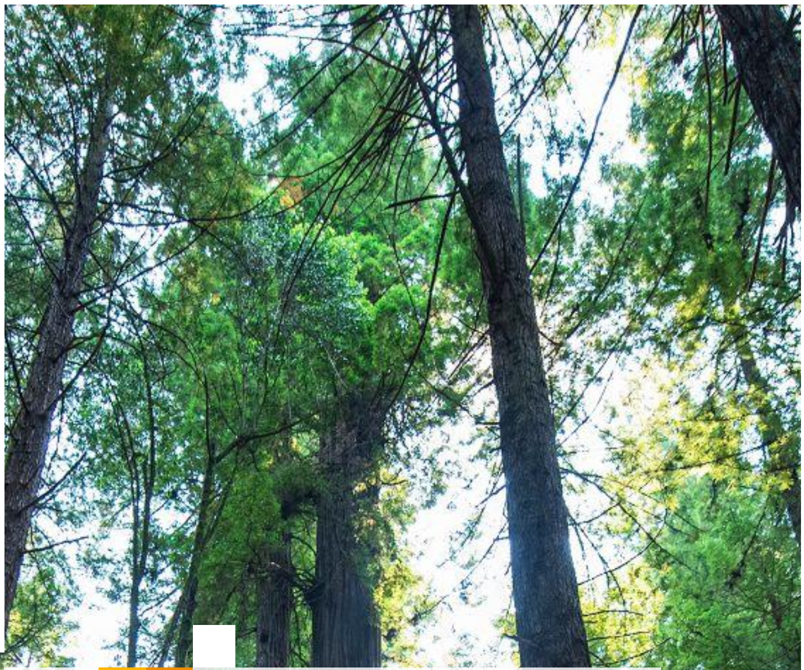
- subject matter expertise
- comprehensive business acuity across all types of reporting
- experience in auditing complex organisations
- proficiency in applying professional scepticism in assessing forward-looking estimates and judgments.

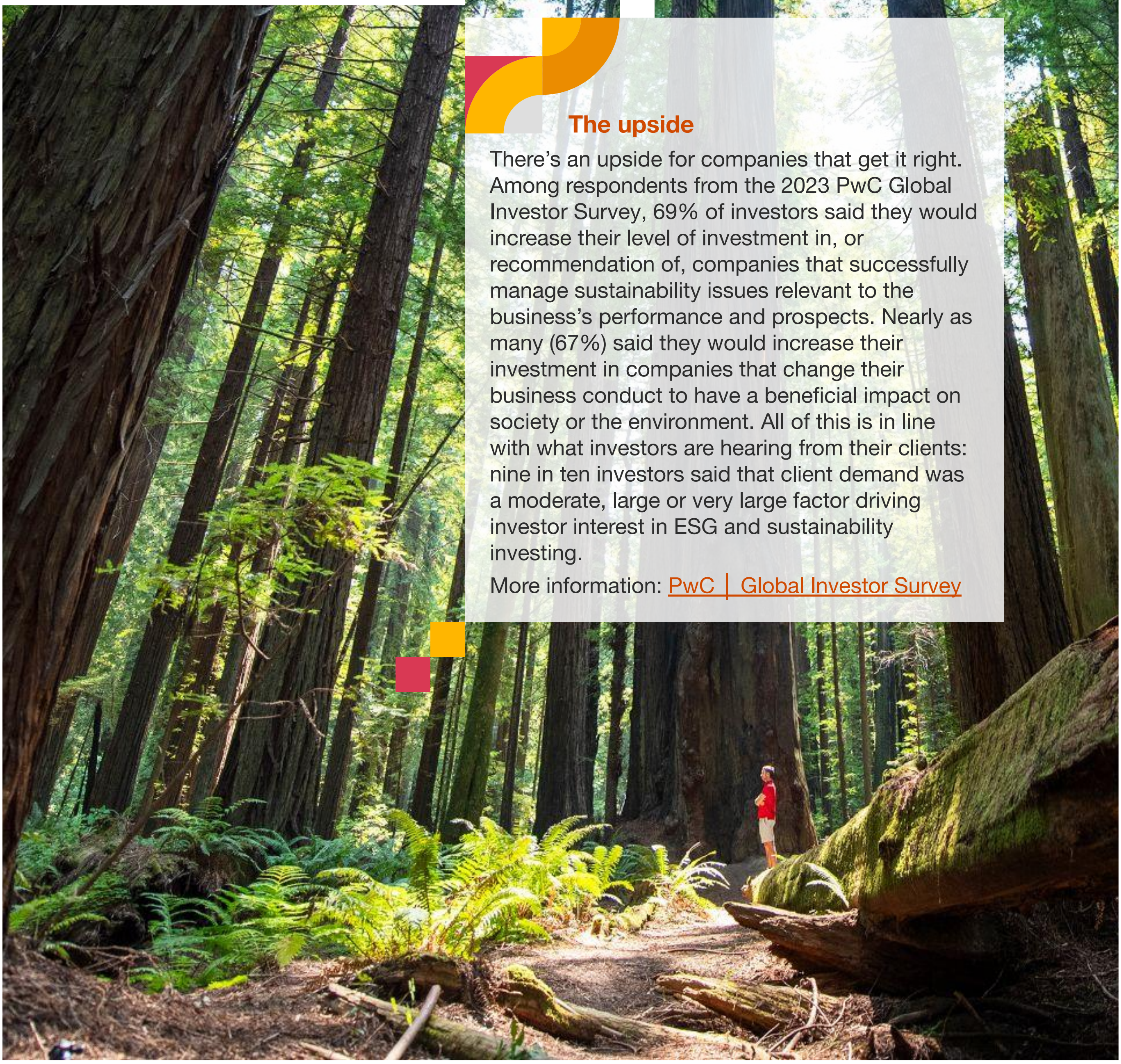
Overall, investors believe the assurance process will be crucial to improving the credibility and reliability of sustainability disclosures – and to bolstering investor trust.

Investors are taking action

When companies falter on sustainability or ESG-related fronts, investors favour direct engagement and seek dialogue with the company (58% of investors said they do this with some frequency). Investors indicated they have also turned to measures such as incorporating progress on meeting ESG targets into executive pay and submitting shareholder resolutions on ESG. Finally, 42% of investors said they have divested their stakes in companies that haven't demonstrated sufficient action.

This proactive approach highlights investors' commitment to driving change and holding companies accountable for their sustainability commitments.





The upside

There's an upside for companies that get it right. Among respondents from the 2023 PwC Global Investor Survey, 69% of investors said they would increase their level of investment in, or recommendation of, companies that successfully manage sustainability issues relevant to the business's performance and prospects. Nearly as many (67%) said they would increase their investment in companies that change their business conduct to have a beneficial impact on society or the environment. All of this is in line with what investors are hearing from their clients: nine in ten investors said that client demand was a moderate, large or very large factor driving investor interest in ESG and sustainability investing.

More information: PwC | Global Investor Survey

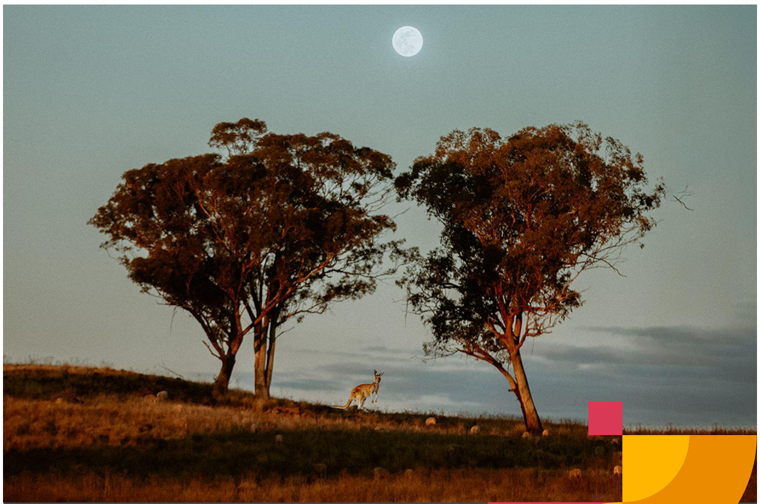
What investors think

94%

believe corporate reporting contains at least some level of **unsupported sustainability claims** (i.e., greenwashing).

85%

say they engage with **companies regularly** or when issues of interest or concern on ESG issues arise.

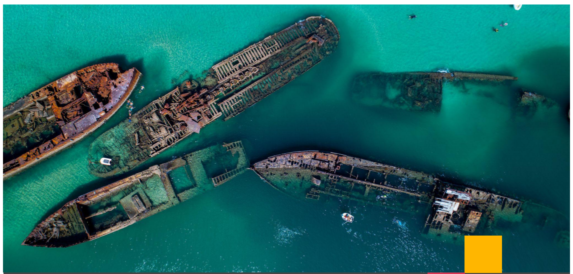


85%

say that reasonable assurance (the level of assurance obtained in an audit of financial statements) would give them **confidence in sustainability reporting**—to a moderate, large or very large extent.

57%

say that if companies meet **upcoming regulations** and standards, this will meet their information needs for decision-making to a large or very large extent.



42%

say they have divested their stakes in companies that haven't **demonstrated sufficient action** on ESG.

50%

say they have sought **inclusion of ESG targets** in executive pay or submitted shareholder resolutions on ESG

What ASX 200 companies are doing:

% separate sustainability reports
72 pages on average

49% **2023**

46% **2022**

% separate climate change reports
46 pages on average

17% **2023** (over half of which were within the ASX50)

10% **2022**

5%
sustainability AND climate change reports

Alignment with voluntary reporting standards demonstrated through use of index tables

45% GRI[1]

30% TCFD[3]

25% SASB standards[8]

Climate-related disclosures within the annual report

85% of annual reports included disclosures relating to climate change

30% of companies mention 'climate change' at least once in the notes to their financial statements and **15%** of companies mention it more than five times.

Assurance over climate-related disclosures

45% of companies obtain independent assurance over some aspect of their climate disclosures

What assurance is being sought across the ASX 200?

	Limited assurance	Reasonable assurance	Total
Scope 1 emissions	32%	8%	40%
Scope 2 location-based emissions	27%	6%	33%
Scope 2 market-based emissions	17%	4%	21%
Scope 3 emissions	21%	3%	24%

1 Global Reporting Initiative
3 Task Force on Climate-related Financial Disclosures
8 Sustainability Accounting Standards Board

Part 2

ASX 200 sustainability reporting trends

It's clear: more investors are recognising the rising significance of climate change risk and its potential implications for the financial performance of companies in which they invest.

So how are Australia's top companies responding to what investors want?

Our analysis reveals that ASX 200 companies are taking positive strides to address investor concerns about climate change impacts on corporate strategy and future company prospects.

While about half of ASX 200 companies continue to prepare 'narrative-led' sustainability reports, an overwhelming 85% of companies now provide at least some information on climate change in their annual report. In addition, nearly half of these companies incorporated climate-related disclosures into their directors' reports in 2023.

Providing information on material climate-related assumptions, uncertainties and judgements used in the preparation of financial statements continues to be important to investors: 30% of companies we surveyed mentioned 'climate change' at least once in the notes to their financial statements, and 15% of companies mentioned it more than five times.

Our analysis also reveals a significant jump in the proportion of ASX 200 companies preparing standalone climate change reports, with figures rising from 10% in 2022 to 17% in 2023. These voluntary reports typically offer insights beyond what is feasible to include in an annual report on elements recommended by the TCFD framework, including governance, strategy, risk management, targets and metrics.

While acknowledging the draft Australian Sustainability Reporting Standards would require a step-change from the voluntary application of the TCFD framework, companies that have proactively prepared voluntary climate reports will likely have a head start in meeting the anticipated climate-related regulatory requirements.

Addressing the trust deficit

Many investors express a lack of confidence in the sustainability information disclosed by Australian companies. The ASX 200 is working hard to close this gap in transparency and reliability, but more needs to be done.

During the past year, only 45% of ASX 200 companies disclosed the outcomes of independent assurance on one or more subject matters relating to their climate change disclosures—a figure consistent with the previous year's findings.

In terms of the subject matter sought for independent assurance, there was a notable focus on Scope 1, Scope 2 and, increasingly, Scope 3 greenhouse gas emissions disclosures. These metrics remain important, but only represent one datapoint for investors to assess potential impacts of climate-related risks and opportunities on a company's performance.

The limited extent and nature of independent assurance provided on other climate-related disclosures perpetuates a gap in investor confidence over the fair and accurate disclosure of material climate-related financial information. Government proposals for the AUASB to establish broader assurance requirements should help to close this gap in the future.

Need to know

- The Australian Government's current proposal that Scope 1 and Scope 2 emissions disclosures be subject to limited assurance for all Group 1 (the largest) entities for the first annual reporting periods starting on or after 1 July 2024 means many ASX 200 companies not currently seeking assurance will need to get ready.
- Mandatory disclosure standards will help provide consistency and comparability in climate disclosures.
- The Auditing and Assurance Standards Board (AUASB) is creating a roadmap to phase in 'reasonable assurance' over climate-related disclosures by 2030.

Companies with existing voluntary climate reports will likely have a head start in meeting the Australian Government's anticipated regulatory requirements.

Part 3

Challenges and opportunities

ASX 200 company directors are arguably facing the most significant change to reporting obligations since the implementation of the International Financial Reporting Standards (IFRS).

While this new wave of change is marked by the complexity of identifying, measuring, recognising, and disclosing a company's climate-related risks and opportunities, the end goal is the same: restoring and maintaining investor confidence.

The draft Australian Sustainability Reporting Standards represent a more prescriptive approach compared to previous reporting frameworks, which in some ways is reassuring for businesses in the consistency it will encourage.

However, given the scale of the proposed task, they introduce a fresh set of complex challenges:

Timing and adoption

As the proposed deadline approaches for the first round of reporters (Group 1) to report for periods starting on or after 1 July 2024, and with the standards still in draft, there is a heightened risk of companies postponing action until the final standards are released. Experience with the introduction of new reporting requirements tells us that early attention allows for a more gradual and considered approach to implementing required changes.

Climate scenario analysis

The new disclosure requirements propose to include climate scenario analysis. Specifically, business resilience will need to be assessed under at least two climate scenarios, one of which must be in line with the most ambitious global temperature goals in the Climate Change Act 2022.

While some companies have conducted scenario analysis voluntarily, many have not. Validating both qualitative and quantitative impacts over specified time horizons will require robust data and methodology, which may introduce additional complexities and subjectivity. Further, these new disclosure requirements may result in a level of detail not previously shared with investors. For this reason, companies must allocate sufficient time and capability to climate scenario development.

Reporting model, systems and capability

Expanded reporting requirements will in some cases involve significant changes across policies, processes, systems, controls and capabilities. Companies will need to consider the resources needed to first implement the changes, and then to satisfy the business requirements on an ongoing basis.

> Translating climate data into financial reporting information will require more collaboration and integration between the sustainability and finance teams.

Estimates and forward-looking informa

The draft standards propose forward-looking statements, which will require substantial (subjective) judgment and assessment in a way that companies haven't seen before. Entities must provide information enabling users to understand the impacts of climate-related risks and opportunities on financial positions, performance, and cash flows – not just for the current reporting period, but also the short, medium and long-term in the future. Disclosing these impacts will involve navigating the treatment of information that is both commercially sensitive, and subject to change with any adjustments to business strategy.

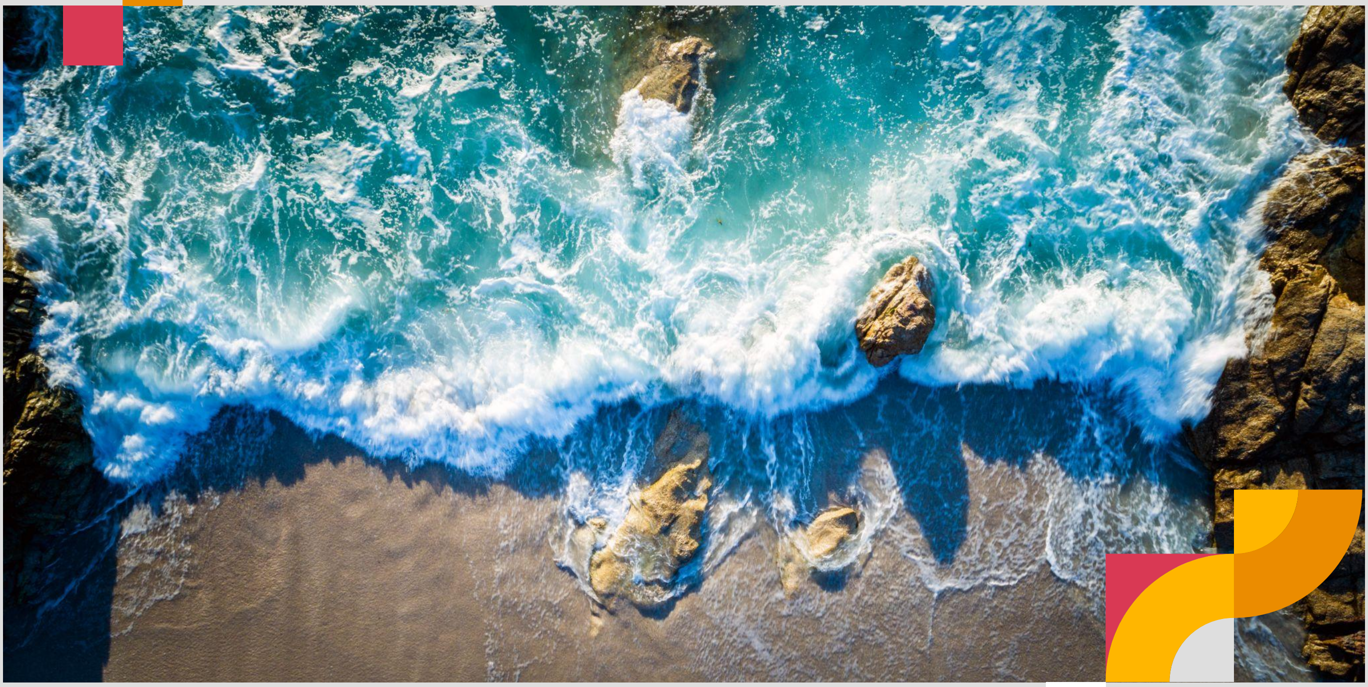
Further, the new requirement to report on Scope 3 GHG emissions means companies will need to obtain data from others within the value chain. Companies will need to overcome current limitations with access to third party data and express significant judgements in the adoption of estimation approaches that provide a faithful representation of their Scope 3 emissions.

Connectivity with financial statements

With ownership of sustainability reporting historically sitting within a company's Sustainability, Investor Relations or Marketing teams, there has typically been little to no integration of sustainability into a company's financial reporting. It follows that translating climate data into financial reporting will require more collaboration and integration between internal departments.

Assurance

Climate disclosures will be subject to similar assurance requirements as financial reports. In addition, directors will be required to sign off on sustainability reporting in their declarations. The intention is to ensure directors engage fully with climate disclosure obligations and support investor confidence in the information disclosed. While the AUASB is working towards phasing-in assurance requirements over time, the message is clear: these disclosures will need to be supportable from Day 1.



Practical Solutions

In light of these challenges, how can ASX200 companies seize the initiative and create value with investors?

As Australia joins the world in galloping towards mandatory sustainability reporting, organisations must quickly adapt to meet the twin challenges of investor and regulatory expectations.

While getting ahead of specific proposed reporting requirements is critical, responding to investor sentiment is a broader exercise that requires some consideration.

This report shows that investors now believe climate change is central to a company's ability to create value. With that in mind, company directors need to demonstrate three things:

1. An understanding of the impacts of climate change on their organisation (both positively and negatively).
2. An appreciation for how the organisation's activities contribute to, minimise, or mitigate climate change.
3. Affirmative action to address the risks and opportunities of climate change adaptation.

If a company fails to demonstrate how their corporate strategy addresses climate change, this will show in their sustainability report, and potentially affect their relationship with investors and the wider community.

On the flipside, robust sustainability reporting could boost a company's value.

Five practical strategies to prepare for mandatory sustainability reporting in Australia:

1. Mobilise a working group

Establish a cross-functional working group for sustainability reporting, led by executive-level sponsorship, and comprising representatives from various functions including sustainability, strategy, finance, risk, legal, and investor relations. Within this group, define roles and governance structures – not just to ensure compliance with new sustainability reporting requirements, but to break down existing reporting siloes.

2. Assess legal and governance options

Assess legal entity size thresholds outlined in the exposure draft legislation and their relevance to your business. Monitor sustainability reporting requirements in jurisdictions where your company operates (e.g. the EU, NZ, UK, and USA), considering potential differences in measurement criteria and any challenges with record-keeping. Also consider emerging risks associated with greenwashing across different publications. Educate directors and management on sustainability reporting requirements and associated governance risks.

3. Perform a gap analysis

Conduct a comprehensive gap analysis between existing reporting practices and the proposed requirements outlined in the draft Australian Sustainability Reporting standards with a clear focus on how climate change could change how you create value within the business. Evaluate potential gaps in disclosure practices, as well as reporting policies and processes – including those arising from other jurisdictions. This analysis should reveal the steps needed to improve climate governance, strategy, risk management, metrics, and targets. It should also identify which systems, processes and controls will need to be introduced or changed to meet future disclosure requirements.

4. Build a 'value creation' roadmap

Align priorities and develop a 'value creation' roadmap focused on clear public-facing outcomes. Ladder up the necessary changes to systems, processes and controls, and go one step deeper to identify the capabilities and talent required for the business transformation. Establish project milestones, workstreams, and resource allocation to ensure seamless implementation before the initial reporting date. Agree on auditor engagement and pre-assurance activities in line with implementation dates and assurance requirement timelines. To instill investor confidence, the roadmap should have public-facing milestones and targets that support your stated outcomes.

5. Manage internal and external reporting

Report regularly to the Executive and the Board as part of the planning process. Where commitments have been made or forward-looking statements are disclosed, ensure monitoring and internal reporting mechanisms are in place to meet continuous disclosure obligations. Any changes to projections or impacts will need to be reported. Embedding these monitoring capabilities into systems, processes, and controls upfront will be a critical success factor, and a competitive advantage.

> Disclosure is simply telling the story of the work you have done. If you fail to demonstrate a compelling understanding of climate change and how your company is responding to it, this will show in your sustainability report."

Caroline Mara
Partner | PwC Australia

Conclusion

Sustainability reporting has reached a tipping point, driven by escalating demands from investors seeking more robust demonstrations of a company's sustainability risks, opportunities and impacts, and the need for higher quality, readily comparable financial information.

With Australia poised to implement mandatory climate-related financial disclosures this year, ASX 200 companies require transformational change to adapt. Non-compliance will carry tangible risks, including reputational harm and legal consequences.

There are many challenges to overcome, chief among them the transparency and reliability of reportable data across the value chain. Companies without robust processes in place to meet the proposed reporting standards may need to establish or re-align policies and procedures, systems, controls and capabilities into a new fit-for-purpose reporting model.

However, as this report shows, there are also opportunities for companies that approach sustainability reporting through the lens of long-term value creation. These companies are not only better placed to meet imminent compliance requirements, but they are also on a path to build greater competitiveness, resilience and stakeholder trust in their organisations.

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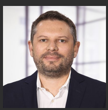

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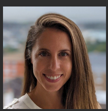

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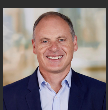

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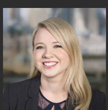

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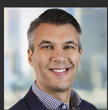

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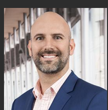

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