Australian Sustainability Reporting is Coming: What Companies Need to Know

The big picture: Australia is moving toward mandatory and standardised climate reporting. At a national level, the Australian Treasury released two consultation papers, and in October, the Australian Accounting Standards Board (AASB) released an exposure draft for Australian Sustainability Reporting Standards (ASRS) which align closely with the ISSB's IFRS S1 and IFRS S2 standards.

A key point: The standards in public discussion are comprehensive in scope, mandatory, and affect a large number of companies. Key areas of preparation include Scope 1, 2 and 3 emissions reporting, materiality of issues, scenario analysis and assurance readiness.

The bottom line: Australian companies covered by the ASRS standards have a narrow window to understand the requirements and to start developing the methodologies, tools and processes for climate-related disclosures. For many companies, this will require significant effort to find and capture data while building process and control structures that can support independent assurance.

Go deeper.

The Conference of Parties (COP) 26 in Glasgow in 2021 saw Australia formally sign up to a target of net zero emissions by 2050, and the launch of the International Sustainability Standards Board (ISSB) the following year foreshadowed the introduction of global sustainability reporting standards. On 26th June 2023, the ISSB released the inaugural IFRS global sustainability standards (IFRS S1 & S2). Now, countries around the world, including Australia, have begun to implement sustainability legislation to meet their target commitment, and reporting standards for entities modelled on the ISSB standards to ensure that the industries driving local and global economies are at the forefront of responsibility and change with regard to sustainability and climate, in particular.

Australia is currently in the process of finalising its mandatory reporting legislation after a series of steps by the government. Actions to date include:

- **The Australian Treasury released two consultation papers on Climate Related Financial Disclosures** — in December 2022 and June 2023, seeking input before closing the comment period in July 2023. The papers proposed an approach to climate reporting based on the principles of alignment with the 2050 net-zero goal; transparency, standardisation and clarity of the information presented; alignment with global reporting standards; adaptability and flexibility; and proportionality to risk.
- **The Australian government announced $6.2 million in its 2023-24 federal budget for the development and introduction of climate reporting standards** for large businesses and financial institutions, in line with international reporting requirements — indicating a strong commitment to this matter and an intention to make it a priority focus for businesses.
- **In October 2023, the Australian Accounting Standards Board (AASB) released an Exposure Draft, SR1 Australian Sustainability Reporting Standards — Disclosure of Climate-Related Financial Information.** The draft includes three draft standards based on the ISSB S1 and S2 standards released in June 2023:
  - **ASR1** — General Requirements of Disclosure based on IFRS S1 but limited to climate-related disclosures
  - **ASR2** — Climate-Related Financial Disclosures based on IFRS S2
  - **ASRS101** — References in Australian Sustainability Reporting Standards, which lists non-legislative documents that can be used as reference points.

  The proposed standards will be mandatory and are intended to go beyond the current practice, where entities are required to consider climate-related disclosures in their financial statements, to a set of standards that establish consistent and comparable reporting on climate-related disclosure.

While the final legislation and standards by AASB are pending (the comment period on the standards closes on 1 March, 2024), these actions — and the speed with which they are occurring — leave little doubt that Australian corporations need to prepare for mandatory sustainability reporting immediately.

Phased Approach

Group 1	Group 2	Group 3
2024 — 2025	**2026 — 2027**	**2027 — 2028 onwards**
Entities required to report under Ch 2M of the Corporations Act that fulfill two of three criteria:	Entities required to report under Ch 2M of the Corporations Act that fulfill two of three criteria:	Entities required to report under Ch 2M of the Corporations Act that fulfill two of three criteria:
• Over **500 employees**	• Over **250 employees**	• Over **100 employees**
• **$1 billion** or more in **consolidated gross assets** at EOFY; or	• **$500 million** or more in **consolidated gross assets** at EOFY; or	• **$25 million** or more in **consolidated gross assets** at EOFY; or
• **$500 million** or more in **consolidated revenue** at EOFY	• **$200 million** or more in **consolidated revenue** at EOFY	• **$50 million** or more in **consolidated revenue** at EOFY
AND	AND	AND
Entities that are "controlling corporation"under the NGER Act and meet the NGER publication threshold.	Entities that are "controlling corporation"under the NGER Act and meet the NGER publication threshold.	Entities that are "controlling corporation"under the NGER Act.

Source: Exposure Draft ED SR1 Sustainability Reporting

Which corporations will be subject to these mandatory reporting requirements?

According to the second consultation paper by the Australian Treasury, the following corporations are proposed to be treated as "reporting entities":

Other entities impacted: It should be noted that all entities that are required to report under Chapter 2M of the Corporations Act and/or that are registered as a "Controlling Corporation" reporting under the National Greenhouse and Energy Reporting Act 2007 (Cth) would be covered under climate-related risk disclosures requirements discussed here, even if they do not meet the thresholds above.

The proposed legislation will cover both profit and nonprofit entities although for Commonwealth Entities, climate-related disclosures are being considered by the Department of Finance.

What should companies be prepared for? — Special points of focus

Framework

The proposed reporting framework aligns to the four pillars within the Task Force on Climate-Related Financial Disclosures (TCFD) requirements, namely governance, strategy, risk management, and metrics and targets. A company should consider these pillars in the context of what may reasonably impact its assets, liabilities, cash flows, access to finance or cost of capital over the short, medium and long term.

Greenhouse gas emissions

The exposure draft prioritises greenhouse gas emissions, which will require measurement in line with the current National Greenhouse and Energy Reporting Scheme (NGERS) legislation. This will include scope 1 and scope 2 emissions at first, and scope 3 emissions over time.

Materiality

The ASRS include the materiality concept in alignment with accounting standards. In the context of climate-related financial disclosures, information is material if it could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of it. As such, climate-related material information should not be omitted, misstated or obscured.

The concept of double materiality — where an entity considers both the impact a company has on climate emissions and the impact change in climate may have on the company — can be considered but is not currently required by the legislation. A single materiality metric is currently preferred by the Treasury, focusing on the risks and opportunities that climate has on an entity's prospects.

Note: If there is no impact on the company from climate, then the company is required to state that fact.

Timing and location of reporting

Climate disclosures will need to be presented at the same time and within the same period as a company's general financial disclosures. It will need to be included with the general-purpose financial statements although information can be cross-referenced with another report released at the same time.

Scenario analysis

The exposure draft envisages a company performing at least two scenarios of possible future-state climate emissions, with one of these being aligned to the 1.5° C temperature goal in the Climate Change Act 2022.

Assurance

Companies should be prepared for independent assurance over the climate-related disclosures they make. The level of assurance is likely to move from limited to reasonable assurance over time.

Final thoughts

The ASRS will introduce extensive sustainability disclosure requirements for more organisations than ever before. Companies must act quickly to prepare for the new regimen and treat it with the same importance as financial disclosures. If they have not done so already, organisations need to make sustainability a priority of their business and decision-making models while establishing transparency in their activities, impacts and risks/opportunities.

To properly prepare, Protiviti recommends that organisations take the following steps:

- Assess the current status, prepare a materiality assessment and establish a solid sustainability strategy to comply with upcoming reporting requirements
- Understand the required metrics responsive to that strategy and the reporting rules
- Establish the reporting structures for the ability to execute the strategy and produce the required information
- Establish a project plan to complete a compliant sustainability report
- Engage with auditors early to understand the scope and approach they will take to providing assurance over the reports

The adoption of ASRS will continue to foster consolidation and alignment of reporting frameworks — a welcome development. In applying the standards, companies should seize an opportunity to be not just compliant, but also impactful.

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