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Sustainability and climate-related disclosures

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A new era for sustainability reporting

January 2025 marked the start of a new era of sustainability reporting in Australia with the introduction of mandatory reporting in accordance with the Australian Sustainability Reporting Standards (**ASRS**). Eventually covering all large companies and SMEs, the reporting requirements will require businesses to make annual disclosures on greenhouse gas emissions and climate resilience.

The mandating of reporting in accordance with the ASRS has been introduced through a series of amendments to the *Corporations Act 2001* (Cth) (**Corporations Act**), ensuring that companies' obligations to report on sustainability are part of their broader corporate reporting responsibilities.

The passing of the Treasury Laws Amendment (*Financial Market Infrastructure and Other Measures) Bill 2024* (Cth) in September 2024 has resulted in the following amendments:

- Mandatory reporting: Entities meeting reporting thresholds are (or will be) required to include climate-related disclosures in their annual reporting, similar to financial statements and directors' reports, as mandated by the Corporations Act.
- Regulatory oversight: The Australian Securities and Investments Commission (ASIC), which enforces compliance with the Corporations Act, is now responsible for overseeing compliance with the new sustainability reporting standards.
- Consistency and alignment: Sustainability reporting (with regards to emissions and climate risk) will be made more consistent with other corporate reporting requirements, facilitating a comprehensive and coherent approach to corporate disclosures.

The introduction of a mandatory climate reporting regime is part of the Australian Government's strategy for achieving its net-zero target by 2050. It is also related to two global trends:

- consolidation of sustainability reporting to aid financial markets in ESG due diligence and decision making
- transition from voluntary to mandatory reporting regimes of climate-related financial disclosure.

What are the Australian Sustainability Reporting Standards?

The ASRS is a suite of standards that set requirements for sustainability and climate-related financial disclosures across Australia:

- AASB S1 General Requirements for Disclosure of Sustainability-related Financial Information [voluntary standard]
- AASB S2 Climate-related Disclosures [mandatory where applicable].

The new standards will align company reporting in Australia with global best practice as defined by the International Sustainability Standards Board (**ISSB**).

In 2023, the ISSB published comprehensive sustainability-related disclosure standards, specifically the International Financial Reporting Standards (**IFRS**):

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2 Climate-related Disclosures.

The ASRS has been developed by the Australian Accounting Standards Board having regard to the IFRS S1 and IFRS S2.

The ASRS will enable clear and structured reporting on how sustainability and climate-related risks and opportunities affect a company's enterprise value.

Disclosures will include information relating to governance, strategy, risk management, and metrics and targets.

As well as facilitating commercial assurance and due diligence efforts, reporting in alignment with the AASB S2 will help regulators to assess and manage systemic climate-related risks to the financial system. It will also support regulators and importantly, investors, to assess efforts that businesses take to mitigate those risks.

What will be required in ASRS disclosures?

	AASB S1 General Requirements for Disclosure of Sustainability-related Financial Information	AASB S2 Climate-related Disclosures
Governance	• The company's governance around sustainability-related risks and opportunities. • Board oversight and management's role in assessing and managing these risks and opportunities.	• The company's governance around climate-related risks and opportunities. • Board oversight and management's role in assessing and managing these risks and opportunities.
Strategy	• The actual and potential impacts of sustainability-related risks and opportunities on the organisation's business model and value chain, strategy and decision making, and finances. • The resilience of the entity's strategy and business model to those sustainability-related risks.	• The actual and potential climate-related risks and opportunities on the organisation's business model and value chain, strategy and decision making, and finances. This includes both physical risks (e.g. extreme weather events) and transition risks (e.g. policy changes, market shifts). • The climate resilience of the entity's strategy and its business model to climate-related changes, developments and uncertainties. Climate resilience assessments need to be undertaken considering at least two possible future scenarios, being a low emissions scenario where warming is limited to 1.5°C above pre-industrial levels, and a high emissions scenario where global temperatures exceed 2°C.*
Risk management	• The processes and policies used to identify, assess, prioritise and monitor sustainability-related risks, including scenario analysis. • How these processes are integrated into the organisation's overall risk management framework.	• The processes and policies used to identify, assess, and manage climate-related risks, including scenario analysis. • How these processes are integrated into the organisation's overall risk management process.
Metrics and targets	For each sustainability-related risk and opportunity: • metrics required by an applicable ASRS (e.g. AASB S2), or other relevant standard where there is no applicable ASRS • metrics the entity uses to measure and monitor sustainability-related risks or opportunities, and its performance (including progress towards any targets).	• Greenhouse gas emissions: Scope 1 and scope 2 (from the first year of reporting) and scope 3 (from the second year). • The targets used to manage climate-related risks and opportunities and performance against these targets. ** Note: To align with IFRS S2, AASB S2 does not prescribe number of scenarios or temperature goals for climate-resilience assessments, and requires scenarios to be relevant to their circumstances. However, scenario requirements have been set by the Corporations Act 2001 with reference to the Climate Change Act 2022.*

AASB S2 mandatory reporting

Which companies will be impacted and when?

Mandatory climate-related financial disclosures are being phased in over a three-year period, which began on 1 January 2025. Commencement of obligations depend on entity size and their level of greenhouse gas emissions.

Table 1 outlines when entities must commence mandatory disclosure, on the assumption they are required to prepare and lodge annual reports under Chapter 2M of the Corporations Act. Entities have been categorised into three groups (Group 1, Group 2, and Group 3) based on their revenue, asset value, number of employees, and greenhouse gas emissions.

Reporting is not required for entities that are:

- exempt from preparing financial reports under Chapter 2M of the Corporations Act
- of small to medium size, which fall below the reporting threshold, and are not a NGER reporter (see Table 1)
- registered charities with the Australian Charities and Not-for-profits Commission (ACNC).

Mandatory reporting will come into effect for the first annual reporting periods starting on or after:

- 1 January 2025 (Group 1)
- 1 July 2026 (Group 2)
- 1 July 2027 (Group 3).

AASB S2 reporting requirements

Under AASB S2, climate-related financial disclosures will be reported in the form of a sustainability report, as part of the entity's annual report. Disclosure information may also be included by cross-reference to another report published by the same entity. Guidance on this is expected to be provided by ASIC during Q1 2025.

In certain circumstances, a company can declare that a topic (e.g., emissions or climate resilience) is not material to its business, meaning it does not need to report on it.

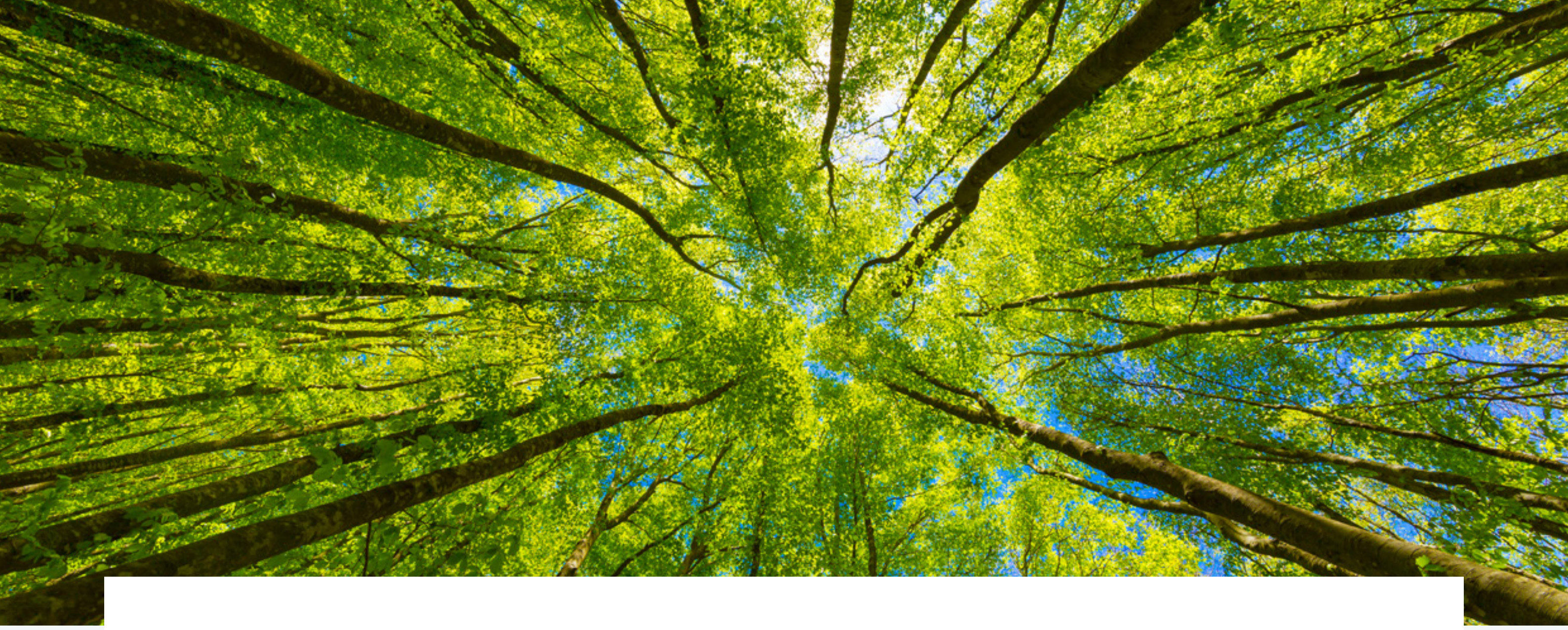
Information should be treated as material (and would need to be disclosed in a report) if it could reasonably be expected that a person making a decision on the basis of the report would be influenced one way or another if that information were omitted, misstated or obscured.

The reporting period for mandatory climate-related disclosures is the same as an entity's full financial reporting period. For example, the first reporting period for entities in Group 1 who report in line with the Australian financial year, will be 1 July 2025 to 30 June 2026 (FY26).

Table 1. Entities in scope and phasing of mandatory reporting

First annual reporting periods starting on or after	Reporting thresholds (requires meeting two of three criteria)			National Greenhouse and Energy Reporting National Greenhouse and National Greenhouse and Energy Reporting (NGER) Reporters	Asset Owners
	Consolidated revenue	EOFY consolidated gross assets	EOFY employees*		
1 January 2025 (Group 1)	$500 million or more	$1 billion or more	500 or more	Above NGER publication threshold OR meets Group 1 reporting thresholds	Not included in Group 1
1 July 2026 (Group 2)	$200 million or more	$500 million or more	250 or more	All other NGER reporters	> $5 billion assets under management OR meets Group 2 reporting thresholds
1 July 2027 (Group 3)	$50 million or more	$25 million or more	100 or more	N/A	Meets Group 3 reporting thresholds

*when determining the number of employees of an entity, part-time employees should be counted as an appropriate fraction of a full-time equivalent.



Auditing and assurance

Like any other content within a financial report, the new ASRS disclosures would also require assurance by the auditor of the financial report in accordance with auditing standards made by the Auditing and Assurance Standards Board (AUASB).

AUASB is proposing phasing in of mandatory assurance over the new ASRS disclosures in any financial reports. The development of assurance standards is currently in consultation phase seeking information to assist in developing the assurance standards (AUASB 2024). While limited assurance may be required for scope 1 and 2 emissions from Group 1 entities, this is dependent on the development of the standards, and mandatory assurance is not expected until 1 July 2030.

Modified liability during transition

Ultimately, the new ASRS disclosures will be subject to the same liability framework as currently applies to financial disclosures under the Corporations Act and *Australian Securities and Investments Commission Act 2001* (Cth), including director's duties, prohibitions on misleading and deceptive conduct and general disclosure requirements. Among these are the requirement that a company must not make a forward-looking statement about a future matter without reasonable grounds.

However, in order to allow reporting entities and their officers time to fully familiarise themselves with the requirements of the new regime and undertake the internal assessments necessary to meet their obligations, certain liabilities that generally apply to corporate reporting have been modified in respect of certain "protected statements" made as part of the climate disclosures.

"Protected statements" are statements made in a sustainability report within the transitional period, or an auditor's report of audits or reviews of such sustainability reports, which are about any of the following:

- scope 3 greenhouse gas emissions including financed emissions
- scenario analysis
- a transition plan.

Climate-related forward-looking statements are also "protected statements".

Other than action by ASIC and criminal action, no legal action may be brought in relation to the following "protected statements":

- scope 3 greenhouse gas emissions, scenario analysis and transition plan (for reports for financial years beginning between 1 January 2025 and 31 December 2027)
- climate-related forward looking statements (for reports for financial years beginning between 1 January 2025 and 31 December 2025).

How to prepare for mandatory climate-related reporting

Understand where your company sits within the new AASB S2 regime.

- Review your entity's size and greenhouse gas emissions to determine when your entity needs to start reporting (refer to Table 1).
- Undertake an AASB S2 readiness assessment to identify how your entity's current assurance and reporting activities are positioned to meet the new reporting requirements, and where additional capacity may be required.

Establish baseline climate data for disclosures.

- Undertake new or expanded assessments and research to establish baseline climate data for disclosures. As a starting point:
    - undertake a third-party review of company-level scope 1 and 2 emissions
    - initiate mapping of scope 3 emissions
    - undertake a company-level Climate Change Risk Assessment.

Integrate AASB S2 into business processes.

- Build climate baseline assessment results into business and financial planning.
- Begin preparations for disclosure by developing a 'practice' sustainability report to capture reporting data and identify information gaps.

For support, speak to JBS&G and Finlaysons

JBS&G and Finlaysons are working together to provide integrated support throughout the ASRS readiness, integration and disclosure phases. We have the technical expertise and experience to support your business in meeting and exceeding the new ASRS requirements.

Speak to us now.

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