

Unpacking Australian Sustainability Reporting

What's really required?



Contents

Unpacking Australian Sustainability Reporting

What’s really required?	2
How to use this guide	3
Section 1: Legislative requirements	4
Entities required to prepare an annual sustainability report	4
Requirements of the legislation	5
Contents of the Sustainability Report	6
Directors’ Declaration	7
Legal liability transitional provisions	8
Assurance of the Sustainability Report	10
Timeline for extent of assurance	11
ASSA 5000 Assurance standard	11
Sustainability records	13
ASIC’s Regulatory Guidance	14
Section 2: Disclosure requirements	16
Australian Sustainability Reporting Standards (ASRS)	16
AASB S2 <i>Climate-related Disclosures</i>	17
Climate-related risks or opportunities	17

Governance (AASB S2.5–Aus7.1)	20
Strategy (AASB S2.8–Aus23.1)	22
Risk management (AASB S2.24–Aus26.1)	23
Metrics & targets (AASB S2.27–Aus37.1)	27
<i>AASB S2 & the Greenhouse Gas Protocol</i>	30
General Requirements (AASB S2, Appendix D)	33
IFRS Sustainability Disclosure Standards	38
Section 3: Preparing for reporting	39
Illustrative example: Preparing for reporting	40
Grant Thornton Australia’s sustainability reporting services	44

What's really required?

Mandatory climate-related financial disclosures are now required in Australian corporate reporting.

There are, broadly speaking, three components to the regime:

- Legislative amendments to the Corporations Act 2001 (the “Corporations Act” or “the Act”)
- Sustainability reporting standard(s)
- Assurance standards.

Separate to these three elements is also the regulator, ASIC, which has the responsibility of regulating entities that are required to lodge financial and sustainability reports with them.

The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* (the Act) amends the Corporations Act to introduce mandatory climate-related financial disclosure requirements for entities meeting certain criteria.

In addition to the legislation are the inaugural Australian Sustainability Reporting Standards (ASRS) issued by the Australian Accounting Standards Board (AASB):

- AASB S1 *General Requirements for the Disclosure of Sustainability-related Financial Information*; and
- AASB S2 *Climate-related Disclosures*.

Only one of the standards, AASB S2 *Climate-related Disclosures* (AASB S2), is required for Corporations Act reporting. AASB S1 is a voluntary standard that entities may elect to adopt.

There are the inaugural Australian Standards on Sustainability Assurance (ASSA) issued by Auditing and Assurance Standards Board (AUASB):

- ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*
- ASSA 5000 *General Requirements for Sustainability Assurance Engagements*

ASIC has also published a regulatory guide RG 280 *Sustainability Reporting*. The regulatory guide explains ASIC's interpretation of the sustainability reporting requirements under the Corporations Act and how they intend to administer and enforce the requirements of the Corporations Act as it relates to sustainability reporting.

“The growing interest in environmental, social, and governance (ESG) issues is driving the biggest changes to financial reporting and disclosure standards in a generation.”

ASIC Chair Joe Longo

Keynote speech at the Deakin Law School International Sustainability Reporting Forum on 22 April 2024



How to use this guide

Even for entities that have previously done some form of climate-related or sustainability reporting, preparing for reporting in line with the requirements is complex, and it takes time to implement the appropriate processes and controls. In addition, gathering the necessary data, and/or developing the internal capabilities required to complete the reporting in line with the requirements needs to be developed, which requires a proactive, and structured approach to preparing for reporting.

This guide unpacks the requirements of the legislation, the standard AASB S2 *Climate-related Disclosures*, and highlights key considerations, frequently asked questions and practical application issues encountered in preparing a Sustainability Report.

This guide is structured as follows:

- **Section 1** is focused on the legislative requirements of sustainability reporting under the Corporations Act. This includes explaining the interaction of the legislation, the sustainability reporting standard issued by the AASB, and the sustainability assurance standards issued by the AUASB. This also includes information on the regulatory guidance issued by ASIC.
- **Section 2** is focused on the disclosure requirements of AASB S2 *Climate-related Disclosures*. The guidance contains an overview of the disclosure requirements of each of the four pillars of disclosure: Governance, Strategy, Risk Management, and Metrics and targets. It also includes an explanation of the Australian-specific Appendix D to AASB S2, which contains general requirements for the disclosure of climate-related financial information. Accompanying each section are:
 - visual aids for each disclosure pillar
 - a list of the main disclosures
 - questions to consider in preparation for reporting
- **Section 3** outlines suggested steps to prepare for sustainability reporting, using an illustrative example company.

Information in this guide is substantially based on the following documents:

- *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024*
- ASIC Regulatory Guide RG 280 *Sustainability Reporting*
- AASB S2 *Climate-related Disclosures*
- ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001

This guide has been prepared for general guidance only and does not constitute professional advice. Examples contained in this publication are illustrative and do not represent the only manner in which an entity's reporting obligations may be met.

The information contained in this guide is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that it is accurate at the date of publication or that it will be accurate in the future. The information in this guide is not intended to serve as legal, accounting, financial or tax advice. No one is entitled to rely on this information and no one should act on it without professional advice.

While all reasonable care has been used in the preparation of this document, to the extent permitted by law, Grant Thornton Australia Limited and its respective officers, employees, agents and advisers give no warranty of accuracy or reliability and accept no responsibility for any errors or omissions, including by reason of negligence, and shall not be liable for any loss or damage whether direct, indirect or consequential arising out of, or in connection with, any use of, or reliance on, the information contained in this document.

Section 1: Legislative requirements

Entities required to prepare an annual sustainability report

The Act implements annual climate-related reporting for entities meeting certain criteria that prepare annual reports under Chapter 2M of the Corporations Act, or have emissions reporting obligations under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act). The criteria for entities in scope of the legislation is contained in section 292A of the Act.

Entities may be captured by any of the following three ways, assessed at financial year end:

- meeting any two of three thresholds as shown in the table below;
- being a registered corporation under the NGER Act, or an entity required to register under the NGER Act; or
- being a registered scheme, registrable superannuation entity, or retail corporate collective investment vehicle (CCIV), with consolidated assets in excess of the threshold shown in the table below.

Once an entity is in-scope of the legislation, the sustainability report is an annual requirement, unless they no longer meet the criteria. An entity needs to carefully assess their legal reporting obligations for compliance. An entity that is uncertain as to their legal obligations to prepare a sustainability report should seek legal advice.

The starting date from which entities will be required to prepare an annual sustainability report will be phased in over a period of four years, in three groups as shown below.

Financial year commences on or after	Entities meeting at least 2 of the 3 thresholds			NGER Registered entities	Registered schemes, registrable superannuation entities, retail CCIVs
	Consolidated revenue	Consolidated gross assets	Employees (FTE)		
1 January 2025 Group 1	\$500m or more	\$1b or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	\$200m or more	\$500m or more	250 or more	All other NGER reporters	\$5b of consolidated assets or more
1 July 2027 Group 3	\$50m AUD or more	\$25m or more	100 or more	N/A	N/A

FAQ 1.01: What happens if the entity grows above a threshold during a financial year?

The thresholds apply to the consolidated revenue, gross assets and FTE of an entity as at financial year end. Therefore, if there is a possibility that an entity may be obligated to report by the end of the financial year, it is our view that the entity should prepare as though it will be required to prepare a Sustainability Report for that financial year.

This also applies if an entity is contemplating any mergers & acquisitions transactions that may cause it to be registered under the NGER Act, exceed the thresholds, or restructure in such a way as to bring it into scope for sustainability reporting (see also ASIC Regulatory guidance RG 280).

FAQ 1.02: Are not-for-profit entities excluded from the scope of the legislation?

The proposed requirements apply to entities that prepare annual reports under Chapter 2M of the Corporations Act, or are registered corporations under NGER Act.

Part 2M.1 – Part 2M.3 reporting obligations under the Corporations Act do not apply to entities that are registered with the Australian Charities and Not-for-Profits Commission (ACNC). Therefore, a not-for-profit entity registered with the ACNC is exempt.

However, this exemption does not apply to all not-for-profit entities. A not-for-profit entity that is not registered with the ACNC may have sustainability reporting obligations under the Corporations Act. An entity needs to carefully assess their legal reporting obligations for compliance.

FAQ 1.03: What if multiple entities in a consolidated group are in-scope for reporting?

Each individual entity that meets the criteria to be considered in-scope of the legislation has the obligation to prepare an annual report under Chapter 2M of the Corporations Act. However there is some relief outlined within s292A(2) *Who has to prepare annual sustainability reports* of the Act.

Subsection 292A(2) outlines that if accounting standards require an entity to prepare consolidated financial statements (i.e. the parent entity) and the parent entity elects to prepare a consolidated sustainability report, then the parent entity is the only entity in the consolidated group that must prepare a sustainability report.

FAQ 1.04: What if the entity has ASIC relief from preparation of a financial report?

Entities that currently rely on relief from the requirement to prepare a financial report under a legislative instrument are not required to prepare a sustainability report. This is because the requirement to prepare an annual sustainability report requires the entity to have an obligation under Ch 2M of the Corporations Act to prepare an annual financial report.

However, if an ASIC instrument provides some other form of financial reporting relief, such as relief to defer financial reporting obligations for a financial year, sustainability reporting requirements will continue to apply unless relief in relation to those requirements is also granted.

While ASIC has the discretionary power to grant relief to a reporting entity from the requirement to comply with its sustainability reporting and audit obligations, RG 280 *Sustainability Reporting* clarifies ASIC will not necessarily grant relief merely because a reporting entity has been granted, or has the benefit of, comparable financial reporting or audit relief. Applicants seeking sustainability reporting relief should specifically address why it is appropriate for ASIC to grant the sustainability reporting relief sought. Such applications must be submitted prior to the deadline for lodging the sustainability report.

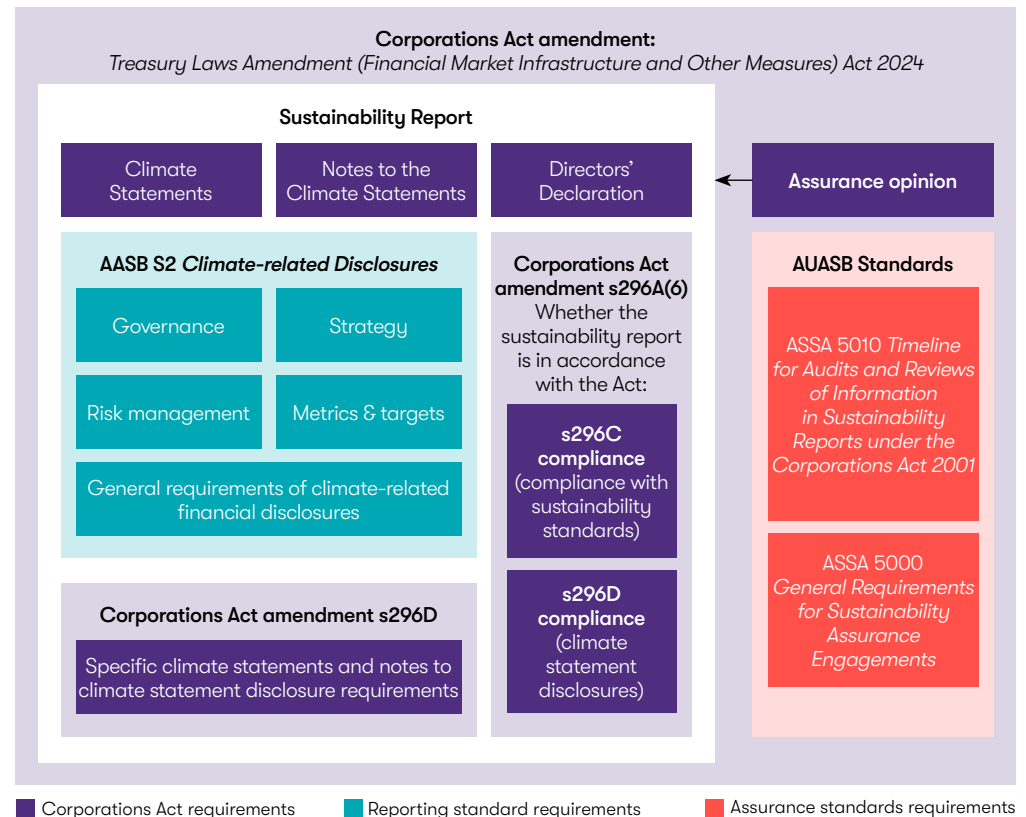
Requirements of the legislation

The legislation requires that:

- all entities required to prepare an annual financial report under Chapter 2M of the Corporations Act, that also meet the criteria previously discussed will be required to prepare an annual Sustainability Report.
- the Sustainability Report for the purposes of the Corporations Act has three parts:
 - the Climate Statements
 - the Notes to the Climate Statements
 - the Directors' Declaration
- the content of the Climate Statements and the Notes to the Climate Statements will include disclosure requirements from both the Corporations Act, and from the sustainability standard made by the AASB (AASB S2 *Climate-related Disclosures*).
- Directors will need to sign a Directors' Declaration in relation to the Sustainability Report

- the Sustainability Report will be subject to assurance provided by the registered company auditor
- the AUASB will set the timeline and extent of assurance and the assurance standard to be applied.

A summary of the requirements are shown in the diagram below:



FAQ 1.05: When does the Sustainability Report have to be lodged?

The Sustainability Report forms part of the annual report and therefore is subject to the same lodgement deadlines as the existing financial statements and annual report under section 319 of the Corporations Act.

‘Climate first, not only’

The Australian Government has focused on implementing climate-related financial disclosures first. Consequently, the Sustainability Report is only required to contain climate-related financial disclosures, and only requires the application of AASB S2 *Climate-related Disclosures*.

However, AASB has also issued AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* as a voluntary standard. AASB S1 addresses sustainability-related financial disclosures in general. It is not currently required for compliance with the Corporations Act in preparing a Sustainability Report.

In June 2024, the Australian Treasury also released the Sustainable Finance Roadmap. That publication notes that the Government is taking a ‘climate first, not only’ approach to sustainable finance, observes that ‘financial markets are increasingly focused on responding to nature-related financial risks and opportunities,’ and has included ‘encouraging nature-related financial disclosures’ as part of its plan to integrate nature-related objectives into sustainable finance.

Contents of the Sustainability Report

The Climate Statements and the Notes to the Climate Statements must together provide the information required by:

- AASB S2 *Climate-related Disclosures*
- Specific disclosure requirements in the Corporations Act.

In general, the specific disclosure requirements in the Corporations Act are incremental to the requirements of AASB S2 and provide clarity as to how certain disclosure requirements of AASB S2 are applied.

Entities will need to consider both sources of disclosure requirements when preparing mandatory climate-related financial disclosures.

Refer to Section 2 of this guide for more detail on the disclosure requirements to be included in the Sustainability Report.

Climate-related reporting and small businesses

Many Australian small businesses may not reach the size thresholds to require the preparation of an annual sustainability report under the Corporations Act. However, such entities may be part of the value chain of a larger business that does have annual sustainability reporting obligations. Some large businesses may request information from entities in their value chain, which means entities not in scope of the legislation may need to gather some climate-related information as part of interacting with their customers or suppliers, even if they do not have any annual sustainability reporting obligations.

In our experience, some of the most commonly requested information relates to greenhouse gas emissions, and general ‘ESG’ or ‘environmental’ policies.

ASIC has also indicated that it will be working with small business representatives to develop practical guidance for small businesses in relation to the requirements of the legislation and how the legislation may impact them.

Directors' Declaration

The Directors' Declaration is a declaration by the Directors as to:

- Whether, in the Directors' opinion, the substantive provisions of the sustainability report are in accordance with the Corporations Act, including:
 - compliance with the sustainability standards, and any further requirements contained in s296C of the Act
 - compliance with the requirements of the climate statement disclosures, contained in s296D of the Act.

As a transitional provision, the Directors' Declaration made in relation to sustainability reports for financial years commencing between 1 January 2025 and 31 December 2027 are amended such that the declaration becomes:

- Whether, in the Directors' opinion, the entity has taken *reasonable steps* to ensure the substantive provisions of the sustainability report are in accordance with the Corporations Act, including:
 - compliance with the sustainability standards, and any further requirements contained in s296C of the Act; and
 - compliance with the requirements of the climate statement disclosures, contained in s296D of the Act.

This modified declaration reflects the expectation that an entity's maturity for sustainability reporting will develop over time, as will Directors' understanding, experience and capabilities in relation to sustainability reporting.

The declaration must also be:

- made in accordance with a resolution of the Directors;
- specify the date on which the declaration is made; and
- be signed by a Director.

This is similar though not identical to the Directors' Declaration made in relation to the financial report.

NB: The above wording is based on the legislation and ASIC's regulatory guidance.

FAQ 1.06: What are the expectations of Directors?

Directors already have the duty under the Corporations Act to exercise their powers with the care and diligence that a reasonable person would exercise in the circumstances, are applied to sustainability reporting.

RG 280 *Sustainability Reporting* confirms that in discharging their duty of care and diligence, Directors of reporting entities should consider the extent to which climate-related risks could reasonably be expected to affect the reporting entity's prospects.

Directors of reporting entities should require the reporting entity to establish:

- systems that identify, assess and monitor any material climate-related financial risks and opportunities;
- controls, policies and procedures for overseeing, managing and preparing the sustainability report; and for keeping sustainability records.

Legal liability transitional provisions

The Act modifies existing liabilities and offences that apply generally to corporate reporting for a transitional period (modified liability settings). Section 1707D introduces limited immunity for specific statements in sustainability reports.

Specifically, no action, suit or proceeding (collectively 'legal action') is able to be brought against a person or entity in relation to the following 'protected statements' made in those sustainability reports:

- disclosures of scope 3 greenhouse gas emissions;
- disclosures in relation to climate-scenario analysis;
- disclosures about a transition plan (as defined in AASB S2).

This applies to statements in sustainability reports prepared for financial years commencing between 1 January 2025 and 31 December 2027.

Additionally, any climate-related statement about the future in sustainability reports prepared for financial years commencing between 1 January 2025 and 31 December 2025 are considered 'protected statements'. This is only applicable for financial years commencing between 1 January 2025 and 31 December 2025.

The modified liability settings apply to areas generally considered to involve a high degree of judgement, estimates and outcome uncertainty.

The modified liability settings do not apply to an action, suit or proceeding that is criminal in nature, or brought by ASIC.

Importantly, ASIC's regulatory guidance clarifies that these modified liability settings only apply when the statement is *required to be made* under the Corporations Act or Commonwealth Law, and is:

- a. the same as a protected statement; or
- b. differs from a protected statement only in so far as it contains updates or corrections to the protected statement.

The modified liability settings *do not extend to statements voluntarily made outside a sustainability report* where a protected statement is reproduced in an investor presentation or promotional material. Modified liability settings also do not extend where a statement summarises or expands upon the content of a protected statement, where a statement is included by cross-reference in the sustainability report, or where a statement comprises updates or corrections unless those updates or corrections are included in a revised version of a protected statement required to be made under a Commonwealth law.

Proposed extension of modified liability settings

In January 2025, the Australian Treasury released an exposure draft bill to amend the Corporations Act to clarify and extend the limited immunity provisions to all sustainability reports, whether or not required under the Corporations Act. The amendments rectify an unintended drafting outcome. The Explanatory Memorandum to the bill explains that the limited immunity provisions were intended to include voluntary reports and any reports prepared as a condition of, or to obtain the benefit of an exemption granted by ASIC (e.g. under sections 340 or 341 of the Corporations Act).

At date of writing, this bill had not yet been introduced to Parliament.

FAQ 1.07: Does the entity have to publish the Sustainability Report?

Consistent with existing requirements to provide other aspects of the annual report to its members, the reporting entity must provide the sustainability report to its members. For public companies that are required to hold an Annual General Meeting (AGM), the sustainability report must also be presented before the AGM.

If the entity is required to prepare a sustainability report, but is not required to provide this report to its members, then the Act requires that an entity must make its sustainability report publicly available on its website from the day the report is lodged with ASIC.

FAQ 1.08: Does the entity have to publish the Sustainability Report if there are no material financial risks or opportunities relating to climate?

Under AASB S2, an entity must disclose material information about the climate-related risks or opportunities that could reasonably be expected to affect the entity's prospects. Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.

If an entity has made the assessment the entity has no material financial risks or opportunities relating to climate for a financial year, then the climate statements for the financial year must include a statement that there are no material financial risks or opportunities relating to climate and a statement explaining how the entity determined that it has no material financial risks or opportunities relating to climate.

This assessment must be reviewed for each financial year and adequate sustainability records must be kept to substantiate the assessment.

Climate change and Directors' duties

A series of legal opinions from Noel Hutley SC and Sebastian Hartford Davis *Climate Change and Directors' Duties* between 2016 and 2021 (commonly referred to as the Hutley opinions) considered the extent to which the duty of care and diligence imposed upon company Directors by s180(1) of the Corporations Act permits or requires Australian company Directors to respond to climate change risks.

The opinions concluded that company Directors have an elevated duty of care to actively manage climate-related risks as part of their existing Directors' duties under the Corporations Act.

- The 2016 opinion indicated that, in their view, company Directors who failed to consider climate change risks then could be found liable for breaching their duty of care in the future. The opinion noted that company Directors *can*, and in some cases, *should*, be considering the impact on their business of climate change risks.
- The 2019 opinion indicated that it was 'increasingly difficult in our view for Directors of companies of scale to pretend that climate change will *not* intersect with the interests of their firms'.
- The 2021 opinion further indicated that 'the standard of care to be exercised by Directors with respect to climate change has risen and continues to rise'. It also observed growing prevalence of "net zero" commitments and concluded it 'is foreseeable that a company (and its Directors) could be found to have engaged in misleading or deceptive conduct or other breaches of the law by not having had reasonable grounds to support the express and implied representations contained within its net zero commitment'.

In 2023, Sebastian Hartford Davis and Kellie Dyon provided an additional opinion in light of the then-anticipated publication of the IFRS Sustainability Disclosure Standards by the International Sustainability Standards Board (ISSB). The 2023 opinion also noted that the standards required 'disclosure of material information about sustainability risks in a manner which is *broadly* consistent with existing requirements...and requires disclosure of things which in our opinion company Directors should *already* be considering in the proper discharge of their duties as Directors'.

Assurance of the Sustainability Report

The Act gives the AUASB the obligation of making assurance standards to:

- specify the extent to which a sustainability report is required to be reviewed or audited
- enable the review or audit of the sustainability report. Additionally, the Act places some minimum requirements for assurance of the sustainability report including:
- phased approach to auditing, starting with limited assurance and moving towards reasonable assurance for all climate-related disclosures at latest by 1 July 2030. However, the AUASB can specify a requirement for reasonable assurance commencing earlier than this date.
- The same responsibilities and regulatory requirements of the auditor currently existing in relation to the assurance of the financial report are extended to also cover the assurance of the sustainability report.
- The sustainability report will be subject to assurance by a registered company auditor, who must adhere to the standards to be developed by the AUASB.

In September 2024, the International Auditing and Assurance Standards Board (IAASB) issued a new assurance standard ISSA 5000 General Requirements for Sustainability Assurance Engagements. This standard serves as a comprehensive, standalone standard suitable for any sustainability assurance engagements.

ASIC has clarified in their FAQs that:

- Registrable superannuation entities (RSE) are required to appoint the same auditor; and
- Companies, registered schemes or retail CCIVs are not required to appoint the same auditor.

While an entity can choose to have different audit firms appointed for financial reporting audit and sustainability reporting assurance, there are practical challenges that arise. The AUASB released FAQs explaining the practical implications of using the same, or separate lead auditors, or audit firms for the financial and sustainability report.



Timeline for extent of assurance

ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* specifies the extent to which a sustainability report is required to be reviewed or audited during the period from 1 January 2025 to 30 June 2030. From 1 July 2030, all sustainability reports are required to be audited.

The timeline for assurance will phase in, using the same groupings as reporting, as follows:

Financial year commences	Year 1*	Year 2	Year 3	Year 4 onwards
Group 1 reporting entities	1 Jan 2025 – 30 Jun 2026	1 Jul 2026 – 30 Jun 2027	1 Jul 2027 – 30 Jun 2028	1 Jul 2028 onwards
Group 2 reporting entities	1 Jul 2026 – 30 Jun 2027	1 Jul 2027 – 30 Jun 2028	1 Jul 2028 – 30 Jun 2029	1 Jul 2029 onwards
Group 3 reporting entities	1 Jul 2027 – 30 Jun 2028	1 Jul 2028 – 30 Jun 2029	1 Jul 2029 – 30 Jun 2030	1 Jul 2030 onwards

Extent of assurance of Sustainability Report disclosures

Governance	Limited	Limited	Limited	Reasonable
Strategy (risks and opportunities)	Limited**	Limited	Limited	Reasonable
Strategy (climate resilience)	None	Limited	Limited	Reasonable
Risk management	None	Limited	Limited	Reasonable
Scope 1 & 2 greenhouse gas emissions	Limited	Limited	Limited	Reasonable
Scope 3 greenhouse gas emissions	None***	Limited	Limited	Reasonable
Other metrics & targets	None	Limited	Limited	Reasonable

*For Group 1 entities with financial years commencing between 1 Jan 2025 and 30 Jun 2025, they will have two reporting periods with “Year 1” assurance requirements. This is because the Year 2 assurance requirements only affect financial years commencing on or after 1 Jul 2026.

** Assurance requirements will only relate to disclosures prepared for the purposes of complying with AASB S2 paragraphs 9(a), 10(a), and 10(b)

*** In the first annual reporting period in which an entity applies AASB S2, the entity is permitted to use a transition relief that means the entity is not required to disclose its Scope 3 greenhouse gas emissions. See also FAQ 2.06.

It is important to remember that the limited extent of assurance does not remove the obligation of the reporting entity to prepare a Sustainability Report that is compliant with all the requirements of AASB S2 *Climate-related Disclosures*, including those disclosures that are not subject to assurance.

The phasing of assurance will likely result in no assurance being provided over the majority of the Sustainability Report in the first year. Boards may wish to obtain voluntary limited assurance over the rest of the Sustainability Report for their own comfort and oversight. We suggest that entities discuss the proposed scope of assurance work early with your registered auditor.

ASSA 5000 Assurance standard

The AUASB’s issuance of ASSA 5000, the Australian equivalent to ISSA 5000, makes Australia the first jurisdiction internationally to adopt the new assurance standard.

ASSA 5000 is effective for assurance engagements of sustainability information for periods beginning on or after 1 January 2025; or as at a specific date on or after 1 January 2025. This is significantly earlier than the international standard’s effective date of December 2026.

The AUASB is expected to release educational materials in due course.

The overarching requirements of ASSA 5000’s requirements on sustainability assurance largely mimics the existing requirements on the assurance of a financial reports, although certain areas have less extensive requirements for sustainability assurance. The main differences to a financial statement audit which will impact entities include:

- more extensive requirement to evaluate the assurance preconditions prior to the acceptance of the engagement
- independence requirements, including independence requirements for experts
- assurance practitioner’s responsibility to read and consider other information.

Preconditions for a Sustainability Assurance Engagement

ASSA 5000 requires the certain engagement circumstances (preconditions) for Sustainability Assurance Engagements to be present prior to the acceptance of the engagement.

The purpose of preconditions is for the assurance provider to understand whether, among other matters:

- there has been a process by management to identify the sustainability information reported
- the roles and responsibilities of management and those charged with governance are suitable
- management and those charged with governance appear to have a reasonable basis for the sustainability information.

Implications of not meeting the preconditions include:

- If the preconditions are not present, and changes cannot be made to meet the preconditions, the auditor cannot accept the assurance engagement unless required by law or regulation to do so.
- If it is discovered after the acceptance of the engagement that pre-conditions are not present and the matter cannot be satisfactorily resolved, the assurance provider may need to withdraw from the engagement, or a qualified, adverse, or disclaimer of conclusion may be expressed.

The above implications of not meeting the sustainability assurance preconditions may have implications on the assurance provider's ability to accept the financial statement audit.

FAQ 1.09: What is the difference between limited and reasonable assurance?

The requirements under a limited assurance engagement (sometimes referred to as a 'review') are lower than in a reasonable assurance engagement (commonly referred to as an 'audit'). Assurance procedures performed under a limited assurance engagement will likely vary in nature and timing, and are comparatively 'less' in extent.

However, although a limited assurance engagement for a 'Half Year Review' (as commonly performed for listed entities under ASRE 2410 *Review of a Financial Reporting Performed by the Independent Auditor of the Entity*) also provides limited assurance, the extent of work differs significantly. Half Year Review Engagements are ordinarily limited to making enquiries and applying analytical and other review procedures to identify whether anything has come to the auditor's attention that the financial report is not prepared, in all material aspects, in accordance with the applicable financial reporting framework. By contrast, Limited Assurance Sustainability Engagements will still require corroborating sustainability information, however with an extent that is 'less', relative to Reasonable Assurance Engagements.

Independence requirements for sustainability assurance

ASSA 5000 has been amended, following a decision from the AUASB Board on 14 May, to include a direct requirement for assurance providers to apply the current APES 110 *Code for Ethics for Professional Accountants (including Independence Standards)*, replacing what ASSA 5000 previously required, which was to apply Parts 1-4A of APES 110 and Part 5 of the International Ethics Standards Board for Accountants (IESBA) code. Part 5 is a new section to the international independence standards, issued by IESBA in December 2024. The Accounting Professional & Ethical Standards Board (APESB) has proposed to revise APES 110 to include Part 5 with application from years commencing 1 January 2026. The AUASB will consider adopting a revised APES 110 in Australia following its finalisation by the APESB.

The main difference to independence requirements, that part 5 considers include independence requirements for:

- assurance work done over a 'value chain component' (e.g. primary data used in scope 3 emissions)
- both management and auditors' external experts.

Assurance providers may need to perform additional independence checks beyond those performed for the financial statement audit, in order to meet these new requirements.

Auditors' responsibility to read other information

Financial statement auditors have an existing responsibility to read and consider other information, whether financial or non-financial information, included in an entity's annual report. A similar requirement is included in ASSA 5000 for the sustainability assurance provider to read and consider the financial statements, and any disclosures in the sustainability report that are not subject to assurance.

Consequently, both the financial statements and the sustainability report will need to be provided to the sustainability assurance provider, which should be factored into the timeline for reporting.

Additionally, some entities may have historically included a broader 'ESG' report that covered sustainability-related topics other than climate change within the annual report. Such information is also required to be considered by the financial statement auditor.

Additionally, as the financial statement auditor is providing reasonable assurance, whereas the sustainability report auditor is providing limited assurance in the first few years, there may be additional procedures required as part of the financial statement audit to assist the financial statement auditor in meeting their responsibilities.

NB: Where the appointed auditor is an audit firm, rather than an individual, there may be circumstances where the financial statement auditor is a different individual to the sustainability assurance provider.

Sustainability records

Under s285(1)(b) and s286A of the Act, entities that are required to prepare a Sustainability Report for a financial year must keep written sustainability records that correctly explain and record its preparation of the substantive provisions of the sustainability report. As defined by Section 9 of the Act, the sustainability records includes the documents and working papers that explain the methods, assumptions and evidence from which the sustainability report are made up.

As explained in ASIC's regulatory guidance, written sustainability records may include:

- minutes of board or committee meetings
- internal reports or analysis
- reports commissioned by third parties, such as consultants or experts
- greenhouse gas emissions inventories
- source documentation and extracts from the general ledger evidencing climate-related impacts on the entity's financial position, performance and cash flows for the reporting period
- working papers or documents evidencing inputs for, and assumptions used in, the sustainability report
- any assessment undertaken for the purposes of compliance with AASB S2.

ASIC expects that entities should ensure that the sustainability records support the disclosures in the sustainability report. This includes documenting matters of fact and matters of judgement. The sustainability records must be available on request by ASIC, and provided to auditors promptly to support the auditor's report on the sustainability report.

ASIC's Regulatory Guidance

ASIC's Regulatory Guide 280 *Sustainability reporting* was published in March 2025. The guide explains ASIC's interpretation of the sustainability reporting requirements and how they intend to administer and enforce the requirements of the Corporations Act as it relates to sustainability reporting. We have also published a longer technical alert on the regulatory guide available [here](#).

The guide covers four key areas, the first of which is preparing a sustainability report, which elaborates on who must prepare a sustainability report and the processes involved. Key points of clarification include:

- that sustainability reporting requirements crystallise at the end of the year.
- that Directors should understand their existing obligations in light of the sustainability reporting requirements.
- what sustainability records may comprise of.
- in which circumstances consolidated entities or entities that are part of a stapled group would not be required to prepare a sustainability report.
- how and when modified liability settings apply.

The second key area covered by the guide is the content required in the sustainability report, where ASIC provides additional guidance, including:

- that all forward-looking climate information should be based on reasonable grounds and comply with Appendix D of AASB S2.
- how entities that state they have no climate-related financial risks or opportunities should report.
- how entities can cross-reference information in the sustainability report from another document, including when to lodge these other reports with ASIC.
- that entities can disclose voluntary sustainability-related information in the sustainability report, but climate-related financial information should be clearly identifiable.
- the minimum of two climate scenarios required for scenario analysis.
- scope 3 measurement methods permitted and how transition relief applies.
- the proportionality mechanisms and exceptions under AASB S2.

The third key area covered by the guide is sustainability-related financial disclosures outside the sustainability report, which elaborates on ASIC's expectations for entities whose existing disclosure obligations require the inclusion of sustainability-related financial information. ASIC clarifies when:

- listed entities must disclose sustainability-related financial information in the OFR and that the sustainability report cannot form part of the OFR.
- issuers must disclose sustainability-related financial information in a s710 prospectus and how they should consider doing so.
- a PDS must include sustainability-related financial information.



ASIC focus area: administration of the sustainability reporting requirements

ASIC states in its Regulatory Guide that it will take a proportionate and pragmatic approach to supervision and enforcement as the reporting requirements are being phased in.

ASIC may review sustainability reporting and audit files to monitor compliance with the sustainability reporting and audit requirements under the Corporations Act. Where ASIC identifies that a statement in a sustainability report is incorrect, incomplete or misleading in any way, it will engage directly with reporting entities to understand the basis for the relevant disclosures. ASIC is more likely to commence an enforcement investigation where it sees serious or reckless misconduct or where a reporting entity fails to prepare a sustainability report.

ASIC has stated it will undertake an annual surveillance program on sustainability reporting, modelled on its existing annual financial reporting surveillance program. ASIC will publicly report on its findings to drive continued improvement in the reporting standards.

In terms of time extensions and reporting relief, the guide states that ASIC will only grant an extension of time to lodge a sustainability report in rare circumstances. The guide also makes it clear that ASIC will not necessarily grant sustainability reporting relief merely because an entity has been granted, or has the benefit of, comparable financial reporting relief.

Section 2: Disclosure requirements

Australian Sustainability Reporting Standards (ASRS)

The inaugural ASRS issued by the Australian Accounting Standards Board are (AASB):

- AASB S1 *General Requirements for the Disclosure of Sustainability-related Financial Information (AASB S1)*
- AASB S2 *Climate-related Disclosures (AASB S2)*.

Only one of the standards, AASB S2 is required for Corporations Act reporting. AASB S1 is a voluntary standard that entities may elect to adopt.

Both AASB S1 and AASB S2 are based on IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB). However, entities must be aware that compliance with AASB S2 does not equate to compliance with the IFRS Sustainability Disclosure Standards.

More detail on [AASB S1](#) and the [IFRS Sustainability Disclosure Standards](#) is included at the end of this section.



AASB S2 Climate-related Disclosures

AASB S2 sets out disclosure requirements for an entity to provide useful information to primary users of its general purpose financial report about **climate-related risks and opportunities** that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term.

The main climate-related financial disclosure requirements related to four disclosure pillars:

- [Governance](#)
- [Strategy](#)
- [Risk management](#)
- [Metrics & targets](#)

Within these four disclosure pillars, AASB S2 also sets out requirements for climate-related scenario analyses, and disclosure of absolute scope 1, scope 2, and scope 3 greenhouse gas emissions.

AASB S2 also includes [general requirements](#) for the disclosure of climate-related financial information (contained in Appendix D of AASB S2). These general requirements include the conceptual foundations for reporting climate-related disclosures, general requirements such as timing of reporting and comparative information, and requirements related to judgements, uncertainties, and errors.

Climate-related risks or opportunities

The first step of applying AASB S2 requires the entity to identify all climate-related risks and opportunities that could reasonably be expected to affect the entity's cashflows, access to finance, cost of capital, over the short, medium or long term.

Together, these are referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects' (AASB S2.2). This is broadly consistent with the requirement in the Act to disclose material financial risks, and material financial opportunities relating to climate for the entity. These risks or opportunities form the basis of the rest of the disclosures.

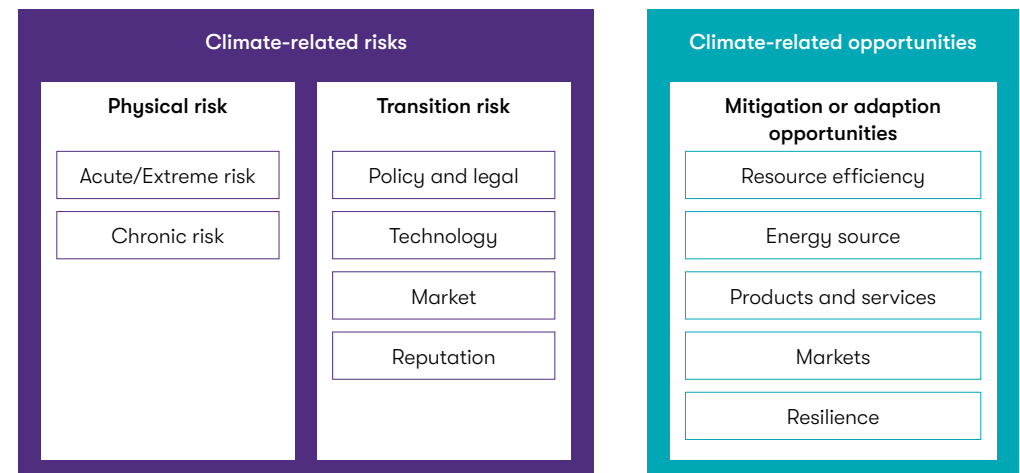
Climate-related risks refers to the potential negative effects of climate change on an entity. AASB S2 defines two specific types of climate-related risks:

- [Climate-related physical risks](#)
- [Climate-related transition risks](#).

Climate-related opportunities refers to the potential positive effects arising from climate change for an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity.

An entity's climate-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy, and the natural environment throughout the entity's **value chain**.

Climate-related risks and opportunities that could **not** reasonably be expected to affect an entity's prospects are outside the scope of AASB S2 (AASB S2.4).



Definition: Climate-related physical risks

Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity.

These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs, and employee health and safety.

(AASB S2 Appendix A)

Definition: Climate-related transition risks

Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.

(AASB S2 Appendix A)

Definition: Value chain

The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates.

A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

(AASB S2 Appendix A)



Understanding an entity's value chain

Consideration of an entity's value chain is one of the biggest differences between financial reporting and sustainability reporting.

In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, AASB S2 requires that the entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions (AASB S2.11).

This is a judgement for each entity's specific circumstances and requires a balanced consideration of the cost and efforts for the entity, and the benefits of the resulting information for the primary users of the financial statements.

Climate-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. AASB S2 requires that the entity considers factors that are specific to the entity as well as general conditions in the external environment.

Breaking down the value chain into understandable elements can make the process of identifying climate-related risks and opportunities easier.

Approaches to 'mapping' the breadth and composition of the value chain might include considering:

- what forms of 'interactions' exist between the entity's business model and its external environment
- the financing, geographical, geopolitical and regulatory environments in which the entity operates
- what resources or relationships the entity depends on for its business model.
- how the entity's business model and activities affects other resources and relationships

This process may use sources of data that may be both internal and external,

For example:

- the entity's existing risk management processes
- industry or peer group experience
- external ratings
- reports or statistics.

In short, all of the information used by the entity in preparing its financial statements, operating its business model, setting its strategy and managing its overall business risks or opportunities, is relevant information to assisting an entity to identify its climate-related risks or opportunities that could reasonably be expected to affect an entity's prospects.

It is also important to remember that these interactions, resources and relationships do not have to be directly affecting the entity or be a direct relationship of the entity (e.g. Tier 1 supplier). It can also be an indirect interaction, resource or relationship in an entity's value chain, but which may have significant impact on the entity's business model.

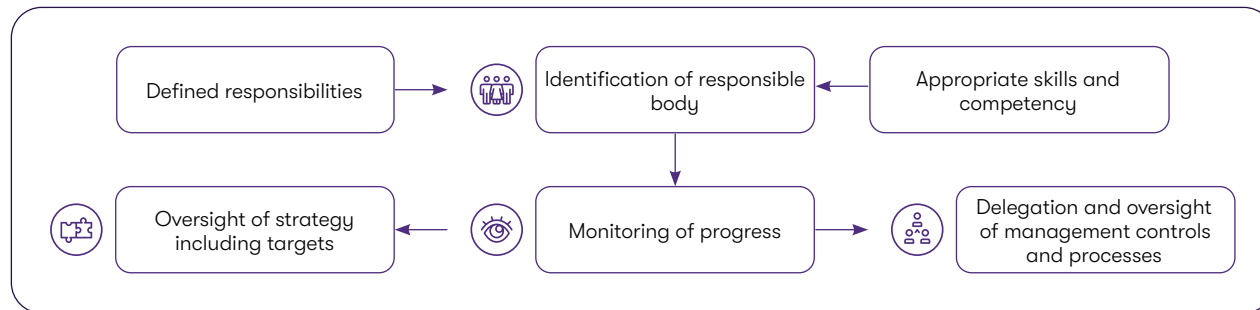
For example, a severe drought reducing the water level in the Panama Canal created significant disruption to global shipping in 2023, creating indirect impacts on the reliability and transit times of supply chains, as well as shipping costs. An entity which has a dependency on specific supply, marketing or distribution channels might identify indirect climate-related risks and opportunities in those channels as a result.

Governance

(AASB S2.5–Aus7.1)

‘The objective of climate-related disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate related risks and opportunities.’

To achieve this objective, AASB S2 requires disclosures in relation to each of the areas shown in the following diagram.



Disclosure areas

Identification of the responsible individual or body for oversight of climate-related risks and opportunities and make disclosures in relation to:

- how their responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies
- how they determine whether appropriate skills and climate-competency are available or will be developed
- how and how often they are informed about climate-related risks and opportunities
- how they take into account climate-related risks and opportunities when overseeing the entity's strategy, decisions on major transactions and risk management processes
- how they oversee the setting of climate-related targets and how they monitor progress towards the targets
- whether, or how, climate-related performance metrics are integrated into their remuneration policies.

Management's role in the governance of climate-related risks and opportunities include:

- whether, or how, the role is delegated to management
- whether management uses controls and procedures to support them with its oversight function, and how these controls and procedures are integrated with other internal functions.





Questions to consider

- Who are the individuals or committee responsible for climate-related matters?
- How are those responsibilities clearly articulated?
- How are climate-related risks or opportunities considered in the existing governance framework(s)?
- Does the entity have targets related to climate and if so, how are they monitored?
- What controls are in place over sustainability-related communications, marketing and reporting, including but not limited to; climate, broader environmental, ethical or socially sustainable claims?
- How do decision makers develop a robust understanding of how climate may affect the entity?
- What processes or policies are in place to ensure climate considerations are given adequate recognition, time for consideration and scrutiny?
- How can decision makers consider the need for, or benefits of engaging external expertise or advice?
- What time and resources have been allocated to preparing to report in line with the requirements?

FAQ 2.01: What does AASB S2 require an entity to implement in relation to climate-related governance?

One frequently asked question is whether entities preparing to report are now required to have a sustainability officer or climate sub-committee or working group.

It is important to recognise that AASB S2 does not impose any new governance requirements on entities. Rather it requires the entity to disclose its existing governance practices in relation to the governance, management and oversight of climate-related risks and opportunities.

Developing governance over climate-related risks and opportunities is an integral part of overall good corporate governance. As such, in our view, entities should look to integrate their governance of climate-related risks and opportunities into their existing corporate governance frameworks, especially at a Board level.

That said, in our experience, many entities may consider this as an opportunity to also reassess their existing governance processes and structures which may not have been updated recently.

ASIC focus area: Greenwashing

ASIC considers greenwashing to be ‘the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical’.

ASIC’s Report 791 ASIC’s interventions on greenwashing misconduct: 2023–2024 summarises the high-level findings, key recommendations and good practice examples identified from ASIC’s greenwashing surveillance activities during the financial year 2023–2024.

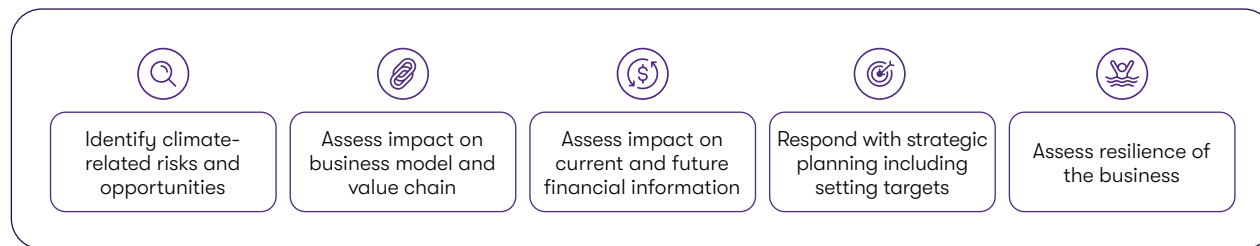
In particular, when disclosing climate-related metrics and targets voluntarily, the ASIC report states entities should consider the relevant disclosure requirements set out in the Australian Sustainability Reporting Standards.

Strategy

(AASB S2.8–Aus23.1)

‘The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity’s strategy for managing climate-related risks and opportunities.’

To achieve this objective, AASB S2 requires disclosures in relation to each of the areas shown in the following diagram.



Disclosure areas

The climate-related risks and opportunities that could reasonably be expected to affect the entity’s prospects, including;

- the current and anticipated effects of those climate-related risks and opportunities on the entity’s business model and value chain
- the effects of those climate-related risks and opportunities on the entity’s strategy and decision-making, including information about its climate-related transition plan
- the effects of those climate-related risks and opportunities on the entity’s financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity’s financial position, financial performance and cash flows over the short, medium and long term
- the climate resilience of the entity’s strategy and its business model to climate-related changes, developments and uncertainties.

FAQ 2.02: How does an entity determine the anticipated financial effects of a climate-related risk or opportunity?

AASB S2 requires that an entity disclose information about the current and anticipated financial effects of climate-related risks and opportunities on the entity’s financial position, financial performance and cash flows over the short, medium and long term. This includes both qualitative and quantitative information. In providing the quantitative financial information, the entity may disclose a single amount or a range.

AASB S2 does not specify exactly how the entity determines this information. Rather, AASB S2 requires an entity to use:

- all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort; and
- an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

However, this information is not required to be disclosed if the entity determines that the:

- current or anticipated financial effects are not separately identifiable; or
- level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful; or
- entity does not have the skills, capabilities or resources to provide that quantitative information.

If this is the case, the entity is required to disclose additional information as required by AASB S2.21.

Climate resilience (climate-related scenario analysis)

Definition: climate resilience

The capacity of an entity to adjust to climate-related changes, developments or uncertainties. Climate resilience involves the capacity to manage climate-related risks and benefit from climate-related opportunities, including the ability to respond and adapt to climate-related transition risks and climate-related physical risks. An entity's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties.

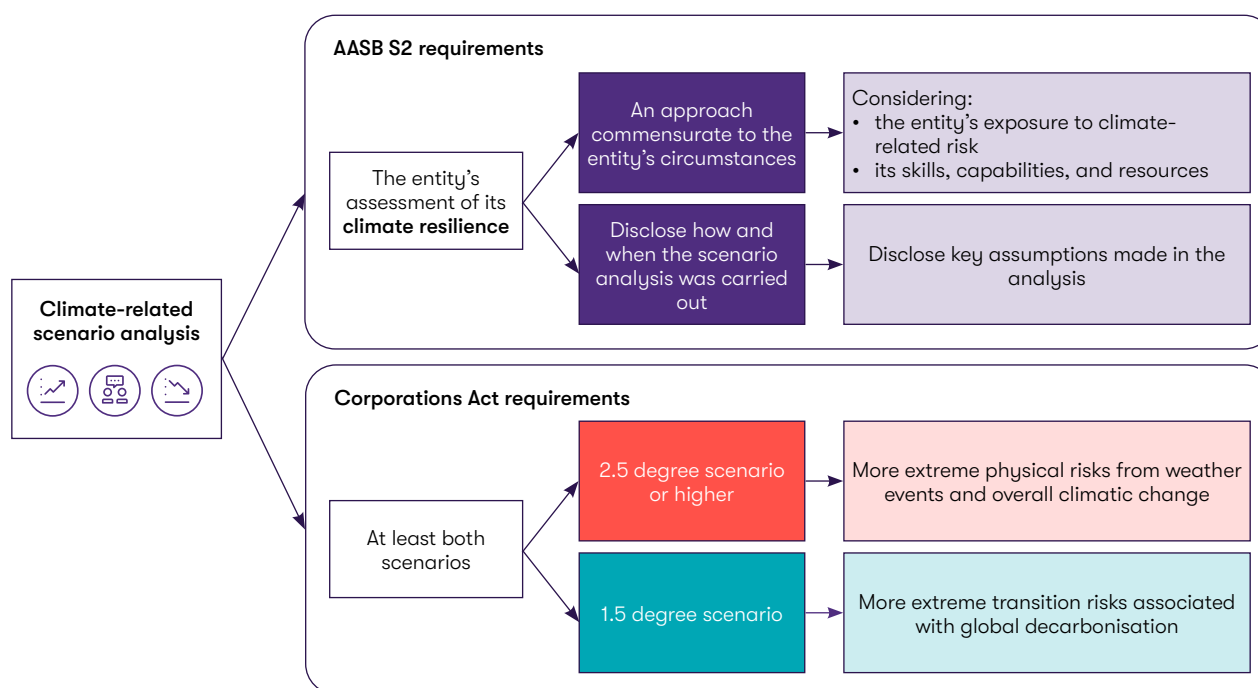
(AASB S2 Appendix A)

AASB S2 requires an entity to use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances. However, AASB S2 does not specify how the scenario analysis is carried out, only what should be considered when determining an entity's approach and what information is required to be disclosed.

However, the Act specifies the analysis must involve at least both of the following two temperature scenarios:

- a limitation in the global average temperature to the most ambitious target in the Climate Change Act 2022 (currently 1.5 degrees)
- an increase in the global average temperature that well exceeds the 2 degrees Celsius above pre-industrial levels specified in the Climate Change Act 2022 (interpreted to be 2.5 degrees or more in the Government explanatory memorandum memorandum and ASIC regulatory guidance RG 280).

The combined requirements in relation to climate-related scenario analysis are shown in the diagram below:



Questions to consider

- Which stakeholders should be involved to effectively assist in identifying climate-related risks and opportunities?
- What are the key interactions, dependencies and impacts of the business model and associated value chain?
- How are climate-related risks and opportunities integrated into the strategic planning process?
- What steps is the entity taking to prepare for the transition to a low carbon economy?
- How resilient is the entity's strategy to climate-related risk over the short, medium and long term?
- How does the entity assess the materiality of climate-related matters and are different climate scenarios being used as part of the assessments?

FAQ 2.03: Does an entity have to perform a quantitative scenario analysis?

AASB S2 requires that an entity use an approach that is commensurate with the entity's circumstances. Paragraph B1 explains this approach must enable an entity to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. This approach should be informed by:

- the entity's assessments of its exposure to climate-related risks and opportunities
- its available skills, capabilities and resources (both internal and external).

Therefore, an entity **may** use a simpler approach to climate-related scenario analysis, such as qualitative scenario narratives, if such an approach is appropriate to the entity's circumstances. These circumstances are likely to change, as its available skills, capabilities and resources develop over time.

AASB S2's application guidance explains that an entity that has just begun to explore the use of climate-related scenario analysis to assess its climate resilience might be unable to use a quantitative or technically sophisticated approach to climate-related scenario analysis without undue cost or effort. If resources are available to the entity, then it will be able to invest in obtaining or developing the necessary skills and capabilities.

However, an entity with a high degree of exposure to climate-related risks and opportunities, *and* with access to the necessary skills, capabilities or resources, is required to apply a more advanced quantitative approach to climate-related scenario analysis. The extent of the quantitative approach is dependent on the individual facts and circumstances of the entity. This is a significant judgement to be made.

Transition planning

A climate-related transition plan is 'an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions' (AASB S2 Appendix A).

AASB S2 does not require an entity to have a formal climate-related transition plan. However, as part of disclosing the entity's strategy in relation to climate-related transition risks and opportunities and the effects of those on the business model and value chain, the entity is required to disclose any climate-related transition plan that the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies (AASB S2.14(iv)).

While there is currently no requirement in the Corporations Act for entities to adopt a transition plan, some international jurisdictions have required the disclosure of transition plans. For example, the EU Corporate Sustainability Due Diligence Directive (CSDDD) imposes a legal obligation for entities in-scope of the CSDDD to adopt and put into effect a transition plan for climate change mitigation aligned to the Paris Agreement (1.5 degree scenario).

As transition planning is specific to an individual entity, affected by their entity-specific transition risks, their industry and their individual circumstances, there is no one-size-fits-all transition plan. Transition plans are not about disclosures. Instead, a transition plan is about the entity's strategic response to transition risks.

Just like developing any new business strategy, it is important that any transition plan is integrated into the overall business plan and meets the needs of the business. For example, while a policy could be implemented to cut all business-related flights in an entity in order to reduce greenhouse gas emissions from business travel, this may create serious trade-offs in the entity's ability to deliver on its overall business strategy, including affecting the ability of management to provide effective oversight of multi-location operations.

The UK Transition Plan Taskforce (TPT), established in 2022, provided some recommendations for best practice on climate transition plans and disclosure. The IFRS Foundation has recently assumed responsibility for the disclosure-specific materials developed by the TPT, including its disclosure framework and related guidance. In the near term, the IFRS Foundation expects to use these materials to develop educational materials, however this will not change the disclosure requirements of IFRS S2 (on which AASB S2 is based).

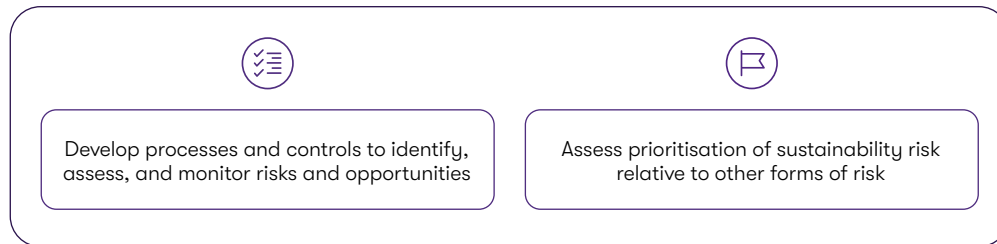
While the TPT disclosure-specific material is not required by AASB S2, when preparing disclosures about transition plans to meet the requirements of AASB S2.14, preparers may find the TPT resources a useful but non-authoritative additional resource.

Risk management

(AASB S2.24–Aus26.1)

‘The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports to understand an entity’s processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity’s overall risk management process.’

To achieve this objective, AASB S2 requires disclosures in relation to each of the areas shown in the following diagram.



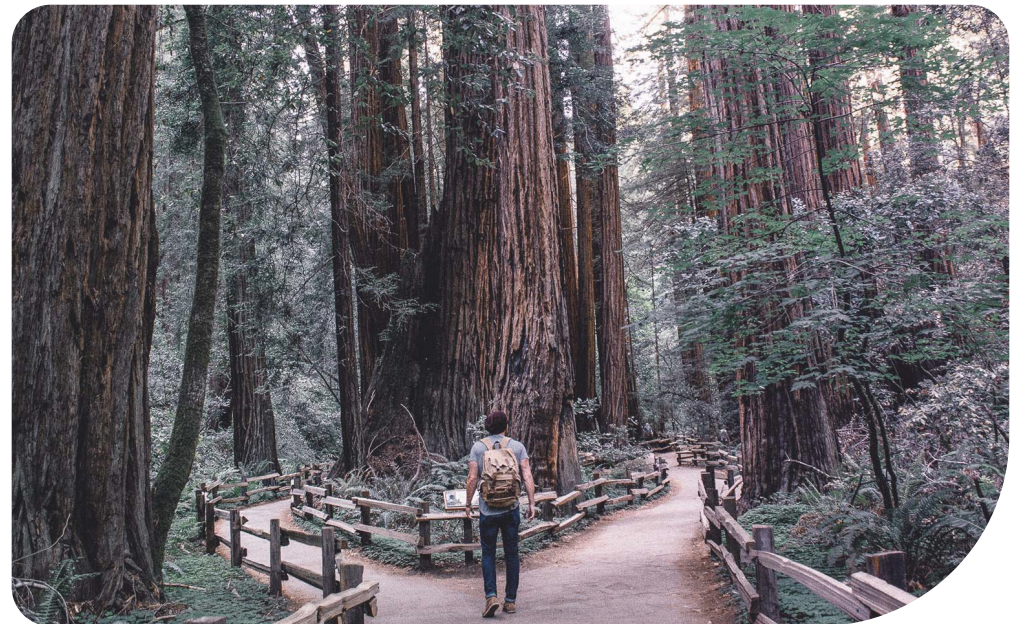
Disclosure areas

The entity shall disclose information about:

- the processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks
- the processes the entity uses to identify, assess, prioritise and monitor climate-related opportunities
- whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities
- the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity’s overall risk management process.

Questions to consider

- How is climate considered in entity-wide assessments of risks and opportunities?
- How does the entity currently assess, manage and prioritise its risks? Does this approach need to be revised to incorporate other climate-specific considerations?
- How does the approach to climate strategy and risk management consider short, medium, and long-term time horizons?
- How does the entity document the processes and related policies used to identify, assess, prioritise, and monitor climate-related risks?
- In what ways are the processes and policies related to climate-related risks and opportunities integrated into the entity’s overall risk management systems?



FAQ 2.04: Are climate-related risks considered ‘gross’ or ‘net’ of preventative or mitigating actions?

AASB S2 does not provide specific guidance on whether risks should be assessed before or after any preventative or mitigating actions. However, AASB S2 requires entities to disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity’s prospects.

Therefore, as a starting point, an entity may consider whether information about its current or anticipated future mitigation or adaptation efforts in relation to a specific climate-related risk could be material information to users of the general-purpose financial report to enable them to understand the effects of that climate-related risk on its strategy and decision-making.

This is an area of significant judgement, and an entity’s specific facts and circumstances may result in different outcomes in different circumstances. This issue is also being considered by the Transition Implementation Group on IFRS S1 and IFRS S2.

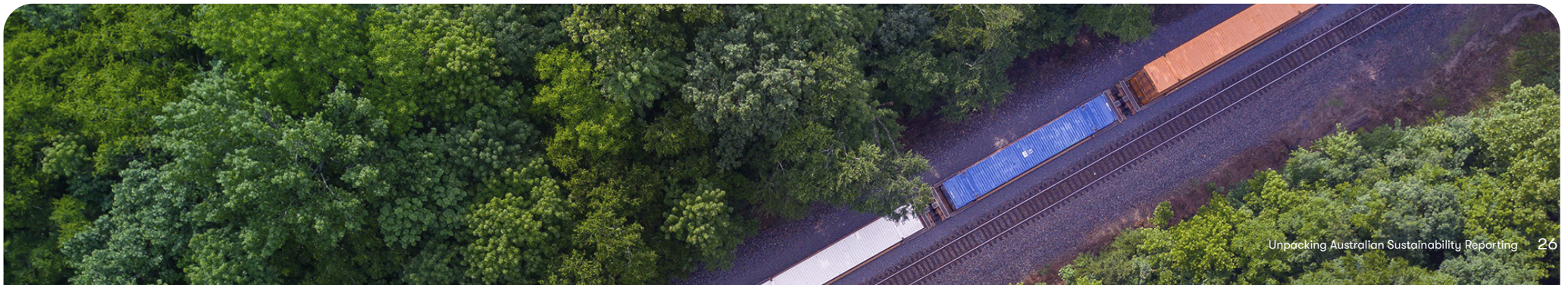
FAQ 2.05: What time horizons should be used when assessing risks and opportunities?

AASB S2 does not define the time horizons to be used when assessing climate-related risks or opportunities. Instead AASB S2 requires entities to:

- specify, for each climate-related risk the entity has identified, over which time horizons – short, medium or long term – the effects of each climate-related risk and opportunity could reasonably be expected to occur
- explain how the entity defines ‘short term’, ‘medium term’ and ‘long term’ and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.

Short, medium and long-term time horizons can vary between entities and depend on many factors, including industry specific characteristics, such as:

- cash flow, investment and business cycles
- the planning horizons typically used in an entity’s industry for strategic decision-making and capital allocation plans; and
- the time horizons over which users of general purpose financial reports conduct their assessments of entities in that industry.



Metrics & targets

(AASB S2.27-Aus37.1)

‘The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity’s performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation’

Climate-related metrics

To achieve this objective, AASB S2 requires disclosures in relation to each of the areas shown in the below diagram.

These are referred to as the ‘cross-industry metrics’. The requirement to disclose scope 1, scope 2, and scope 3 greenhouse gas emissions (including financed emissions) is also required by the Act.

In addition to the cross-industry metrics shown below, if an entity uses any other metrics to measure its performance in relation to its climate-related risks and opportunities, subject to materiality, an entity would also disclose these metrics.



Cross-industry metrics
(AASB S2.29)

Greenhouse gas emissions: scope 1 – 3

Assets/activities vulnerable to climate-related transition & physical risks

Assets/activities aligned to climate opportunities

Capital deployed to climate-related risks and opportunities

Internal carbon pricing applied for decision making

Executive remuneration linked to climate-related performance

Disclosure areas

An entity shall disclose information relevant to the cross-industry metric categories of:

- absolute gross greenhouse gas emissions (scope 1, scope 2, and scope 3)
- climate-related transition risks – the amount and percentage of assets or business activities vulnerable to climate-related transition risks
- climate-related physical risks – the amount and percentage of assets or business activities vulnerable to climate related physical risks
- climate related opportunities – the amount and percentage of assets or business activities aligned with climate-related opportunities
- capital-deployment – the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities
- internal carbon prices – how the entity is applying a carbon price in decision-making and the price for each metric tonne of greenhouse gas emissions the entity uses to assess the cost of its greenhouse gas emissions
- remuneration – whether and how climate-related considerations are factored into executive remuneration and the percentage of executive management remuneration in the reporting period is linked to climate-related considerations.

Revisions v Restatements

In financial accounting, a material error in the prior period is required to be retrospectively restated in accordance with the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Just like in financial accounting, AASB S2 requires that where material prior period errors have occurred, an entity is required to correct material prior period errors.

However, AASB S2 also incorporates the concept of 'revising' comparative information, which some Boards and finance teams may find unusual. For metrics, especially metrics that are estimates by nature, AASB S2 requires that if there is new information about the estimate, or if the metric has been redefined or replaced in the reporting period, then the prior year comparative amount is 'revised'. This revision usually indicates an improvement in data quality, rather than a deficiency in reporting processes.

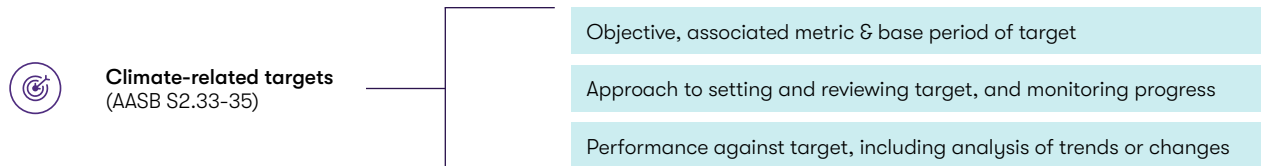
The differences between a 'revision' and a 'restatement' are summarised as shown.

	Revision	Restatement
Applies to	Metrics	Any disclosure
Arises due to	- New information about an estimated metric - Redefining or replacing a metric	A material prior period error
Disclosures required	- Disclose the revised comparative amount - Disclose the difference between the original and revised comparative amount (or the changes in the redefinition or replacement) - Explain the reasons for revising the amount (including, if applicable, why the redefined or replacement metric provides more useful information)	- Disclose the nature of the prior period error; - Disclose the correction, to the extent practicable, for each prior period disclosed - If correction is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected
Exceptions	- If disclosing the revised comparative amount is impracticable - If the metric was forward-looking (the revision for a forward-looking metric is permitted if doing so does not involve the use of hindsight)	Not applicable, an entity is required to correct material prior period errors

Climate-related targets

AASB S2 does not require an entity to set climate-related targets.

However, if an entity has established climate-related targets, AASB S2 requires disclosures in relation to each of the areas shown in the below diagram.

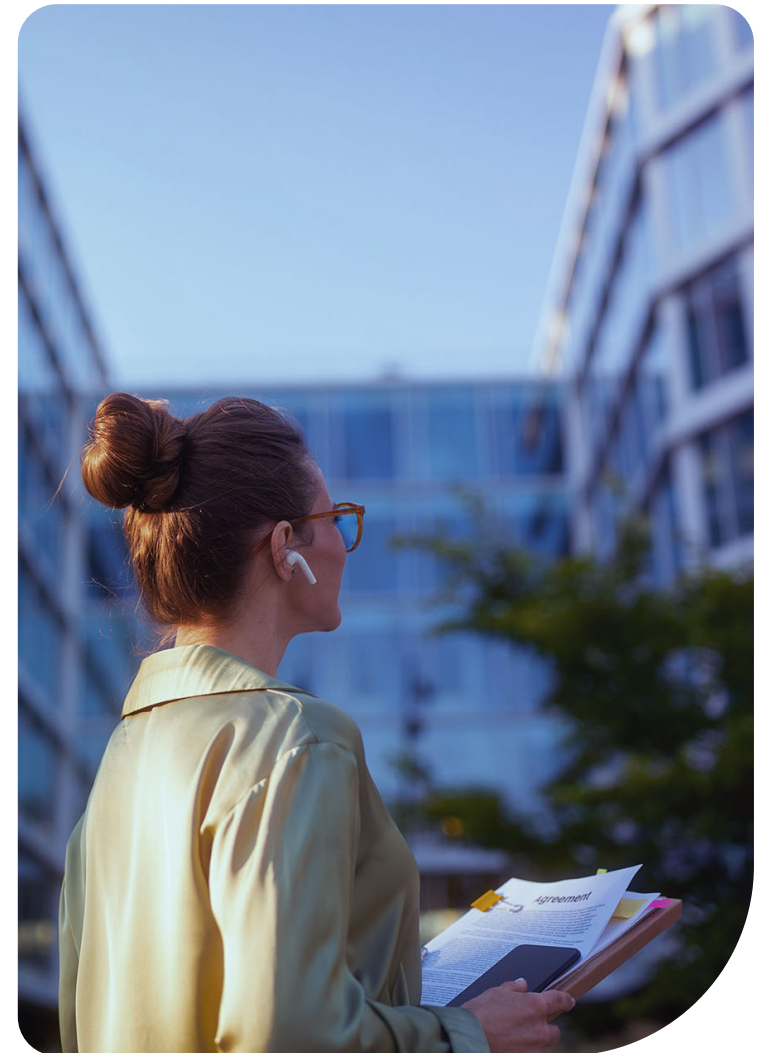


Disclosure areas

- Quantitative and qualitative climate-related targets the entity has set to monitor progress towards achieving the strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets.
- Information about the entity's approach to setting and reviewing each target, and how it monitors progress against each target
- Information about its performance against each climate-related target and an analysis of trends or changes in the entity's performance
- Information about each greenhouse gas emissions target

Questions to consider

- What data is available to support the entity's climate performance, including its greenhouse gas emissions? How does the entity determine whether the data is reliable?
- Does the entity have a process to collect relevant data to support its metrics? How does the entity plan to improve the maturity of the data and data collection systems over time?
- How does the entity ensure that its climate-related metrics or targets are aligned with its broader strategy? How is this information used to inform strategic decision making?
- What are the underpinning assumptions, contingencies, uncertainties, and risks identified in relation to climate-related metrics or targets?
- What is the entity's process for monitoring progress towards targets? How is this process reviewed for effectiveness?



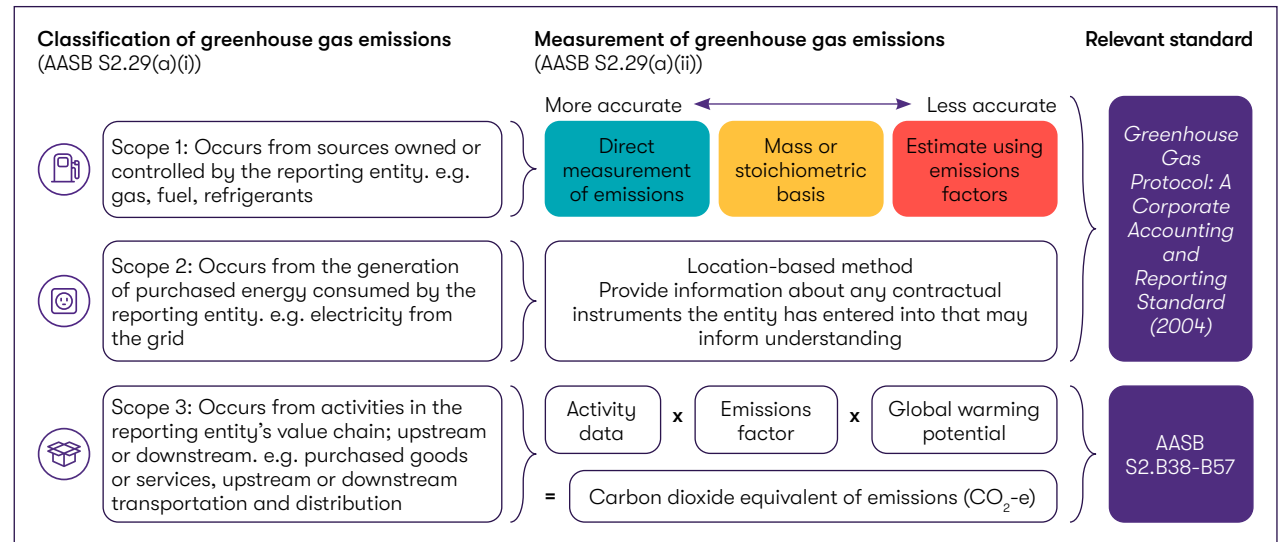
AASB S2 & the Greenhouse Gas Protocol

AASB S2 requires that an entity to:

- disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO₂ equivalent classified as: Scope 1, 2 and 3 (AASB S2.29(a)(i))
- measure its greenhouse gas emissions in accordance with the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) unless required by a jurisdictional authority or an exchange in which the entity is listed to use a different method for measuring its greenhouse gas emissions (AASB S2.29(a)(ii))
- disclose the approach it uses to measure greenhouse gas emissions including: the measurement approach, the reason why the entity has chosen the measurement approach, any changes the entity made to the measurement approach and reasons for those changes (AASB S2.29(a)(iii))

These requirements are summarised in the diagram shown.

Greenhouse gas emissions in AASB S2



FAQ 2.06: What if an entity is currently measuring greenhouse gas emissions but not using the Greenhouse Gas Protocol?

In the first annual reporting period in which an entity applies AASB S2, the entity is permitted to use one or both of the following reliefs:

- if, in the annual reporting period immediately preceding the date of initial application of AASB S2, the entity used a method for measuring its greenhouse gas emissions other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is permitted to continue using that other method
- an entity is not required to disclose its Scope 3 greenhouse gas emissions, which includes, if the entity participates in asset management, commercial banking or insurance activities.

However, it is expected that in the second reporting period onwards, an entity shall measure its greenhouse gas emissions using the Greenhouse Gas Protocol, unless the entity is required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions.

FAQ 2.07: What if the entity is already a registered corporation under the NGER Act?

Preparing a sustainability reporting in accordance with the Corporations Act and AASB S2 does not remove the legislative requirement to report emissions under the NGER Act. This also means that entities that have a financial year end that is not aligned to the 30 June NGER reporting period will also need to prepare their emissions information for two different reporting periods.

There are other differences between NGER Act reporting requirements and the disclosure requirements of AASB S2 that an entity should be mindful of. Some of these other considerations include:

- the reporting entity for the purposes of AASB S2 may be different to that of the NGER registered corporation, especially where the reporting entity is a consolidated group
- the NGER Act only requires the reporting of scope 1 and scope 2 emissions, whereas AASB S2 requires the disclosure of scope 1, scope 2 and scope 3 emissions
- direct measurement of emissions under the NGER Act currently uses the global warming potential (GWP) from the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (AR5), whereas AASB S2 requires the use of the GWP from the latest IPCC assessment available at reporting date (the Sixth Assessment Report)
- in relation to scope 2 emissions, both the NGER Act and AASB S2 require a location-based approach. While NGER allows voluntary market-based reporting, AASB S2 instead requires disclosure of 'information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions'. In providing this information, an entity could disclose a market-based approach, but is not required to do so.

FAQ 2.08: Do I need to obtain supplier-specific information from entities in my value chain?

In preparing disclosures, an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

An entity's measurement of its Scope 3 greenhouse gases will be obtained from primary data (data from specific activities within an entity's value chain), secondary data (data not obtained directly from activities within the entity's value chain), or a combination of both. However, in measuring an entity's Scope 3 greenhouse gas emissions, an entity shall prioritise – with all else being equal – the use of primary data as it provides a more accurate representation of the entity's specific value chain activities and, therefore, will provide a better basis for measuring the entity's Scope 3 greenhouse gas emissions.

Primary data is data obtained directly from the specific activities within the entity's value chain. For example, primary data could be sourced from meter readings, utility bills or other methods that represent the specific activities in the entity's value chain. Primary data could be collected internally (for example, through the entity's own records), or externally from suppliers and other value chain partners.

In our view, this means that primary data refers to both internal and external data collection activities so it is not necessarily only supplier-specific.

Data gathering for greenhouse gas emissions

Preparing an entity's first greenhouse gas emissions inventory can be intimidating.

The first instinct for many entities is to start by gathering data. In fact, the most important step prior to gathering data is to carefully identify the organisational and operational boundaries to be used in the greenhouse gas inventory. Once these are identified, an entity will be able to identify the relevant data that it needs to gather. Setting the greenhouse gas emissions boundaries is also critical for the disclosure of the approach used to measure the greenhouse gas emissions.

In the process of gathering the data, it is also important to think about how an entity may implement a process to repeatedly gather such data in future. Frequently, the information required is not being captured at its source but needs to be individually tracked down after the fact, which is not efficient. For example, the kilowatt hours of electricity used by an entity may be included on the electricity invoices, but the current reporting system may only capture the invoice date and invoice amount for accounting purposes.

As an entity builds up its capabilities, it is likely that the entity will start to think about how they can improve the data quality of the inputs used in their measurement approach, which may include increasing the amount of primary data gathered. It is important that this primary data is supported by sufficient and appropriate evidence for assurance purposes. Where the primary data is not supportable for assurance purposes, the entity may need to return to their previous approach of a lower data quality, but higher level of verifiability. Therefore, if an entity is looking to make changes to their data gathering processes for greenhouse gas emissions, an entity should also consider whether the changed processes are able to be assured.

General requirements (Appendix D)

AASB S2 includes Appendix D *General requirements for the disclosure of climate-related financial information*. Appendix D prescribes how an entity prepares and reports its climate-related financial disclosures. It sets out general requirements for the presentation of those disclosures, guidelines for their structure and requirements for their content.

The content of Appendix D is based on the voluntary Standard AASB S1. In developing AASB S2, the AASB decided to incorporate into Appendix D, the paragraphs from AASB S1 needed to make AASB S2 function as the standard containing all of the requirements for climate-related financial disclosures.

Entities must apply **all of the requirements in Appendix D**, as well as the other requirements of AASB S2 in order for an entity to be able to make an explicit and unreserved statement of compliance with AASB S2. Entities do not need to consider AASB S1 or the paragraphs of AASB S1 that are not included in Appendix D. However, an entity may refer to AASB S1 for additional guidance in complying with the requirements of Appendix D.

Specifically, Appendix D explains conceptual foundations for climate-related financial disclosures, and outlines general requirements for those disclosures, including judgements, uncertainties and errors. Appendix D also contains application guidance for climate-related financial disclosures, and explains the qualitative characteristics of useful climate-related information.

Contents of Appendix D to AASB S2

Conceptual foundations

- Fair presentation
- Materiality
- Reporting entity
- Connected information

General requirements

- Location of disclosures
- Timing of reporting
- Comparative information
- Statement of compliance

Judgements, uncertainties and errors

- Judgements
- Measurement uncertainty
- Errors

Application guidance

- Climate-related risks and opportunities
- Reasonable and supportable information
- Materiality (identifying material information)
- Aggregation and disaggregation
- Interaction with law or regulation
- Commercially sensitive information
- Reporting entity
- Connected information
- Information included by cross reference
- Interim reporting
- Comparative information (metrics & errors)

Qualitative characteristics of useful climate-related financial information

- Fundamental qualitative characteristics
- Relevance (including materiality)
 - Faithful representation

- Enhancing qualitative characteristics
- Comparability
 - Verifiability
 - Timeliness
 - Understandability

FAQ 2.09: What is considered material for the purposes of AASB S2?

'In the context of climate-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and climate-related financial disclosures and which provide information about a specific reporting entity.' (AASB S2 Appendix D.18)

Preparers familiar with Australian Accounting Standards will notice the concept of materiality in AASB S2 is almost identical to the language used for the concept of materiality in the financial accounting standards, which was the intention of the ISSB.

As with financial accounting, materiality is an entity-specific concept. Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances.

Consequently, in the process of identifying material information about an entity's climate-related risks and opportunities, it may be helpful for an entity to clearly articulate who their primary users are, and what decisions they may be making. It is also important to remember that climate-related financial disclosures are intended to meet common information needs of primary users. When looking at individual primary users, an entity may find that they have different, and sometimes even conflicting, information needs and desires, which may also evolve over time.

In identifying the primary users of a general-purpose financial report, the AASB has introduced specific Australian paragraphs specific to not-for-profit entities. A not-for-profit entity is required to refer to the definitions of 'general purpose financial reports' and 'primary users of general purpose financial reports' specified in the *Framework for the Preparation and Presentation of Financial Statements* when applying AASB S2.

Examples of decisions of primary users that relate to providing resources to for-profit and not-for-profit entities is shown in the table below.

For-profit entity (AASB S2 Appendix D.B14)	Not-for-profit entity (AASB S2 Appendix D.AusB14)
• Buying, selling or holding equity and debt instruments • Providing or selling loans and other forms of credit; or • Exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources	• Parliaments deciding on behalf of constituents whether to fund particular programmes for delivery by an entity • Taxpayers deciding who should represent them in government; • Donors deciding whether to donate resources to an entity • Recipients of goods and services deciding whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers



Connected information in sustainability reporting

AASB S2 Appendix D.21 requires an entity to provide information in a manner that enables users of general purpose financial reports to understand connections both between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports.

The standard specifically outlines the following types of connections:

- the connections between the items to which the information relates — such as connections between various climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;
- the connections between disclosures provided by the entity:
 - within its climate-related financial disclosures — such as connections between disclosures on governance, strategy, risk management and metrics and targets
 - across its climate-related financial disclosures and other general purpose financial reports published by the entity — such as its related financial statements.

Connectivity may be an unfamiliar concept to many accountants, introduced specifically in relation sustainability-related financial information. The idea behind connected information is that all of the disclosures in a sustainability report relate to the same reporting entity, and therefore as a user reading the general purpose financial report, the disclosures should be done in such a way that the user understands how each piece of information fits together.

Examples of this might include but are not limited to if an entity :

- pursued a particular climate-related opportunity which resulted in an increase in the entity's revenue, the entity may explain the relationship between pursuing that strategy and its increased revenue;
- identified a trade-off between two climate-related risks it is exposed to, the entity may explain how it assessed the trade-off, and why it chose its preferred strategy;
- has committed to a particular climate-related target, but that commitment has not yet affected the entity's financial statements because it has not yet met the requirements for recognition in accounting standards, then the entity may explain the expected impact on the financial statements in future, and potentially, what factors may trigger recognition in the financial statements.

As part of providing connected information, the standard requires that the data and assumptions used in preparing the climate-related financial disclosures shall be consistent — to the extent possible considering the requirements of Australian Accounting Standards — with the corresponding data and assumptions used in preparing the related financial statements.

Areas where this might particularly impact an entity's financial statements may include but are not limited to, going concern forecasts, impairment assessments, provisions, and asset or liability valuations.

FAQ 2.10: What if an entity does not have material climate-related financial risks or opportunities for a financial year?

Under s296B(1) of the Corporations Act, if a reporting entity does not have material financial risks or opportunities relating to climate for a financial year, the climate statements for a financial year must include:

- a statement that there are no material financial risks or opportunities relating to climate for the entity
- a statement explaining how the entity determined that it has no material financial risks or opportunities relating to climate.

FAQ 2.11: Does an entity need to disclose comparative information in the first year of reporting?

Unless another Australian Sustainability Reporting Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the climate-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive climate-related financial information.

However, an entity is not required to provide the disclosures specified in AASB S2 for any period before the date of initial application. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies AASB S2 (AASB S2.C3).

In addition, there are reliefs in the first year in relation to the disclosure of greenhouse gas emissions. Refer to the section on [Metrics & Targets](#).

FAQ 2.12: Can you copy disclosures from another entity?

As part of the qualitative characteristics of useful climate-related financial information, AASB S2 Appendix D states that climate-related information shall be clear and concise. In order to be concise, entities need to avoid generic information, sometimes called 'boilerplate', that is not specific to the entity (AASB S2 Appendix D.D26(a)).

Additionally, disclosures are concise if they include only material information. Any immaterial information included shall be provided in a way that avoids obscuring material information.

Consequently, in our view, due to the requirement to provide material climate-related information that is clear and concise, there will be limited utility in copying disclosures from another entity.



AASB S1 General Requirements for the Disclosure of Sustainability-related Financial Information

Entities are not required to apply AASB S1 but may elect to voluntarily adopt AASB S1. Unlike AASB S2, it is not required for compliance with the Corporations Act.

AASB S1 applies to reporting sustainability-related financial information across a range of possible sustainability topics, including climate-related financial disclosures. It is intended to be used by entities that voluntarily disclose information about their sustainability-related risks and opportunities in their general purpose financial reports.

The main principles and guidance relate to:

- identifying the objective of sustainability-related financial information
- setting out the conceptual foundations for sustainability-related financial information, to help ensure its relevance and that the information disclosed is a faithful representation
- the core content that would be expected to be disclosed in respect of a particular sustainability topic, including on governance, strategy, risk management, and metrics and targets
- sources of guidance on disclosing sustainability-related financial information
- the location of sustainability-related financial information disclosures
- the timing of sustainability-related financial information disclosures
- the disclosure of comparative information in the sustainability report
- judgements, uncertainties and errors affecting sustainability-related financial information.

Sustainability-related disclosures on topics other than climate

Many entities voluntarily produce an 'ESG Report' or similar, which cover sustainability-related topics other than climate. It is important for those entities to recognise that although non-climate topics are currently not within scope of the annual sustainability report, the general provisions of the Corporation Act in relation to having reasonable grounds for forward-looking statements still applies.

In ASIC Report 791 *ASIC's interventions on greenwashing misconduct: 2023–2024*, ASIC noted instances where sustainability-related claims did not appear to be based on reasonable grounds. The report also highlighted instances where investors were not provided with the information required to understand the context, status or scope of various sustainability-related claims and initiatives.

If an entity does choose to voluntarily disclose information about sustainability-related risks or opportunities on topics other than climate in their Sustainability Report, we would encourage an entity to consider voluntarily adopting AASB S1, as it has been designed to:

- work in tandem with AASB S2 without conflict
- provide information about an entity's sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

IFRS Sustainability Disclosure Standards

Unlike in financial reporting, compliance with AASB S2 does not equate to compliance with the IFRS Sustainability Disclosure Standards.

Some entities may elect to adopt sustainability reporting that is compliant with the IFRS Sustainability Disclosures Standards (e.g. to provide reporting to international external parties). Entities seeking to report in compliance with the IFRS Sustainability Disclosure Standards should refer directly to IFRS S1 and IFRS S2 in the first instance, as those requirements are incremental to the requirements of AASB S2.

In addition to the requirements of AASB S2, such entities will need to meet all the requirements of IFRS S1 and IFRS S2, including but not limited to:

- disclosure of sustainability-related risks or opportunities, other than climate-related risks or opportunities, that could reasonably be expected to affect an entity's prospects
- refer to and consider the applicability of disclosure topics in the SASB standards to identify sustainability-related risks and opportunities
- refer to and consider the applicability of disclosure topics in the *Industry-based Guidance on Implementing IFRS S2* to identify climate-related risks and opportunities
- refer to and consider the applicability of the metrics associated with the disclosure topics in the SASB standards and *Industry-based Guidance on Implementing IFRS S2*
- disclose industry-based metrics in relation to the entity's sustainability-related risks or opportunities, including its climate related risks or opportunities.

International sustainability reporting

In addition to the Australian legislation, foreign regulations or legislation may capture Australian entities under different sustainability frameworks as extra-jurisdictional requirements.

An example of this is European Union's *Corporate Sustainability Reporting Directive* (CSRD). This directive mandates that non-EU companies (referred to as 'third-country undertakings') with subsidiaries or branches above certain size thresholds in the EU have a legal obligation to prepare sustainability reports to meet the requirements of the CSRD. While the relevant European Sustainability Reporting Standards (ESRS) for third-country reporting has not been developed yet, based on the existing ESRS for European-based entities, it is likely that disclosures will be significantly more onerous than the Australian regime.

Additionally, the California Climate Accountability Package (CCAP), comprising two Senate Bills (SB 253 *Climate Corporate Data Accountability Act* and SB 261 *Greenhouse gases: climate-related financial risk*) may affect entities with operations in the USA. SB 253 requires 'reporting entities' to publicly disclose annually their scope 1, scope 2, and scope 3 greenhouse gas (GHG) emissions based on the *Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard* and *Corporate Value Chain (scope 3) Accounting and Reporting Standard*. SB 261 requires 'covered entities' to prepare on or before 1 January 2026, a climate-related financial risk report, and thereafter report biennially.

For the purposes of the two Senate Bills, 'reporting entities' and 'covered entities' comprise any 'partnership, corporation, limited liability company, or other business entity formed under the laws of this State [i.e. California], the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States' that is doing business in California with total annual revenues exceeding a relevant threshold (SB 253: \$1 billion USD; SB 261: \$500 million USD).

While the CCAP does not include non-USA entities that transact business in California in the definitions, the reporting requirements will likely apply to foreign companies that have legal entities organised in the United States who collectively meet the revenue thresholds and do business in California.

Sustainability reporting regulations such as the EU CSRD and CCAP are notable as, unlike most financial reporting regimes internationally, they can affect entities that are not domiciled in that jurisdiction. As a result, it is our view that potential sustainability reporting obligations should be considered as part of assessing any new international business operations.

Section 3: Preparing for reporting

‘And this is a crucial point: you have to do this now. It’s simply not an option to put this off until after legislation has passed, and then scramble to comply. You have to figure out how you’re going to marshal data, support and capabilities and start keeping the necessary records now – today.’

ASIC Chair Joe Longo, April 2024

As a preliminary step, it is important to identify which entity or entities in a Group will be in-scope of the Corporations Act obligations to prepare an annual sustainability report.

Entities in scope of the legislation are expected to implement appropriate processes and internal controls over the sustainability information in place for the full period covered by the report. While each entity will have different capabilities, resources and timelines, in general we would recommend the following five steps as a starting point.

01

Identify climate related risks and opportunities

02

Assess gaps in reporting data

03

Gather data for reporting

04

Implement process and internal controls

05

Prepare your sustainability report

In the illustrative example above, we have summarised what these five steps might look like for an entity. This example also highlights the three most common areas where we find entities experience challenges in gathering data for reporting; greenhouse gas emissions, anticipated effects of climate-related risks and opportunities (especially financial effects), and climate-related scenario analysis.

Entities may also wish to consider doing a ‘dry run’ with a draft report and assurance readiness procedures, prior to formal reporting and assurance. As sustainability reporting systems are unlikely to be as sophisticated as financial reporting systems, we consider it crucial that entities spend time designing, documenting and implementing their sustainability reporting processes and internal controls.



Illustrative example: Preparing for reporting

Background

Company A is an Australian large proprietary company and the ultimate parent entity of a group. It has one Australian subsidiary and multiple overseas subsidiaries. All of the entities in the group have a 30 June financial year end. None of the entities in the group are registered or required to register under the NGER Act. At the most recent financial year end, the global consolidated revenue of the Company A is \$650m AUD, and the global consolidated assets are \$850m AUD, with 700 FTE employees globally.

Company B is the sole Australian subsidiary of Company A and included in the Company A's consolidated financial statements. Company B's revenue is \$200m AUD, and its assets at year end are \$120m AUD with 100 FTE employees.

Preliminary step: Which entities have reporting obligations under the Corporations Act?

Company A's consolidated revenue and FTE employees at the most recent year end equal or exceed two of the three thresholds specified for Group 1 entities (revenue \$500m or more; 500 FTE employees or more). Therefore, Company A will need to prepare an annual sustainability report for financial years commencing on or after 1 January 2025. As it has a June year end, the first financial year for the sustainability report will be 1 July 2025 – 30 June 2026.

Company B's consolidated revenue, assets, and FTE employees equal or exceed all three thresholds specified for Group 3 entities (but do not equal or exceed two of the three thresholds for Group 2 entities). Therefore Company B on a stand-alone basis would also need to prepare an annual sustainability report for financial years commencing on or after 1 July 2027.

However, Company A elects to prepare a consolidated sustainability report, which includes Company B. Therefore applying subsection 292A(2), as the parent entity is preparing a consolidated sustainability report, that includes Company B, then the parent entity is the only entity in the consolidated group that must prepare a sustainability report.

01

Step 1: Identify climate-related risks and opportunities

Company A begins a process to identify its climate-related risks and opportunities. It has never previously done any form of climate-related reporting or sustainability reporting.

Company A begins with mapping out its business model, which includes all of its overseas operations as well as Company B, and its value chain, which includes consideration of the financing, geographical, geopolitical and regulatory environments of its overseas operations. Although it has never done climate-related reporting previously, Company A looks at all the internal information it uses to plan and manage its overall business strategy as a starting point.

Company A identifies a number of physical and transition risks for the consolidated group, as well as a potential climate related opportunity. This initial list of climate-related risks and opportunities are presented to and agreed by its Board of Directors. Company A also establishes a working group of their executive team that is focused on developing the Group's strategy in response to the climate-related risks and opportunities identified.

02

Step 2: Assess gaps in reporting data

Now that Company A has a preliminary view of its climate-related risks and opportunities, it can check what information it already has available against the requirements of AASB S2 and the Corporations Act.

From that process, Company A identifies that there are three major areas where it does not have any data available:

- greenhouse gas emissions
- anticipated financial effects of the climate-related risks and opportunity that it initially identified
- an assessment of climate resilience using climate-related scenario analysis.

Company A also identifies a number of areas where it needs to enhance or develop its existing information further. Company A also realises that it will need to establish reporting responsibilities for each piece of information to be developed, and a way of managing and providing oversight of the reporting process.

03

Step 3: Gather data for reporting

Now that Company A knows where to focus its attention, Company A gets started on preparing for reporting.

Greenhouse gas emissions

As it has never prepared a greenhouse gas emissions inventory before, and no-one internally in the business has the relevant skills or experience, Company A seeks assistance from an external consultant to help it understand the basics of greenhouse gas emissions accounting. However, Company A wants to make sure that its own reporting team learns how to do it themselves, so that it can take the responsibility of calculating and monitoring its emissions each year.

A combination of the finance team and the sustainability working group take responsibility for developing their emissions measurement approach. During the process, they realise they also need to involve their operations and procurement team, to understand their value chain emissions in more detail.

Climate resilience

Company A also decides that it would like assistance in assessing its climate-resilience using climate-related scenario analysis, because it does not feel equipped to understand the Corporations Act requirements of using a 1.5 degree scenario and a 2.5 degree or higher scenario.

As Company A is new to climate-related scenario analysis, which is not common in its industry, and considers that it does not have access to the necessary skills, capabilities or resources without undue cost or effort, Company A uses a qualitative approach. Company A also determines that because it has a number of different overseas operations, it may be beneficial to look at some geographic regions of the world separately in the scenario analysis, particularly in the high-emissions scenario.

Leveraging existing publicly available qualitative scenarios for both a 1.5 degree scenario and a 4 degree scenario, Company A identifies an additional climate-related physical risk that it did not previously identify in its initial assessment. This new physical risk is approved by the Board of Directors, and will be incorporated into the sustainability report.

Anticipated effects of climate-related risks and opportunities

Company A decides that it will be able to determine the anticipated financial effects of its climate-related risks or opportunities by using its existing risk management and evaluation systems. Its working group notes that for some of the risks it has identified, it can consider the historical costs associated with previous experiences (e.g. a flood of its headquarters) as a starting point.

04

Step 4: Implement processes and internal controls

To avoid being stressed at financial year end, Company A wants to make sure the process of sustainability reporting is clearly documented, like it is for financial reporting.

As Company A decides on its processes to gather and develop its climate-related information (e.g. the process of identifying its climate-related risks and opportunities), Company A has been documenting the details of what information it considered, which stakeholders were involved, and other necessary information to provide an audit trail for future assurance. Company A has also been thinking about how and where the data being used in its greenhouse gas emissions inventory is being kept, and implements some IT controls over the information to minimise the risks of unintentional changes to the data inputs.

05

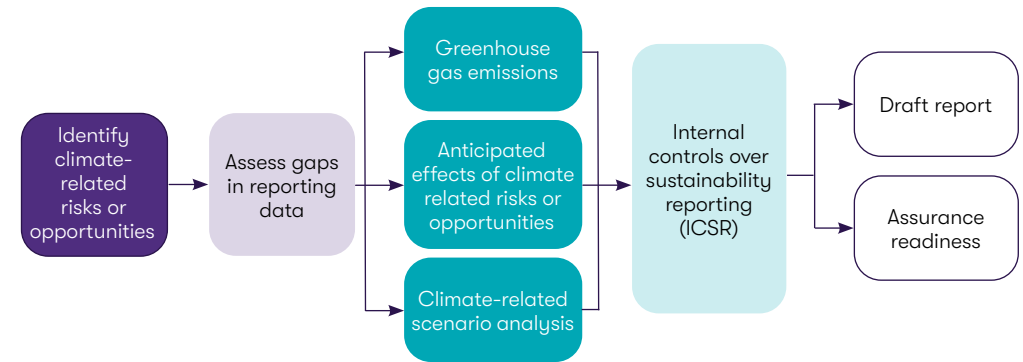
Step 5: Prepare the sustainability report

Company A starts to draft its sustainability report. In the process of drafting the report, its reporting team is taking note of all the different sources of information that it is using to put the report together and documenting the internal processes and controls over the sustainability reporting for the purposes of internal risk management and future assurance.

Having drafted its sustainability report, management decides that it would like to check whether what they have done would meet compliance for the Corporations Act. After discussions with their registered company auditor, they decided they would prefer to engage them to perform audit readiness procedures (not an assurance opinion) to help them identify where control gaps or deficiencies might arise.

In the course of performing audit readiness procedures, the audit team identifies that in setting the organisational boundaries of the greenhouse gas emissions for scope 1, Company A excluded fugitive emissions from its air-conditioners and refrigeration and did not assess the materiality of this exclusion or disclose the exclusion in its report. Company A's team quantifies the fugitive emissions and determines that they are material and therefore should be included in the absolute gross scope 1 emissions disclosed.

In review of the draft annual report, which incorporates the financial statements and sustainability report, the CFO of Company A identifies, among other matters, that some of the forward-looking assumptions and inputs used in the sustainability report are inconsistent with those that the finance team is using to prepare forward-looking elements of the financial report (such as the impairment analysis). Company A observes that this was a result of the sustainability team preparing the sustainability report, separate to the finance team preparing the financial report. Company A's management team make a number of changes to improve the communication between the two teams and address the observations from the assurance readiness.



FAQ 3.01: How much time does implementation take?

In our experience, an initial identification of climate-related risks and opportunities and assessing gaps in reporting data may not take a significant amount of time. Often, the most difficult part of these two stages is the internal climate-related education that may be necessary in order to start the process.

However, once an entity identifies its climate-related risks and opportunities, the development of the entity's strategic response to those identified climate-related risks and opportunities may take longer. As part of that process, entities commonly revise or refine their identification process for climate-related risks and opportunities to incorporate additional information obtained as part of preparing their strategic response (including the use of climate-related scenario analysis).

Developing the data gathering processes and associated internal controls may vary in time required, dependent on the complexity of the entity, and the number of different sources of data that need to be incorporated.

We also consider it helpful if the entity maintains detailed documentation of the significant judgements it makes, and processes and internal controls that it develops over its climate-related information, as and when it makes those decisions. This will not only enable assurance but also collates the information to assist in drafting the sustainability report.

FAQ 3.02: Who should be involved in AASB S2 implementation?

An entity's climate-related risks and opportunities affect the whole of the business and not just an individual team.

Therefore, in our view, it is important for the preparation for reporting to involve multiple stakeholders across the business.

As an example, this might include:

- existing individuals with sustainability-related responsibility
- key representatives of the core departments of the business (including internal operations)
- the finance team or whoever is charged with oversight of corporate reporting/audit liaison functions
- the executive management team or individuals otherwise charged with business strategy;
- the Board of Directors (or a subset of the Board with delegated authority).



Grant Thornton Australia's sustainability reporting services

Grant Thornton has a team of specialists who understand the rapidly developing landscape of sustainability reporting and will work closely with you to navigate through the process of collating the right information, building appropriate processes and controls around the data required to support disclosures and how to present the required information.

Our team can work closely with you to navigate through the process of getting ready for AASB S2, or IFRS Sustainability Disclosure Standards reporting, with a phased approach including:

- sustainability-related and climate-related risk and opportunity guidance
- reporting gap identification
- greenhouse gas emissions guidance
- climate-related scenario analysis guidance
- assurance readiness
- sustainability and climate report drafting and documentation support
- training and education.

For more information, please contact:



Andrew Rigele
National Managing Partner – ESG
+61 2 8297 2595
andrew.rigele@au.gt.com



John Askham
Partner - Sustainability Reporting Advisory
+61 2 8297 2722
john.askham@au.gt.com



Samantha Sing Key
Director - Sustainability Reporting Advisory
+61 2 9286 5517
samantha.singkey@au.gt.com



Sustainability Advisory

With the ESG and sustainability landscape continuing to evolve, we are focused on helping your business to understand how to shape your sustainability strategy. When designing a sustainability strategy, it's important to take into consideration your sustainability-related risks and opportunities, relevant standards and frameworks such as the SBTi, and your broader business needs.



Sustainability Reporting

Following the introduction of mandatory sustainability reporting requirements in Australia, organisations will need to understand if they are required to report, what is required and if they have the skill sets and available data to comply. We can support organisations to walk them through the reporting process end-to-end, including support with identifying climate-related risks and opportunities, gap analysis, emissions guidance, climate scenario analysis, and reporting and documentation support.



Sustainability Assurance

The sustainability reporting regulations which have come into force in Australia include assurance requirements which are being phased in over several years. Australia is also the first jurisdiction internationally to adopt the new assurance standard. Whether you are seeking voluntary assurance or meeting your compliance obligations, our sustainability assurance team combines technical expertise and industry insights to provide quality and efficiency in the assurance process.



ESG Due Diligence

As ESG & Sustainability-related considerations are becoming pivotal for Australian dealmakers, it is important for investors to feel confident in assessing transactions through an ESG lens. The due diligence process evaluates a company's material environmental, social, and governance topics during the pre-investment phase, flagging risks and identifying opportunities for added value.



IFRS Sustainability
Alliance

Grant Thornton is part of the IFRS Sustainability Alliance as part of the GTI Network and has access to further resources should they be required.

About Grant Thornton

By caring for our people, clients and communities we provide a strikingly different experience, built on our values, with client service at the forefront.

Grant Thornton Australia is a member firm of the Grant Thornton global network – one of the world's leading, independently-owned and managed accounting and consulting firms. Our global structure spans every major business region in the world.

We have the scale to meet your changing needs – while retaining the agility required to keep you one step ahead. In Australia, we now have over 1,500+ people across five states, each with the freedom to drive change and advocate for our clients.

With our values at the core, we seek out diverse perspectives and challenge established practice, when necessary. to deliver positive progress for your business. No matter your industry, business lifecycle stage, market or growth plans, our experienced professionals are dedicated to achieving the best outcome for you and your stakeholders.

[Find out more →](#)

People globally

76,000+

People nationally

1,500+

Partners nationally

172

Global revenue (USD)

\$8b

National revenue (AUD)

\$370m

Offices nationwide

6

Offices globally

750+

Markets

156+

The terms we use

Language is a powerful tool. No single set of definitions can describe how every person experiences life, or how they define themselves. We acknowledge the diversity of self-identity and intersectionality, particularly within gender, culture, sexual orientation, disability and First Nations language groups. It is always our intention to be inclusive and respectful and we acknowledge that not everyone will identify with the terms we have chosen.



grantthornton.com.au

Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities.

Liability limited by a scheme approved under Professional Standards Legislation.