Climate Governance Initiative Australia

A JOINT PUBLICATION BY Australian Institute of Company Directors | Deloitte. | MinterEllison.

A director's guide to mandatory climate reporting

A SNAPSHOT

VERSION 2 | SEPTEMBER 2024

Key elements of Australia's mandatory climate reporting regime

WHO is covered?

3 cohorts descending by size, starting with large emitters and large reporting entities.

WHEN will it commence?

Group 1: Reporting periods commencing 1 January 2025.
Group 2: Reporting periods commencing 1 July 2026.
Group 3: Reporting periods commencing 1 July 2027.

WHERE will disclosures be located?

A separate Sustainability Report which forms the 'fourth' report within the Annual Reporting suite (the other 'reports' being the Financial Report, Directors' Report and Auditor's Report).

WHAT disclosures will be required?

Directors will be required to declare that (Directors' Declaration), in their opinion, the substantive provisions of the Sustainability Report are in accordance with the *Corporations Act 2001* (Cth), including the mandatory climate standard, AASB S2.

For the first three years, directors are required only to make a Qualified Directors' Declaration whereby they affirm "whether, in the directors' opinion, the entity has taken reasonable steps" to comply with the *Corporations Act 2001* (Cth) (including AASB S2).

WHAT assurance will be required?

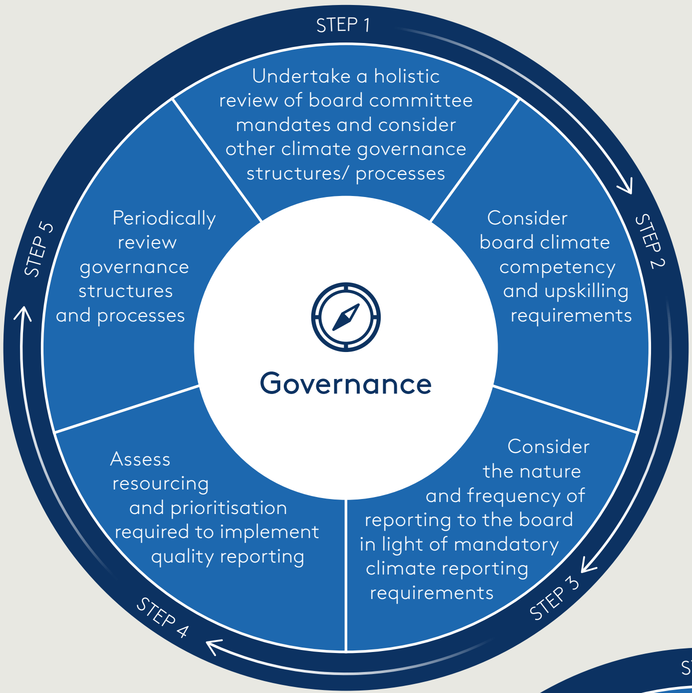
Phased in, with the AUASB to set interim assurance requirements and the 'end point' being reasonable assurance over all disclosures by 1 July 2030.

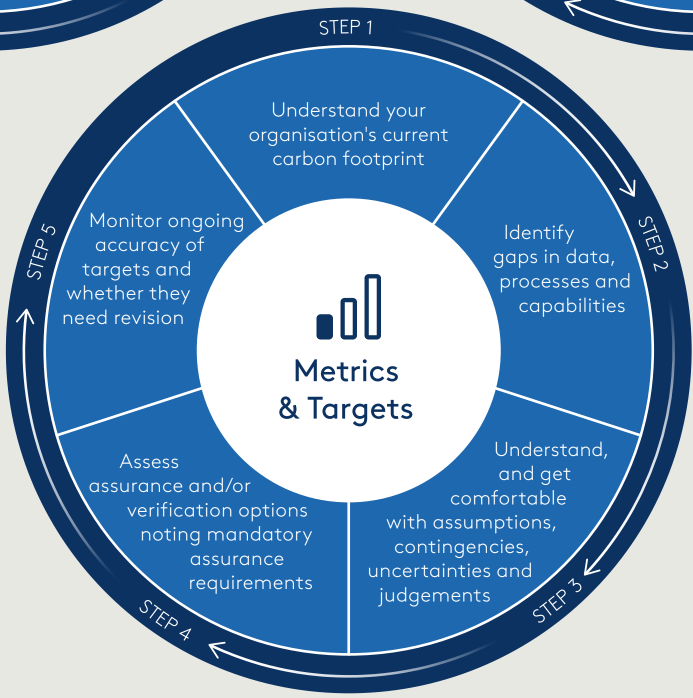
The AUASB issued a draft assurance timeline in September, commencing with mandatory limited assurance and moving to reasonable assurance (from the second reporting year for scope 1 and 2 emissions, and from the fourth reporting year for the remaining disclosures). For more details of what is proposed, see **Fact Sheet 6**.

HOW will requirements be enforced?

Non-compliance is a civil penalty. Certain disclosures will be subject to a three year period of regulator-only enforcement from 1 January 2025 (one year for all forward-looking disclosures and three years for scope 3, scenario analysis and transition plan disclosures).

Key steps for directors

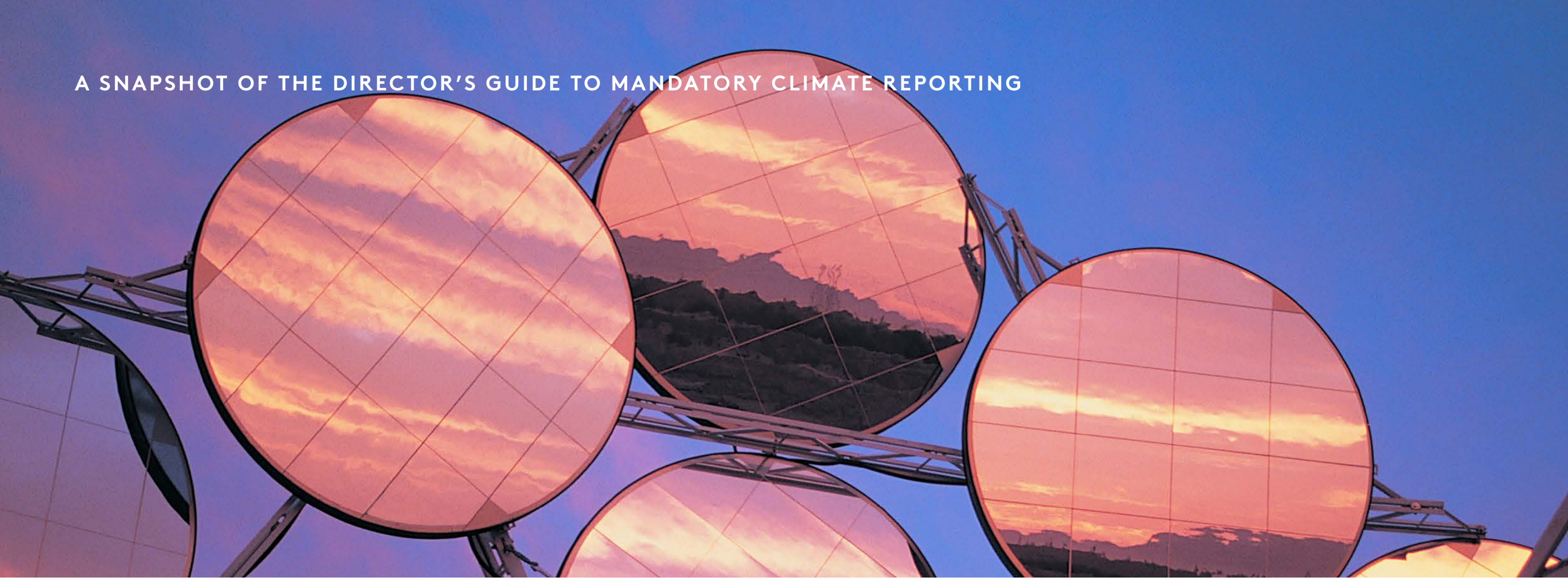




Key points

1. Australia's mandatory climate reporting regime was legislated in September 2024. It requires entities meeting certain size thresholds to disclose their climate-related risks and opportunities.
2. The regime adopts a staged approach: the largest emitters and corporations (Group 1, roughly equivalent to the ASX 200 and their private company equivalents) must disclose from 1 January 2025. Smaller Group 2 and Group 3 entities will be phased in from 1 July 2026 and 1 July 2027, respectively.
3. Organisations covered by Australia's sustainability reporting standards will need to make disclosures in accordance with AASB S2, the mandatory standard for climate-related disclosures. These disclosures must be included in a 'Sustainability Report', which will serve as the fourth component of the Annual Report (alongside the Financial Report, Directors' Report, and Auditor's Report).
4. AASB S2, is based on the international sustainability standard IFRS S2. Like the international standard, AASB S2 incorporates and builds on the framework of the Task Force on Climate-related Financial Disclosures (TCFD), but requires more detailed and quantitative disclosures of the current and anticipated financial impacts of climate change over the short, medium, and long term.
5. To incentivise fulsome disclosure in areas subject to high measurement or outcome uncertainty, Australia's mandatory climate reporting regime includes a period of regulator-only enforcement over certain disclosures (Modified Liability Period). The Modified Liability Period will apply to all forward-looking disclosures required under AASB S2 for the first year of the regime, and to all scope 3, scenario analysis and transition planning disclosures for the first three years.
6. Directors must exercise due care and diligence in overseeing the robustness of corporate reporting systems and processes as the board is generally accountable for public disclosures.
7. Diligent directors should consider:
   - current climate governance structures;
   - existing climate representations and disclosures – in reporting, marketing material and other communications including websites and social media;
   - the board and management's level of climate competency; and
   - data and systems needed for climate reporting.

   If gaps are identified, directors should work with management to consider the need to upskill, make technological investments and/or seek out external support.
8. Successful organisations will approach climate reporting as a strategic opportunity to demonstrate the value and the resilience of their organisation, rather than a compliance 'tick box' exercise.
9. Whether or not an organisation is yet subject to mandatory reporting, directors should consider the extent to which climate change has a material effect on the organisation's financial position, performance or prospects, and what disclosures may be required to present a 'true and fair view' of financial reports.



Top 10 questions for directors on mandatory climate reporting

CURRENT STATE VS END STATE

1. Is there a gap between our current climate disclosures, and what is required under the mandatory climate reporting regime? What is our plan to bridge this gap, and what resourcing and prioritisation is required?

DUTIES AND EXPECTATIONS

2. Are our climate disclosures consistent with the Financial Statements, notes and narrative disclosures?
3. When making forward-looking climate disclosures, have we followed and documented a due diligence process to ensure that such representations are made on 'reasonable grounds'?

SUGGESTED ACTION FOR BOARDS TO PREPARE FOR MANDATORY CLIMATE REPORTING

Governance

4. What governance structures at the board and management level will support mandatory climate reporting?
5. What is the level of climate competency at board and management level? What is the plan to upskill, where necessary, and maintain competence?
6. What external advice is needed, and what is the expertise and experience of those advisers?

Strategy and risk management

7. Is our climate strategy and climate transition plan realistic and evidence-based, with clear short-, medium- and long-term targets?
8. What process do we have, and how often will we review, progress against our transition plan and climate strategy?

Metrics and targets

9. Have we clearly identified which metrics and target are subject to a high degree of uncertainty, and set out the assumptions, judgements and methodologies applied?
10. What internal and external verification and assurance practices do we have in place, or do we need? Have we discussed our assurance requirements (including mandatory obligations) and readiness with our assurance providers?

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The Australian Institute of Company Directors is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership includes directors and senior leaders from business, government and the not-for-profit sectors.

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