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

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Mandatory climate reporting in Australia - what is being proposed?

WHO is covered?

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

WHEN will it commence?

Cohort 1: Reporting periods commencing 1 July 2024.

Cohort 2: Reporting periods commencing 1 July 2026.

Cohort 3: Reporting periods commencing 1 July 2027.

WHERE will disclosures be located?

Financial and Directors' Reports (OFR for listed entities).

WHAT disclosures will be required?

Disclosures under the International Sustainability Standards Board (ISSB)'s Climate Standard (IFRS S2), as adapted to the Australian context by the AASB.

IFRS S2 builds on the TCFD pillars of governance, strategy, risk management and metrics & targets.

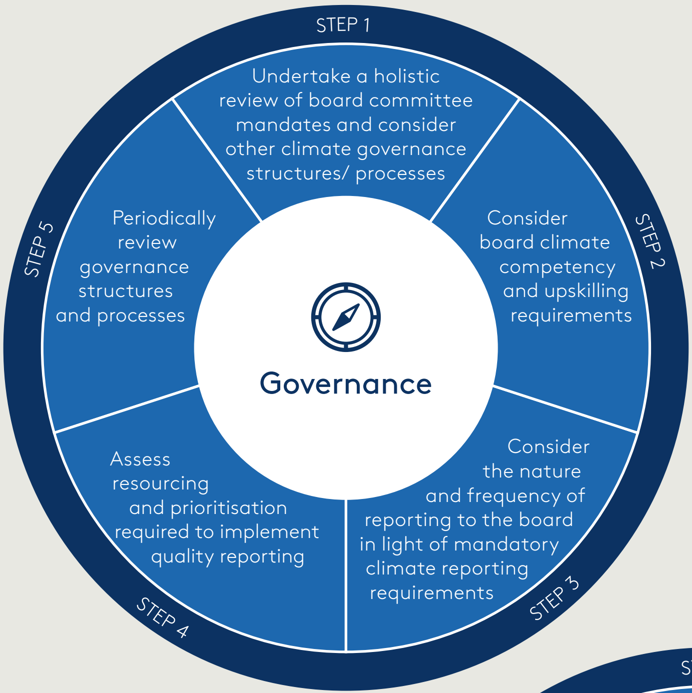
WHAT assurance will be required?

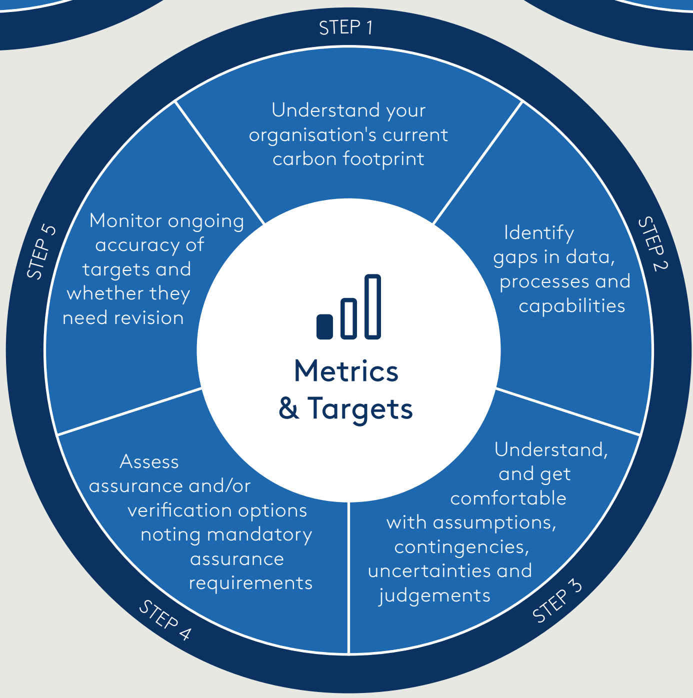
Phased in, starting with limited assurance for scope 1 and 2 GHG emissions and reasonable assurance over governance disclosures, moving to reasonable assurance over all representations from the fourth reporting year onwards.

HOW will requirements be enforced?

Non-compliance is a civil penalty three-year fixed period of regulator only enforcement from 1 July 2024 for misleading or deceptive conduct claims for scope 3 and certain forward-looking representations.

Key steps for directors

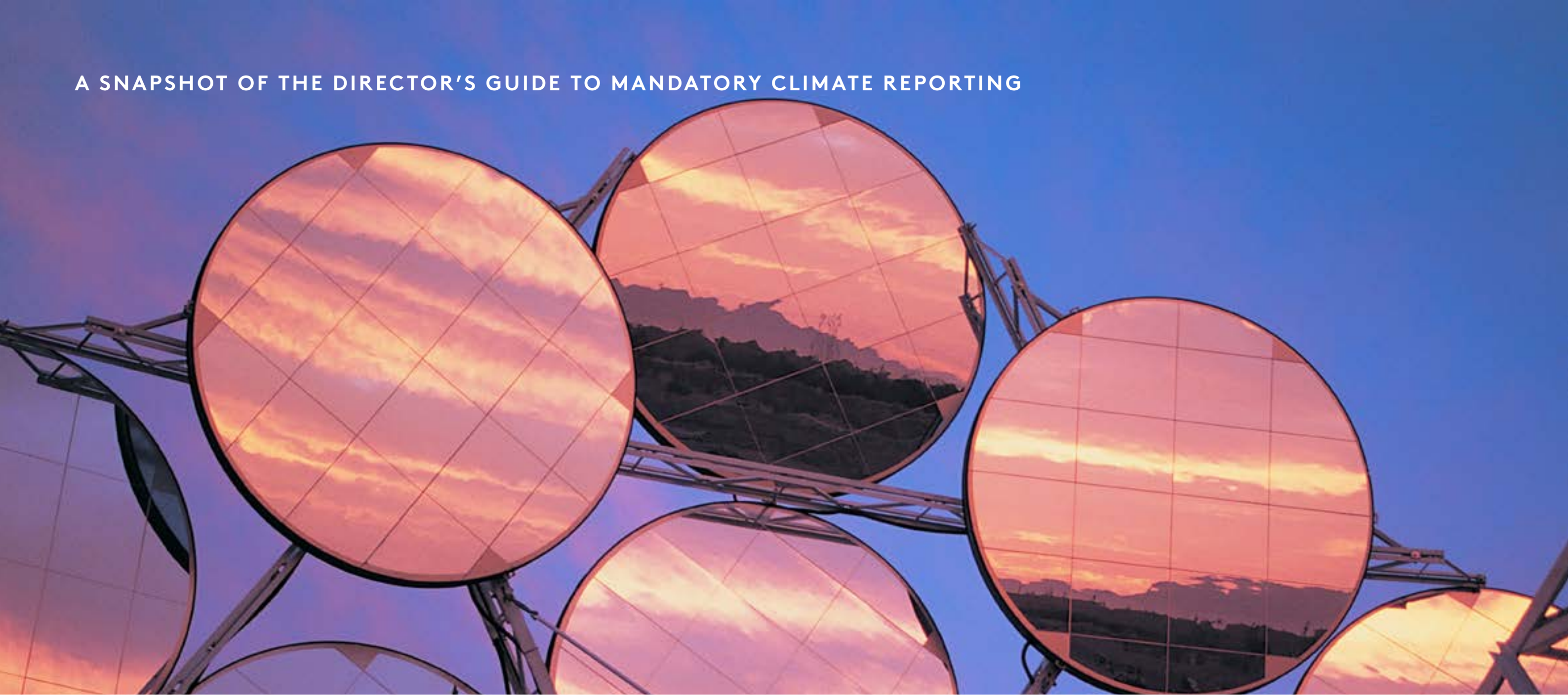




Key points

1. The Australian Government is in the process of implementing mandatory climate disclosures based on the International Sustainability Standards Board (ISSB)'s climate standard, IFRS S2.
2. It is proposed that climate disclosures be located in the Annual Report, and that the largest emitters and organisations will begin reporting from the reporting period commencing 1 July 2024.
3. IFRS S2 incorporates and builds on the framework of the Taskforce for Climate-related Financial Disclosures (TCFD) but requires more detailed and quantitative disclosures of the current and anticipated financial effects of climate change over the short, medium and long term.
4. IFRS S2 requires companies to disclose climate effects throughout their value chain. This means that companies which are not 'within scope' of mandatory climate reporting will still likely be subject to information requests from those that are.
5. Many organisations which are not captured by mandatory climate reporting may choose to voluntarily disclose so as to attract capital at a time when investors are focusing on managing climate risk in their investment portfolios.
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:
   a. current climate governance structures;
   b. existing climate representations and disclosures – in reporting, marketing materal and other communications including websites and social media;
   c. the board and management's level of climate competency; and
   d. 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 businesses 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 a company is yet subject to mandatory reporting, directors should consider the extent to which climate change has a material effect on the company'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 proposed mandatory climate 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 and readiness with our assurance providers?

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GUIDE CO-AUTHORS

The AICD would like to acknowledge our Guide co-authors:

David Rodgers

Partner - Audit & Assurance
Deloitte
drodgers@deloitte.com.au

Jonathan Streng

Director - Accounting Technical Climate Lead
Deloitte
jstreng@deloitte.com.au

Rebekah Cheney

Director - Climate Governance Lead
Deloitte
rcheney@deloitte.com.au

Sarah Barker

Partner – Head of Climate & Sustainability Risk Governance
MinterEllison
sarah.barker@minterellison.com

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