Climate Governance Initiative Australia

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A director's guide to mandatory climate reporting

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Foreword by ASIC Chair

As the world grapples with climate change, regulators, investors, and the wider community are increasingly expecting businesses to be clear about how they are managing the risks and opportunities presented by this global challenge.

Earlier this year, the Australian Government confirmed its intention to make climate-related disclosures mandatory for large businesses and financial institutions. In June 2023, the Commonwealth Treasury released the proposed design for a mandatory reporting framework, with the Australian approach to be based on standards recently issued by the International Sustainability Standards Board. Although the final details of the policy are yet to be settled, the strategic direction is clear.

This shift to mandatory climate-related disclosure presents the biggest change to corporate reporting in a generation. Navigating these issues will require concerted focus and investment by companies. Getting started early is critical, as is a recognition that the quality and depth of reporting will mature over time.

As stewards of long-term value, boards have a critical role to play in overseeing this shift to high-quality climate reporting, and building organisational resilience in the face of the escalating physical and transitional risks posed by climate change.

I am therefore pleased to see that the Australian Institute of Company Directors, Deloitte and MinterEllison have partnered via the Climate Governance Initiative (CGI) Australia, to publish a Climate Reporting Guide aimed at preparing directors for this major reform.

At its heart, good quality reporting must be underpinned by strong and effective governance. Boards must think about both the risks and opportunities facing their organisation, now and into the future. I encourage Australian directors and executives to show leadership at this critical juncture for our nation and economy.

The most successful and resilient companies will look at mandatory climate reporting not as a compliance exercise, but as an opportunity to demonstrate how they are building long-term value. I commend this Guide to all directors as a valuable reference point.

Joe Longo
ASIC Chair

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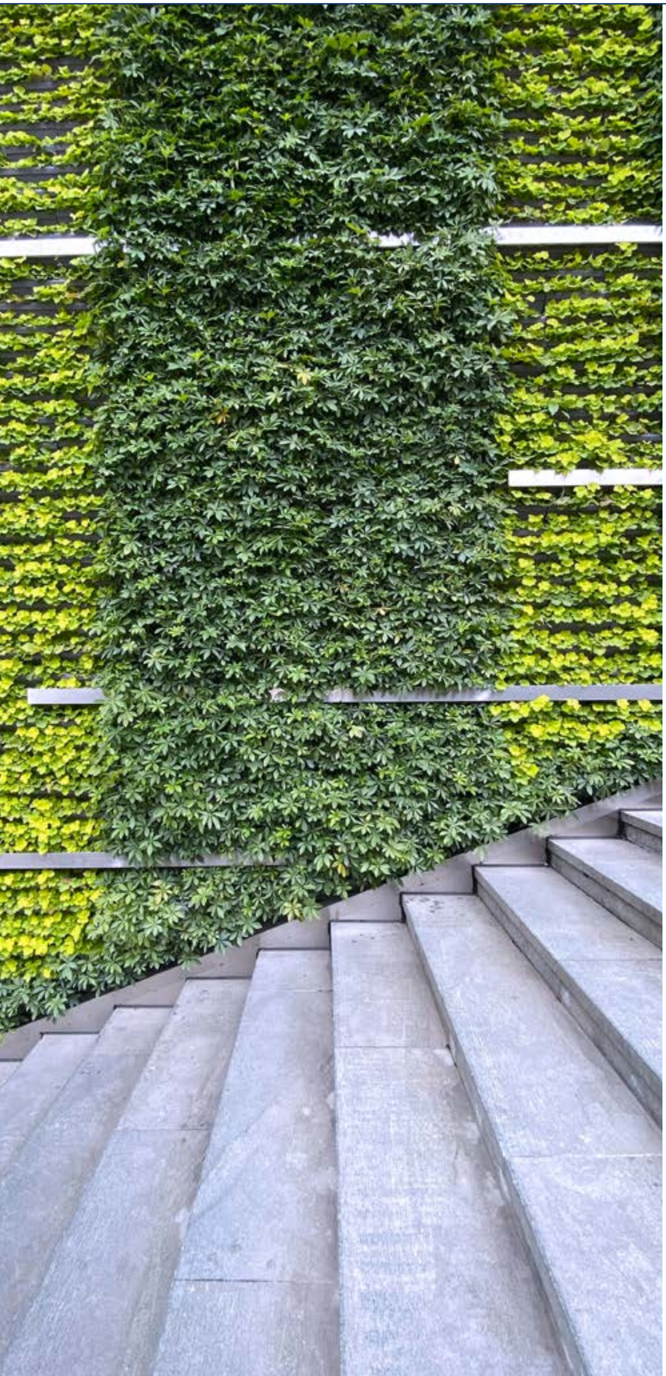


Guide audience and structure

The **primary audience** of this Guide are directors of organisations which are captured by Australia's proposed mandatory climate reporting framework, some of which would already be undertaking voluntary climate reporting. However, directors of organisations which are not currently captured may also find the Guide useful as such organisations may be subject to information requests from organisations which are captured (in light of the requirement to report across the value chain).

The Guide is structured into three chapters:

1. **Chapter 1 provides an overview of the current climate reporting landscape**, including a summary of the International Sustainability Standards Board (ISSB)'s Standards, key differences between the ISSB's Climate Standard, IFRS S2, and the TCFD, and the Australian Government's proposal for mandatory climate reporting in Australia.
2. **Chapter 2 sets out the legal duties and responsibilities of directors in respect of climate reporting**. This includes a consideration of directors' duties in respect of financial reporting and due care and diligence, as well as the prohibition against misleading or deceptive conduct.
3. **Chapter 3 provides practical steps that directors can take to meet their obligations to report on climate-related risks and opportunities** in respect of the topics of governance, strategy and risk management, and metrics and targets outlined in IFRS S2.

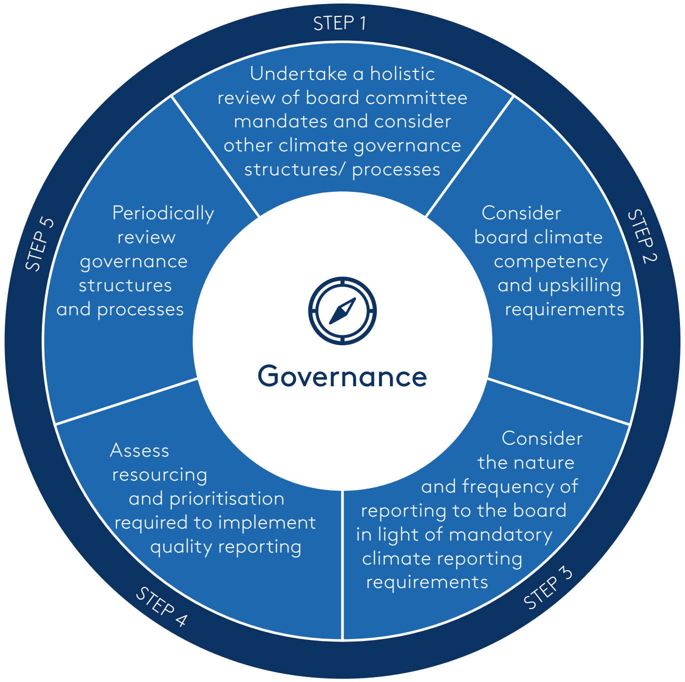
Each chapter contains a list of **Questions for Directors to ask** relevant to that chapter. A consolidated list of all questions in the Guide is available at Appendix A.

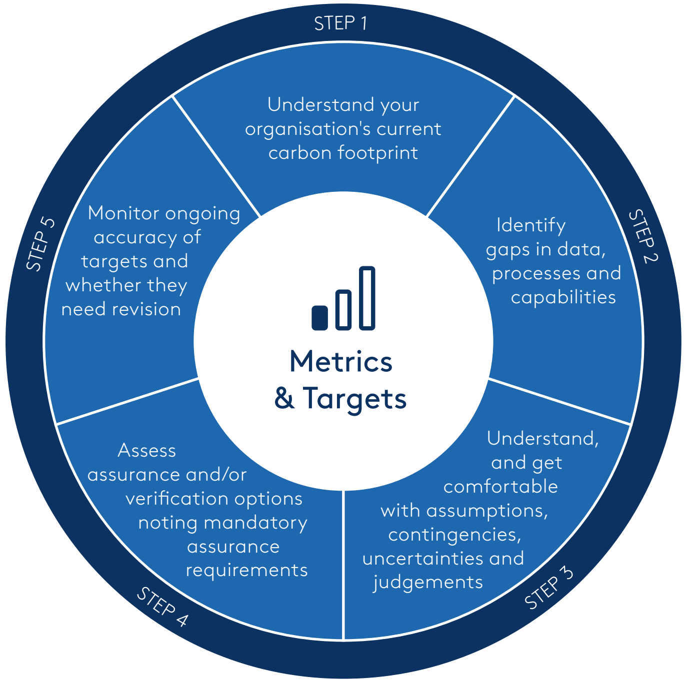
The utmost care has been taken to ensure this document accurately reflects the legislative and regulatory landscape as at the date of publication. However, this is an area subject to constant regulatory and legal change. **This document is intended to be a 'living document' which will be periodically reviewed and updated if and when key regulatory developments take place.**

We are interested in hearing from users of the Guide about their experiences and invite feedback by email to **policy@aicd.com.au**.

Executive Summary

To prepare for mandatory climate reporting, directors should focus their efforts on the below:





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.

CLIMATE GOVERNANCE INITIATIVE AUSTRALIA

The AICD is the host of the Australian chapter of the **Climate Governance Initiative (CGI) Australia**, which is part of a global CGI network of 29 bodies[1] promoting the World Economic Forum Climate Governance Principles for boards and effective climate governance within their jurisdictions. As host, our members have access to a global network of experts in risk and resilience and to non-executive directors who are leading their organisations' governance response to climate change.

As at the date of publication of this Guide, CGI Australia has:

- hosted webinars attended by around 5,800 attendeess;
- issued practice guides and reports on topics including managing climate risk and sustainability governance structures, which have had cumulative unique downloads of around 10,000;
- issued monthly climate newsletters sent to around 15,500 recipients; and
- organised two major climate governance conferences with nearly 1,400 attendees at the 2022 Climate Governance Forum, and over 1,500 attendees at the August 2023 event.

1. As at the date of publication of this Guide.

Chapter 1 | The mandatory climate reporting landscape

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. The mandatory regime is proposed to commence from the reporting period starting 1 July 2024 for large entities and large emitters, with organisations phased-in over the financial years commencing 1 July 2026 and 1 July 2027 based on organisational size.
3. IFRS S2 is based on the framework of the Taskforce for Climate-related Financial Disclosures (TCFD) but requires more detailed and quantitative disclosures of climate impacts over the short, medium and long term.
4. The board plays a critical function in overseeing climate reporting, given the significant reputational, legal and strategic issues involved.
5. Rather than applying a compliance-based mindset, boards should view this regulatory change as an opportunity to build organisational resilience and demonstrate value in a rapidly decarbonising economy.

The 'Climate risk governance guide: An introductory resource for directors on climate risk governance' provides a plain-language introduction to fundamental climate change concepts, and considers this issue in the context of the non-executive directors' role and duties.

1.1 THE JOURNEY TO ISSB REPORTING

Climate reporting came to the fore with the introduction of the recommendations of the TCFD in 2017. Since then, there has been steady uptake of Australian organisations adopting the TCFD as the basis of their climate reporting, increasing from approximately five per cent of ASX200 in 2018 to 67.5 per cent of the ASX200 in 2021.[2]

Among climate-related information disclosures in Australia (which themselves are less than 40 per cent of the total ASX-listed population), comprehensive and detailed disclosures remain relatively rare, with only nine per cent of these ASX-listed entities with climate-related disclosures in their annual reports reporting under all four pillars of the TCFD (as distinct from merely referencing the TCFD generally) in 2021.[3] Corporate climate-related disclosures to date have been frequently criticised by stakeholders, particularly investors, for being too generalised to be useful, and being disjointed from the financial statements. There has also been some criticism that companies have adopted net zero targets without having a realistic roadmap of how to get there, leading to accusations of greenwashing.

The International Financial Reporting Standards (IFRS) Foundation established the ISSB in November 2021 to sit alongside the International Accounting Standards Board (IASB). The ISSB was formed with a remit to improve the quality and comparability of disclosures by issuing sustainability standards that could form a global baseline of sustainability information. It has also provided the opportunity to consolidate the 'alphabet soup' of existing sustainability disclosure standards and frameworks.

In June 2023, the first two IFRS Sustainability Disclosure standards - IFRS® General Requirements for Disclosure of Sustainability-related Financial Information and IFRS® S2 Climate-related Disclosures (IFRS S2) were issued. These standards are colloquially referred to as the ISSB Standards.

These standards stipulate an effective date for global adoption of the financial year beginning on, or after, 1 January 2024 (with entities allowed to delay application of the disclosure requirements in IFRS S1 for one year), with individual jurisdictions (such as Australia) to mandate if, how, and when the standards are implemented locally.

BOX 1.1: LOOKING BEYOND CLIMATE – IS NATURE AND BIODIVERSITY THE NEXT CAB OFF THE RANK?

Although climate is the first thematic sustainability disclosure topic, a clear mantra from the ISSB has been 'climate first, but not climate only.' Beyond climate, nature has emerged as a key environmental risk for organisations to manage. There is growing awareness of the impact of corporate activity on the natural environment and complex ecosystems, as well as related social considerations such as the 'just transition.' The ISSB is considering topics addressing human capital, human rights and biodiversity among its agenda priorities.

With the Taskforce on Nature-related Financial Disclosures (TNFD), modelled on the TCFD, launched in September 2023, it is likely that nature will be a key area of focus for the ISSB and domestic policy makers in 2024.

With Australia being a significant funder of the TNFD, directors should be thinking about their organisation's biodiversity impact and on how nature positive solutions can contribute to achieving organisational climate goals.

Although corporate awareness of nature risks is relatively nascent, directors should expect that market and regulatory expectations for action are likely to quickly accelerate over the coming years.

For more information, see the CGI Resource **Biodiversity as a material financial risk: What board directors need to know** and the World Economic Forum's **Chairperson's Guide to Valuing Nature.**

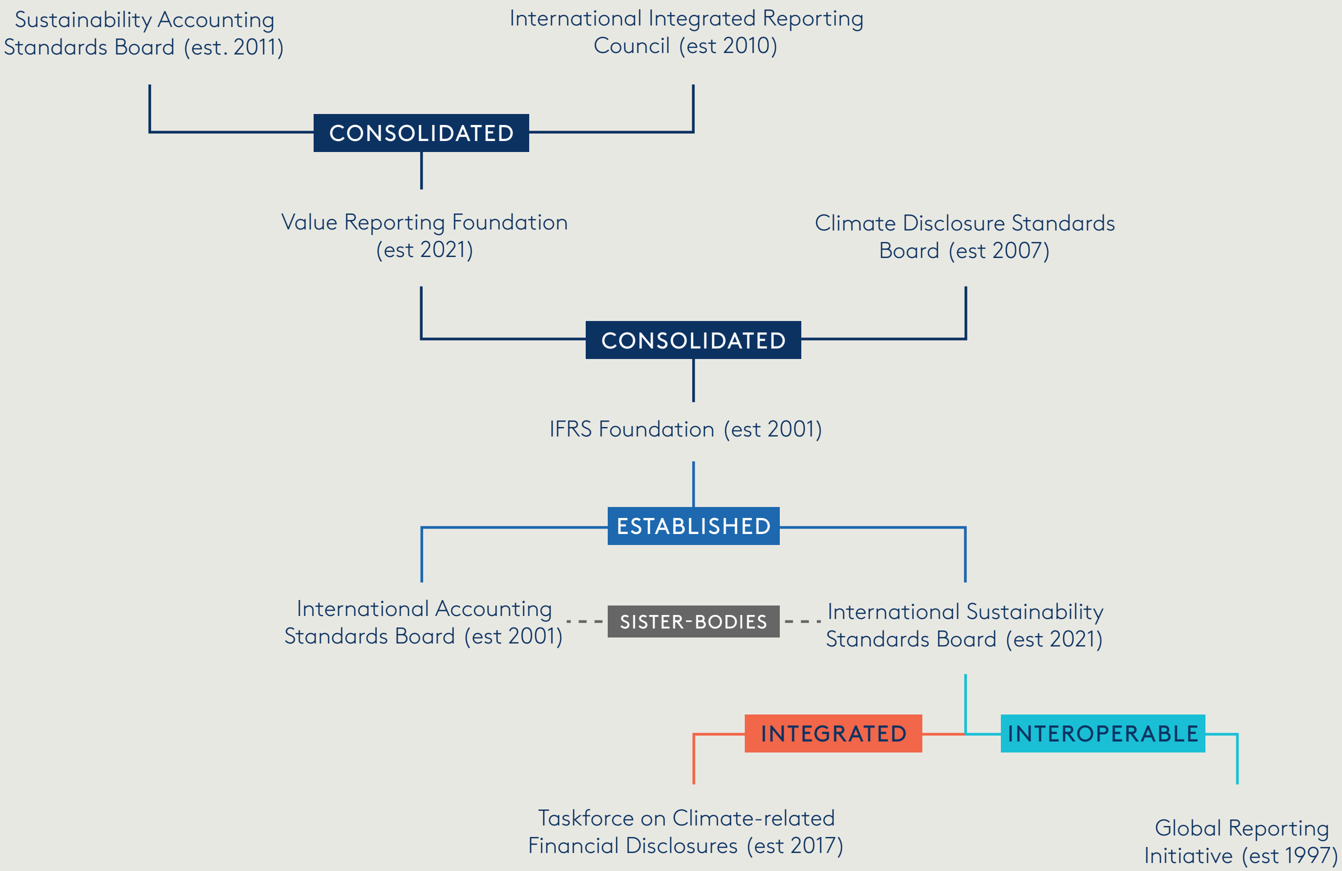
2. See Figure 1 of the Australian Council of Superannuation Investors (ACSI) (August 2023) **Promises, Pathways & Performance – Climate Change disclosure in the ASX 200**. The Figure 1 shows that approximately 10 of the ASX200 had adopted TCFD reporting in 2018 (5 per cent). This has grown to 135 in 2022 (67.5 per cent).
3. Up from 4.7 per cent in 2018. See Jean You and Professor Roger Simnett, (December 2023) **AASB-AUASB Joint Research Report on Climate-related Disclosures and Assurance in the Annual Reports of the ASX Listed Companies.**

1.2 DISSECTING THE ISSB STANDARDS – WHAT DO I NEED TO KNOW?

Both IFRS S1 and IFRS S2 are based on the four core pillars of the TCFD framework (see **Figure 1**) but provide a more detailed framework that better supports comparable disclosures. The issue of the ISSB Standards in June 2023 marked the culmination of the TCFD work and the transfer of TCFD monitoring responsibility to the ISSB from 2024.[4]

FIGURE 1: ISSB Standards architecture builds on the TCFD structure

FIGURE 2: Harmonising the 'alphabet soup' of global climate and sustainability reporting frameworks



4. IFRS (July 2023) IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024.

KEY ELEMENTS OF THE DISCLOSURES UNDER THE ISSB STANDARDS

IFRS S1 – General requirements *In Australia, the AASB has resolved to develop a limited-scope Australian equivalent to IFRS S1 focusing on the general requirements for climate-related financial disclosures only, rather than the broader sustainability disclosures envisaged by IFRS S1.*	• **Acts as the foundational standard** underpinning IFRS S2 and anticipated future topical standards, including nature and biodiversity, human capital and human rights.[5] • **Sets out and defines general reporting concepts,** including 'sustainability-related financial information,' the reporting entity, materiality, fair presentation, connectivity of information, judgements, comparative information, sources of estimation uncertainty and the correction of errors. • **Location and timing of disclosures:** Requires that disclosures are within the Annual Financial Reports and issued at the same time as the publication of financial statements, covering the same reporting period as the financial statements. The IFRS Foundation has included transitional relief (see Section 2.5 for details). See Section 1.3 below for the transitional relief proposed to apply in Australia. • Sets out the general disclosures required under each of the four core elements (governance, strategy, risk and metrics & targets) of the TCFD recommendations. • Directs preparers to other sources of information in the absence of specific IFRS Sustainability Disclosure Standards and guidance, including Sustainability Accounting Standards Board (SASB)[6] (which an entity must consider under IFRS S2,[7] but the Australian Treasury (Treasury) is not requiring, as per the June 2023 Consultation), Carbon Disclosure Standards Board (CDSB) application guidance,[8] the European Sustainability Reporting Standards (ESRS)[9] and the Global Reporting Initiative (GRI) standards.[10]
IFRS S2 – Climate disclosures *Australian Government commitment to develop domestic requirements that are aligned, as far as is practicable, with IFRS S2.*	• Requires disclosure of financial information relating to material, physical and transition climate-related risks and opportunities. • Based on the TCFD pillars of governance, strategy, risk management, and metrics & targets, but requires more granular and prescriptive quantitative disclosure requirements. These include (but are not limited to): – disclosure of any transition plan – reporting on scope 1, 2 and 3 emissions (for definitions, Chapter 3) – climate resilience using scenario analysis (for definitions, Chapter 3) – internal carbon prices (See Fact Sheet 4)

5. IFRS (May 2023) Consultation now open: The ISSB seeks feedback on its priorities for the next two years.
6. See SASB Standards homepage.
7. Paragraph 37 of IFRS S2.
8. See CDSB homepage.
9. European Commission (July 2023) The Commission adopts the European Sustainability Reporting Standards.
10. See GRI homepage.

The AASB has recently indicated it will develop a limited-scope domestic equivalent to IFRS S1 to support the implementation of a domestic equivalent to IFRS S2. Consultation on a broader, more comprehensive general sustainability standard is likely to be a focus of the AASB over the coming years.

1.2.1 What does IFRS S2 require of organisations in practice?

IFRS S2 requires that organisations make disclosures of material climate-related risks and opportunities that are decision-useful for the primary users of general-purpose financial reports. IFRS S2 provides a structure to report on this information which includes reporting on governance, carbon footprint, climate-related risks and opportunities, the current financial effects of climate-related risks and opportunities, anticipated future financial effects of climate-related risks and opportunities, and the strategies and plans in place to manage the impact, underpinned by appropriate metrics.

Some of these requirements necessitate organisations to make forward looking disclosures which are subject to measurement or outcome uncertainty. We discuss the legal implications of making forward looking statements in Chapter 2.

1.2.2 We already report under the TCFD, how are the requirements under IFRS S2 different?

The ISSB published a comparison of IFRS S2 with the TCFD recommendations.[11] We summarise the key aspects below. For a more comprehensive comparison, see Fact Sheet 2.

The key differences will take three forms in that IFRS S2:

1. Uses **different wording** to capture similar information as the TCFD recommendations, but is broadly consistent with the TCFD recommendations.
2. Requires **more detailed and granular** information than the TCFD recommendations, requires industry-specific content, and more specific requirements on disclosure of **quantitative** information.
3. **Elaborates and adds to the TCFD *Guidance***, including by adding further disclosure requirements or application guidance, while not deviating overall from the TCFD *recommendations* themselves.

11. IFRS Sustainability (July 2023) Comparison – IFRS S2 Climate-related disclosures with the TCFD recommendations.

TABLE 1: Summary table of relevant differences between the TCFD and IFRS S2

Table 1 compares IFRS S2 requirements to the core TCFD recommendations made in June 2017 (as distinct from the 2017 and 2021 TCFD Implementation Guidance). We do so in recognition of the fact that many Australian corporates disclose on a 'TCFD-lite' basis.[12] We note that the TCFD has issued implementation guidance in 2017 and 2021 which recommends the making of more detailed and granular disclosures, some of which are now mandated by IFRS S2. The evolution of the TCFD framework is a useful illustration of the continuing development and maturity of climate reporting. For a more comprehensive comparison, see **Fact Sheet 2**.

Topic	TCFD core recommendations	IFRS S2
Governance	General recommendation to: • Disclose board oversight of climate-related risk and opportunity. • Disclose management's role in assessing climate-related risk and opportunity.	Specifically requires disclosure of: • Details of board oversight, including identification of person/body responsible (and confirmation of competency), and how it is reflected in their role description/ mandate/ terms of reference. • The process in place to identify and prioritise climate-related risks and opportunities.
Strategy	General recommendation to: • Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term. • Describe the impact of climate risks and opportunities on the organisations' businesses, strategy and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a two degree or lower scenario.	Specifically requires disclosure of: • Any transition plans, including how the company plans to achieve any climate related targets that have been set. • Where, with an organisation's value chain, significant climate risks and opportunities are concentrated (e.g. geographical areas, types of assets). • Quantitative information on the current and anticipated effect of climate-related risks and opportunities on cash flows, access to finance, cost of capital, resource allocation, carrying amounts of assets and liabilities, and impact on current and committed investment plans. Qualitative information is permitted only in some circumstances. • Scenario analysis, and an explanation of whether it is aligned with the latest international agreement on climate change.
Risk Management	General recommendation to: • Describe the process for identifying, assessing and managing climate-related risk. • Explain how these processes are integrated into the overall risk management framework.	Specifically requires disclosure of: • Processes used to identify, assess, prioritise and monitor climate-related risk and opportunities, the input parameters it uses to identify risks, and whether it has changed the processes used compared to the prior reporting period. • How climate risk management is integrated into the company's overall risk management process.

12. **AASB and AUASB research (December 2022)** found that of the ASX listed companies who provided any climate-related disclosures in the Annual Report (which represented less than 40 per cent of the total ASX listed population), only 25.9 per cent referenced the TCFD recommendations in 2021, and only nine per cent explicitly disclosed under all four sections of the TCFD framework.

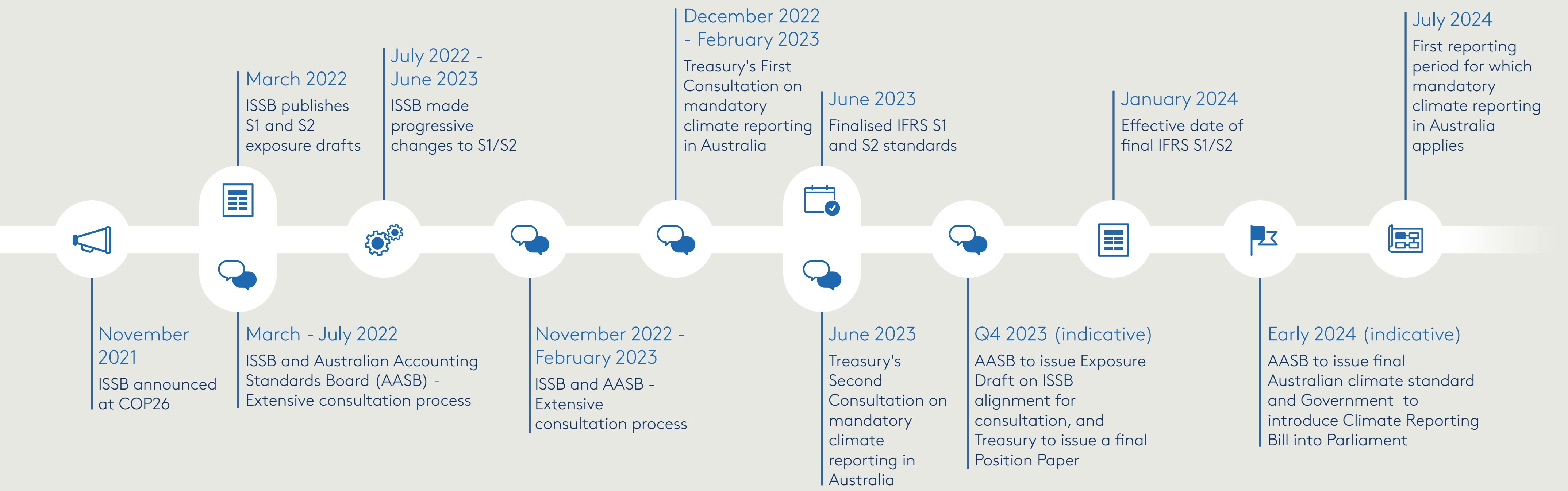
Topic	TCFD core recommendations	IFRS S2
Metrics & Targets	General recommendation to: • Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process. • Describe the targets used by the organisation to manage climate-related risk and opportunities. • Disclose scope 1, 2 and if appropriate, scope 3 Greenhouse Gas (GHG) emissions.	Specifically requires disclosure of: • All the metrics from the TCFD 2021 guidance which includes: – The percentage of executive management remuneration linked to climate-related considerations. – Internal carbon prices. – The amount and percentage of assets or business activities currently vulnerable to physical and transition risk and aligned with climate-related opportunities. – The amount of capital, financing or investment deployed towards climate-related risks and opportunities. • Any transition plans and climate-related targets (including details on the use of carbon offsets), processes in place to review transition plans, and quantitative information about progress of transition plans including disclosure of how the target compares against the latest international agreement on climate change. • GHG emissions including: – Scope 3 emissions. – Separate disclosure of scope 1 and 2 GHG for each consolidated accounting group and for associates, joint venture and unconsolidated subsidiaries not included in the accounting group. – Financed emissions for those with asset management, management, commercial banking and insurance activities.
Location and timing of reports	No binding recommendation, however the TCFD Implementation Guidance states that disclosures should be made within the mainstream financial report on a 'timely basis' at least annually, and should be updated in a 'timely' manner.	Requires disclosure (subject to transitional relief): • In the financial report. • Issued at the same time as the publication of financial statements. • Covering the same reporting period and the same reporting entity as the financial statements.

1.3 WHAT COULD AUSTRALIA'S MANDATORY REPORTING REGIME LOOK LIKE?

As part of its commitments under the Paris Agreement, the Australian Government's Climate Change Act 2022 outlines the Australian Government's commitment to reduce GHG emissions by 43 per cent by 2030 and reach net zero emissions by 2050.

In June 2023, the Australian Government released for consultation, the proposed design for Australia's mandatory climate reporting framework (Second Treasury Consultation[13]) - see **Figure 3**.

FIGURE 3: Timeline to mandatory climate reporting in Australia



13. Treasury (June 2023) **Climate-related financial disclosure: Second consultation** (Treasury June 2023 Consultation Paper).

WHAT DO WE KNOW ABOUT MANDATORY REPORTING IN AUSTRALIA?

A summary of the main aspects of the proposals set out in the Second Treasury Consultation are set out in Figure 4. We explain in more detail below.

FIGURE 4: Key elements of Government's proposal on mandatory climate reporting (from Treasury's Second Consultation)

WHO is covered?

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

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?

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.

WHO WILL BE REQUIRED TO REPORT?

A three-tiered approach is proposed, depending on organisational size. Proposed cohorts and timings are:

Cohort 1 (for 2024/2025 reporting periods):

- Those required to report under Part 2M of the *Corporations Act* being Disclosing Entities (as defined under the *Corporations Act*), public companies, registered schemes and large private companies (Reporting Entities) that fulfill two of the following three thresholds:

  1. Over 500 employees
  2. $1 billion+ in consolidated gross assets
  3. $500 million+ consolidated annual revenue

- Reporting Entities that are also National Greenhouse and Energy Reporting Scheme (NGERS) 'Controlling Corporations' which meet the NGER publication threshold.

Cohort 2 (for 2026/2027 reporting periods):

- Reporting Entities that fulfill two of the following three thresholds:

  1. Over 250 employees
  2. $500 million+ in consolidated gross assets
  3. $200 million+ consolidated annual revenue

- Reporting Entities that are also NGERS 'Controlling Corporations' which meet the NGER publication threshold.

Cohort 3 (for 2027/2028 reporting periods):

- Reporting Entities that fulfill two of the following three thresholds:

  1. Over 100 employees
  2. $25 million+ in consolidated gross assets
  3. $50 million+ consolidated annual revenue

- All Reporting Entities that are also NGERS 'Controlling Corporations' regardless of NGER publication threshold.

BOX 1.2: ARE CHARITIES AND NOT-FOR-PROFIT (NFP) ENTITIES PROPOSED TO BE COVERED?

Charities which are registered with the Australian Charities and Not-for-Profits Commission (ACNC) are not required to provide financial reports under Part 2M of the *Corporations Act*. Therefore, these entities are not captured by the current proposal for mandatory climate reporting.

However, on the face of it, NFPs which are **not** registered with the ACNC and **are** required to disclose under Part 2M of the *Corporations Act* may be captured by the proposed mandatory climate reporting regime.

Further information on application of mandatory climate reporting to charities and NFPs should be provided once the Government issues its final policy position.

WHEN WILL COMPANIES NEED TO REPORT?

- Cohort 1 entities, for reporting periods beginning on or after 1 July 2024
- Cohort 2 entities, for reporting periods from 1 July 2026
- Cohort 3 entities, for reporting periods commencing 1 July 2027

WHAT DO COMPANIES NEED TO REPORT?

The content of disclosures will be based on IFRS S2, as adapted to the Australian context by the AASB.

The Government has also provided an overview of disclosures they propose to include from commencement of the regime – governance, qualitative scenario analysis, and climate resilience assessments against two possible future states, one of which must be consistent with the global temperature goal set out in the *Climate Change Act 2022*, transition plans, climate-related targets (if they exist), identification and management of climate-related risks and opportunities, and scope 1 and 2 emissions.

It is proposed that entities will only be required to disclose **material** scope 3 emissions from their second reporting year onwards.

WHERE WILL COMPANIES NEED TO REPORT?

It is proposed that climate disclosures be set out in the **Annual Reports – specifically the Financial Report and Directors' Report**. For listed entities, much of this will be in the Operating and Financial Review (OFR) within the Directors' Report. Listed entities are also given the option of reporting 'metrics & targets' in a separate report, provided it is referenced in the Directors' Report. Entities must include an index table within their Annual Report that displays climate disclosure requirements and the correlating disclosure section and page number.

WHAT ASSURANCE WILL BE REQUIRED?

A phased-in approach is proposed (see Figure 5), commencing with limited assurance over scope 1 and 2 disclosures and reasonable assurance over governance disclosures for each respective cohort in their first reporting year. Notably, assurance will not be mandatory for transition plans required in year one for Cohort 1 entities.

The planned end state is to have reasonable assurance over all disclosures from the fourth reporting year, which will mean reasonable assurance for all cohorts of disclosing entities from the reporting period commencing 1 July 2030. For an outline of key assurance and verification pathways, including the difference between limited and reasonable assurance, see Fact Sheet 6.

FIGURE 5: Timeline for the proposed phase-in of mandatory assurance

1	2	3	4
First year reporting	**Second year reporting**	**Third year reporting**	**Fourth year reporting**
Limited assurance over scope 1 and 2 emissions **Reasonable assurance** over governance disclosures	**Reasonable assurance** over scope 1 and 2 emissions and other disclosures **Limited assurance** over scope 3 emissions, scenario analysis, transition plans (full quantitative assurance)	**Reasonable assurance** over scope 1 and 2 emissions and other disclosures **Limited assurance** over scope 3 emissions, scenario analysis, transition plans (full quantitative assurance)	**Reasonable assurance** over all climate disclosures

WHAT ARE THE LEGAL CONSEQUENCES OF NOT REPORTING OR INADEQUATELY REPORTING?

The Government proposes to introduce civil penalty provisions into the *Corporations Act*, so that a failure to disclose, or inadequate disclosure, would attract a civil penalty. The Government also proposes that enforcement for misleading or deceptive conduct or 'similar claims' in respect of scope 3 emission disclosures and select forward-looking disclosures (being scenario analysis and transition planning) will be limited to regulator-only action for a fixed period of three years.

BOX 1.3: WHAT ABOUT COMPANIES NOT CAPTURED BY THE MANDATORY CLIMATE REPORTING REGIME?

Organisations which do not fall within Cohort 1 to 3 may choose to voluntarily disclose so as to attract capital at a time when investors are mindful of climate risks in their investment porfolios. For a summary of what is driving detailed climate disclosures and why those not covered by mandatory disclosure regimes should consider voluntary disclosure, see **Fact Sheet 1**.

1.4 WHAT ARE OTHER JURISDICTIONS DOING ON CLIMATE REPORTING?

One of the main purposes of the ISSB Standards is to consolidate existing standards and frameworks and create a global baseline to promote greater comparability of sustainability (including climate)-related disclosures worldwide.

However, in light of the ISSB only forming in November 2021 and only releasing finalised standards in June 2023, many jurisdictions which were early adopters of mandatory climate and/or sustainability reporting disclosures (such as New Zealand and the EU) have already developed and implemented their own sets of sustainability and/or climate disclosure standards and/or have mandated TCFD-aligned disclosures (such as the UK).

The Securities and Exchange Commission (SEC) in the US is in the process of introducing its own climate-related disclosure rule. For further information, see **Fact Sheet 3**.

The ISSB has committed to publishing guidance as to how to link these jurisdictional specific requirements with that of the ISSB Standards to support interoperability.

In a significant milestone, in July 2023, the **International Organization of Securities Commissions (IOSCO)** announced[14] their qualified endorsement of the ISSB Standards[15] and called on its 130-member jurisdictions (representing regulators covering more than 95 per cent of the world's securities markets) to consider how they may incorporate the ISSB Standards into their respective jurisdictional regulatory frameworks.

14. IFRS (July 2023) IFRS Sustainability Disclosure Standards endorsed by international securities regulators.
15. IOSCO (July 2023) IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards.

BOX 1.4: WHAT DO COMPANIES NEED TO CONSIDER FOR OPERATIONS IN DIFFERENT JURISDICTIONS?

- Who is part of our upstream and downstream value chain?
- How do we plan to work with suppliers and our broader ecosystem (including data collection)?
- What are our disclosure requirements and the relevant regulatory frameworks in place in the jurisdictions within which we operate?
- Do the data collection requirements differ between jurisdictions?
- When are we required to prepare climate or other sustainability disclosures?

What are key risk factors to mitigate against when reporting in other jurisdictions?

- Insufficient forward planning and lead time.
- Assumption that a subsidiary or organisation is not captured by disclosure requirements in other jurisdictions.
- Relationships and data collection agreements not established with suppliers.

Have a US or EU subsidiary?

- See Fact Sheet 3 for guidance on reporting in these jurisdictions.

QUESTIONS FOR DIRECTORS TO ASK

1. If, and when, will our organisation be covered by the proposed mandatory climate reporting regime in Australia?
2. How do the reporting requirements compare with our current practices? What is our plan to bridge any gap? What internal and external expertise is needed?
3. If our organisation is not captured, are there organisations within our value chain that are likely to be impacted by others' reporting requirements?
4. Are any of our overseas operations captured by climate reporting requirements overseas? (See **Fact Sheet 3** for guidance for companies with EU or US issuance, operations or subsidiaries)

Chapter 2 | What are the duties and expectations of me as a director?

KEY POINTS

1. Ultimate sign-off for reports will typically lie at the board level. In providing sign-off, directors must exercise due care and diligence in overseeing the robustness of corporate reporting systems and processes, and in assessing the materiality of climate-related risks and opportunities to their organisation.
2. Directors should understand what internal expertise and expert support will be needed to publish clear and accurate climate reports.
3. The standard of care required of directors is shifting and will require appropriate upskilling and education to demonstrate an active oversight role over management.
4. Whether or not a company is yet subject to mandatory reporting, directors should consider the extent to which climate change has a material impact 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.

2.1 THE LEGAL CONTEXT – DIRECTORS' DUTIES IN RELATION TO CLIMATE CHANGE

One of the primary financial reporting obligations for directors is to oversee the preparation of the Annual Report in compliance with the *Corporations Act*. Directors are responsible for the content of the financial statements and must ensure that the Financial Statements and Notes and Directors' Report disclose any information that may have a material impact on the financial position, performance and prospects of a company. This includes any material climate change and broader sustainability-related information.

Ultimately, directors must ensure that the report presents a true and fair view of the company's financial performance, position and prospects that is not misleading or deceptive.[16]

That means that certain entities required to disclose under the *Corporations Act* that are not covered by mandatory climate reporting may still be required to disclose climate-related risk if it is material.

Liability can arise not only for any misleading disclosure, but for a breach of the duty of due care and diligence[17] where a director has failed to apply adequate diligence to their *oversight* of the company's systems for financial reporting.

In considering directors' duties for climate-related financial reporting, it is important to understand legal obligations relevant to both:

1. the content of financial reports; and
2. the duty of due care and diligence more broadly.

2.2 FINANCIAL REPORTING AND CLIMATE CHANGE

In Australia, financial reporting obligations are primarily set out in the *Corporations Act*. The content and interpretation are partly informed by 'soft law' such as regulator guidance, investor expectations and evolving standards of practice.

In general, there is a requirement for all public and large proprietary companies to publish Annual Reports.[18] This includes financial reports containing the financial statements and notes, directors' declaration, and the Directors' Report. A summary of the reporting requirements, and how they may require disclosure of climate-related variables, is set out in **Box 2.1**.

A key takeaway for directors is that climate-related risks and impacts must already be disclosed if they are material to their organisation.

16. Section 297 of the Corporations Act (CA) notes that if the financial statements prepared in compliance with the accounting standards do not give a true and fair view, additional information must be included in the notes to the financial statements.
17. Section 180(1) of the CA.
18. Section 292 of the CA.

BOX 2.1: SUMMARY OF REPORTING OBLIGATIONS IN AUSTRALIA AND WHERE CLIMATE CHANGE FITS IN

Legal obligation	Where climate change fits in
Financial statements and notes	
• Must provide a **true and fair view** of the financial position and performance of the company.[19] Presenting a true and fair view requires disclosure of all **material** information. • Must comply with Australian Accounting Standards. Additional information may be required to ensure the presentation of a true and fair view.[20] • Directors must take all reasonable steps to comply with (and secure the company's compliance with) the financial reporting requirements.[21] • Information in the financial statements and notes must be externally audited.[22] • Prohibition on misleading or deceptive representations.[23]	**Current legal obligations** • The impact of climate change should be disclosed where it is **material to financial performance or position**. Failure to do so may also render the financial statements and notes misleading or deceptive. **Where company is subject to IFRS S2** • ISSB 'materiality' is consistent with current Australian Accounting Standards (see discussion on materiality in Section 2.3 and Section 2.4 below). • Directors must ensure that all information prescribed by the *Corporations Act* and other relevant laws and regulations (prescribed information) is duly included in the Annual Report. • Tailored assurance requirements.
Directors' Report	
• Must disclose (among other things) likely future developments in operations and expected results of those operations, and post-balance date matters or circumstances that may significantly affect future operations, state of affairs and results.[24] • Listed companies should disclose information that members would reasonably require to make an informed assessment of the business strategies and prospects for future years in an OFR. ASIC Regulatory Guide 247 notes that climate change may need to be disclosed in the OFR if it has a material impact on the future financial position, performance or prospects of an entity. • May need to disclose performance in relation to significant environmental regulations.[25] • Prohibition on misleading or deceptive representations.[26]	**Current legal obligations** • Disclosure where climate change may impact an entity's future operations and expected future results, and where it may give rise to post-balance sheet date events that have, or may significantly impact on future operations, state of affairs or results. • For **listed entities,** climate-related issues must be disclosed if they have a material impact on the future financial position, performance or prospects of the entity.[27] **Where company is subject to IFRS S2** • Directors must ensure that all prescribed information is included in the Annual Report (and failure to comply may lead to civil penalties and misleading or deceptive conduct claims). • Tailored assurance requirements.

19. Section 297 CA.
20. Sections 296, 297 CA.
21. Section 344 CA.
22. Section 301 CA.
23. Sections 1041 E and 1041H CA and Sections 12DA, 12DB and 12DF ASIC Act.
24. Section 299 CA.
25. Sections 299 (1) (f) CA.
26. Sections 1041 E and 1041H CA, and sections 12DA, 12DB and 12DF ASIC Act.
27. ASIC's Regulatory Guide RG 247 - see RG247.66.

Legal Obligation	Where climate change fits in
Continuous Disclosure obligations (listed companies only)	
• Must immediately disclose to the ASX if it becomes aware of information concerning it where the information is not publicly available, and a reasonable person would expect that the information, if it were generally available, would have a material effect on the price or value of securities.[28] • Information is taken to have a 'material effect on the price or value of the entity's securities' if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell, the securities. A likely price impact of 10 per cent or more will generally be considered material and will be referred to ASIC as a potential breach of Continuous Disclosure Obligations.[29] • Prohibition on misleading or deceptive representations where there is likely price impact of five to 10 percent may be material, depending on the circumstances.[30]	**Current legal obligations** • Obligations may arise where a company becomes aware of non-publicly available information which renders a prior climate representation (such as a transition plan or climate target) unviable. However, the relevant materiality is that of the ASX (financial materiality), rather than the ISSB concept of materiality. **Where company is subject to IFRS S2** • The Government has suggested that the ASX may wish to provide guidance as to the interaction between continuous disclosure obligations and mandatory climate disclosures.
Corporate Governance Statement (listed companies only)	
• Must disclose the extent to which (on an if not why not basis) the company has followed the recommendations of the ASX Corporation Governance Council in the ASX Corporate Governance Principles and Recommendations 4th edition, including Recommendation 7.4 which states that *"a listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks, and, if it does, how it manages or intends to manage those risks."*	**Current legal obligations** • The ASX Corporate Governance Principles and Recommendations states: *"The Council would encourage entities that believe they do not have any material exposure to environmental or social risks to consider carefully their basis for that belief and to benchmark their disclosures in this regard against those made by their peers,"*[31] and suggests that entities with material climate change issues consider disclosing under the TCFD. **Where company is subject to IFRS S2** • The ASX Corporate Governance Principles and Recommendations will shortly be the subject of review, with consideration of sustainability matters likely to feature prominently.

28. Sections 674 and 674A CA, ASX Listing Rule 3.1).
29. ASX Listing Rules, Guidance Note 8.
30. Sections 1041 E and 1041H CA, Sections 12DA, 12DB and 12DF ASIC Act.
31. ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, 4th ed (2019) at page 28.

2.3 MATERIALITY UNDER AUSTRALIAN LAW

The AASB considers information to be material *"if omitting, misstating or obscuring it could reasonably be expected to influence decisions"* of the primary users. Material information needs to be disclosed to ensure that the financial statements and notes provide a true and fair view of the financial position and performance of the company.[32]

This test of 'materiality' is not a 'bright line' quantitative rule. It requires consideration of qualitative factors, including external factors such as the industry in which the entity operates. Investor expectations may make certain risks, including climate-related risks, 'material' which may warrant disclosure.[33] In April 2019, the AASB and the Australian Auditing Standards Board (AUASB) published guidance on assessing the materiality of climate-related risk and other emerging risks (Materiality Guidance), which highlighted that climate change may be material and may need to be disclosed in the circumstances set out in Box 2.2.

BOX 2.2: WHERE CLIMATE CHANGE MAY BE MATERIAL TO FINANCIAL STATEMENTS

Circumstances where climate-related risks may be material	Examples from AASB and AUASB in 2019
Investors reasonably expect that climate-related risks have a significant impact on the entity and/or could qualitatively influence investors' decisions, regardless of the quantitative impact on the financial statements.	Where investors reasonably expect that climate-related risks will impact the entity's sector (i.e. high risk sectors) such as the fossil fuel, transport and electricity production and transmission sectors. However, with the recognition of the impact of emissions throughout value chains, investors are beginning to demand climate disclosures even outside of those high-risk sectors.
Climate-related risks likely to have a material impact in the entity's specific circumstances.	Where an entity's property, plant or equipment are located in a flood or bushfire zone (physical climate risk), or where demand for an entity's product or service offering is likely to be impacted by a decarbonising economy (such as demand for fossil fuels or clean energy).
Climate-related risks affect any of the amounts recognised or disclosed in the financial statements.	Where the organisation has been able to quantify the impact of climate-related risks and opportunities. This could arise where climate-related risks have a material impact on the amounts recognised in the financial statements. This may include impact on: • asset impairment; • changes in the useful life of assets; • changes in the fair valuation of assets; • increased costs and/or reduced demand for products and services; • recognition of provisions for onerous contracts; • provisions and contingent liabilities arising from fines and penalties; and • changes in expected credit losses for loans and other financial assets. More examples are provided in Box 2.3.

32. Section 297 CA.
33. See AASB and AUASB (April 2019) Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2 page 3; AASB (April 2022) AASB Practice Statement 2: Making Materiality Judgements.

BOX 2.3: WHAT ARE SOME EXAMPLES OF CLIMATE-RISK EFFECTS ON FINANCIAL STATEMENTS?

Many inputs and assumptions, such as estimates of future cash flow, discount rates and long-term growth rates that impact amounts recognised in financial statements, may be significantly impacted by physical[34] and transition[35] climate-related risks. Some examples may include:

- **Revenue impacts:** A tourism company's stranded assets due to sea level rise; an agricultural business' yields falling in areas with extreme weather events; or businesses producing single-use plastics experiencing reduced demand due to changing customer preferences or regulation.
- **Cost line implications:** This might include a carbon tax or similar levy on exports into some countries i.e. a Carbon Border Adjustment Mechanism[36] or on GHG emissions impacting forecast cash outflows, government regulation creating caps on supply, changing use of natural resources or increased costs to achieve higher standards of energy efficiency for commercial property.
- **Changing estimated useful lives or residual values:** This may include markets for less energy efficient machinery decreasing or being replaced earlier than expected as more efficient technology enters the market.

ASIC has stated that its expectation for listed companies is that an OFR within the Directors' Report will include a discussion of ESG risks where those risks could affect the entity's financial position or performance, taking into account the nature and business of the entity and its business strategy.[37]

2.4 MATERIALITY UNDER THE ISSB STANDARDS

The ISSB Standards define materiality consistently with the definition found in International and Australian Accounting Standards, with information being deemed to be material where *"omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general-purpose financial reports."*

'Primary users' are defined in IFRS S1 as existing and potential investors, lenders and other creditors.

Application Guidance in IFRS S1 states that identifying material information requires consideration of the characteristics of investors and of the entity's own circumstances.[38]

Many of the disclosures required by IFRS S2 require consideration of the anticipated effects of possible future events with unknown or uncertain impacts.

> **When considering whether possible future events are likely to be material,** IFRS S1's Application Guidance states that an entity should consider:
>
> 1. the potential impact on the event by reference to the effect on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term; and
> 2. the likelihood of the event.

IFRS S1 notes that generally, materiality is more likely where potential impacts are significant and the event is likely to occur. Impacts that are significant but won't occur for many years into the future are generally less likely to be material than impacts that are significant and are anticipated to take place in the shorter term. However, IFRS S1 also states that a low-probability, but high-impact outcome may also be material either in isolation or in combination with other low-probability and high-impact events.

34. Physical risk refers to risk arising from the physical effects of climate change such as global warming, rising sea levels, or extreme weather events such as flood or drought.
35. Transition risk refers to risk arising from economic shifts towards a low carbon future, including impact of regulatory change, technological advancements and changes in customer preferences and behaviour.
36. ESG Today (April 2023) EU lawmakers approve new carbon tax.
37. ASIC Regulatory Guide 247, at 247.66.
38. IFRS S1 Application Guidance B19 to B28.

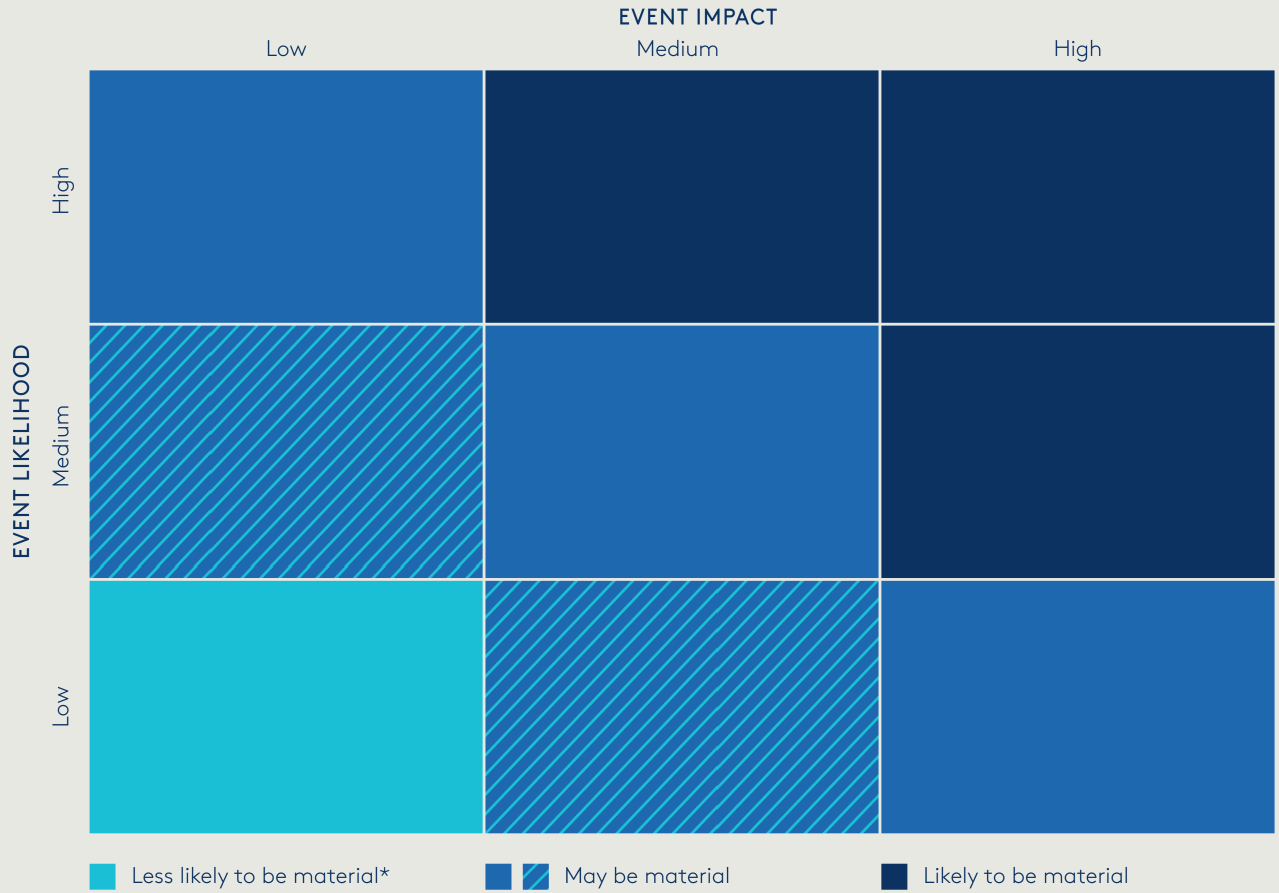
Notably, IFRS S1's Application Guidance states that in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular sustainability risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.[39]

The risk matrix at Figure 6 may assist preparers in considering which possible future events may be material.

2.5 Forward-looking statements and liability risk

Chapter 1 illustrates that many of the disclosures required under the ISSB Standards involve forward-looking information across medium and long-term time horizons, and data relating to risks that occur outside the scope of a company's direct control (such as scope 3 emissions data). This presents challenges relating to data availability and uncertainty, and prompts the question: **how should directors approach these issues to minimise the risk of misleading disclosure?**

FIGURE 6: Materiality risk matrix - Future possible events



* Subject to an assessment of whether a risk or opportunity is likely to be highly scrutinised by report users, which may render it material.

39. IFRS S1 Application Guidance B24.

WHY ARE ISSB FORWARD-LOOKING STATEMENTS DIFFERENT?

As part of their financial reporting, some companies make forward-looking statements that estimate or make projections as to the financial position and performance of the company. This includes demand outlooks, impairment assessments, asset useful lives assessments, estimated rehabilitation costs and earnings forecasts.

However, such representations are subject to well established accounting principles that are generally applicable to all reporting entities and are generally subject to full external audit. Auditing provides the opportunity for auditors to test and challenge the assumptions made by directors and management, which lifts the overall robustness and veracity of financial statements.

Without the benefit of decades of established principles and conventions, there is a heightened level of uncertainty relating to climate disclosures which in relative terms, is still in its infancy. In particular, IFRS S2 calls for highly company-specific disclosures which, under the Treasury's current proposals, are currently either not assured, or only subject to limited assurance.

Further, a significant number of IFRS S2 disclosures will require prediction or estimation over long (5 to 10 year+) time horizons and be subject to constantly changing assumptions due to changes in decarbonisation trajectories, technological development and changing government regulation. For instance, the future demand and projected revenue from a product may be heavily subject to technological development. The International Energy Agency (IEA) has stated that *"in 2050, almost half the reductions will come from technologies that are currently at the demonstration or prototype phase. In heavy industry and long-distance transport, the share of emissions reductions from technologies that are still under development today is even higher."*[40]

WHAT HAS THE ISSB SAID ABOUT ISSUES OF UNCERTAINTY?

The ISSB Standards explicitly acknowledge that there may be areas of estimation and uncertainty in climate-related financial disclosures. In response to this, the ISSB Standards require that the entity must identify the amounts that are subject to measurement uncertainty, the reason for, or source of the uncertainty,[41] and the assumptions, approximations and judgements the entity has made in measuring the amount.

For IFRS S2, relevant disclosures impacted by measurement uncertainty would include:

- disclosing the anticipated future effects of sustainability-related risks and opportunities;
- the amount and percentage of assets or business activities vulnerable to physical and transition risk, and aligned with climate-related opportunities;
- climate resilience disclosures, including the undertaking of scenario analysis and its interpretation;
- any transition plans and climate targets; and
- scope 3 GHG emissions.

Another means of providing more comfort to reporting entities is that certain disclosures in IFRS S2 need only be based on *"reasonable and supportable information that is available at the reporting date without undue cost or effort"*. This concept is referred to here as the **Proportionality Test**.

40. IEA (October 2021) Net Zero by 2050: A Roadmap for the Global Energy Sector at 15. The IEA similarly stated in a 2023 report that "(m)any of the clean energy technologies required to get to net zero by mid-century are not available at scale today": see IEA (January 2023) Energy Technology Perspectives at 50.

41. E.g. dependence on an uncertain future event or measurement technique.

PROPORTIONALITY AND APPLICATION IN AUSTRALIA

The ISSB Proportionality Test provides that when making the relevant disclosures, organisations must consider information that is **reasonably available, and must:**

- disclose information that is known and/or held by the organisation as at the reporting date, including information about past events, current conditions and forecasts of future economic conditions, where that information can be located without undue cost or effort;
- consider the entity's resources (personnel, time and money), when making disclosures. For instance, ISSB has stated that *"an entity that is more resource constrained, such that the costs of obtaining particular information is proportionally higher than for entities with fewer resource constraints, would be permitted to undertake a proportionally less exhaustive search for information"*[42]; and
- have a **reasonable basis** for using the information (i.e. the disclosure must be supportable). There appears to be no direct guidance from the ISSB as to what constitutes 'supportable', but it is generally understood to be information that can be demonstrated as having a reasonable basis at the time it was stated. Under Australian law, forward-looking statements (many of which are required by IFRS S2, see **Section 2.5**, and **Box 2.4**) must be made on reasonable grounds.

HOW WILL IT APPLY IN AUSTRALIA?

The Proportionality Test is effectively equivalent to that contained in certain Australian Accounting Standards in respect of uncertain future matters.[43] However, it is not broadly applied by the AASB nor IFRS Accounting Standards[44] and is not a test under Australian law. Further, the extent of the interaction between the respective 'reasonable grounds' (under Australian law) and 'reasonable and supportable information' (under the ISSB Standards) tests remains unclear.

It remains to be seen how the tension between the accepted level of uncertainty under the ISSB Standards, and the level of reliability required for financial statements will be reconciled in Australia. However, particularly as data, tools and methodologies continue to mature and proliferate, it is likely to become increasingly difficult to justify non-disclosure on the basis of proportionality. Accordingly, companies should not assume that any lack of disclosure will be excused by the ISSB Proportionality Test and should review their approach at the start of every reporting period.

42. IFRS (February 2023) **February staff paper: Proportionality and support for those applying IFRS S1 and S2.**
43. E.g. expected credit losses and estimates of future cash flows for impairment testing purposes which should be reasonable and supportable.
44. In the sense of it not being a feature of all accounting standards and is not present in the Conceptual Framework for financial reporting.

FORWARD-LOOKING STATEMENTS AND 'REASONABLE GROUNDS'

As directors are aware, special rules apply to misleading disclosure for forward-looking statements. Box 2.4 sets out the main forward-looking statements required under IFRS S2.

BOX 2.4: WHAT ARE THE FORWARD-LOOKING STATEMENTS REQUIRED UNDER IFRS S2?

IFRS S2 requires that organisations make certain forward-looking disclosures, including:

- **the significant climate-related risks and opportunities** that an organisation reasonably expects could affect its business model, strategy and cash flows, its access to finance, and its cost of capital, over the short, medium or long term;
- **the anticipated changes to the organisation's business model,** including changes to resource allocations, capital expenditures, research and development (R&D) expenditure, acquisitions, divestments and impacts on legacy assets, carbon and water-intensive assets, as well as carbon, energy and water-intensive operations;
- **a description of any transition plan and climate-targets**, including the extent to which the plan relies on carbon credits, the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain, how the transition plan will be resourced, and the processes in place for review of targets. Note that if an entity does not have a transition plan, the disclosure requirement could be met by stating this;[45] and
- **an assessment of how resilient it considers the organisation's strategy and business model are** to future climate-related changes, developments or uncertainties on the basis of climate scenario analysis.

Representations as to future matters will be deemed to be misleading or deceptive if, as at the time they are made, there were not reasonable grounds for making them.[46] Hindsight will not be applied, such that statements relating to future matters should not be deemed misleading or deceptive should they later be proven as incorrect.

However, directors should insist that reasonable grounds are demonstrable (i.e. their basis is clearly supported and internal processes documented) as at the time the forward-looking statement is made.

Where there is a change in circumstances or underlying assumptions that has a material impact on those reasonable grounds, consideration should be given as to whether market updates are required. This consideration is particularly important for listed companies which are subject to continuous disclosure obligations and are required to update climate disclosures where they are material to the market value of listed securities.

There is currently no legislative formula for what 'reasonable grounds' look like in the context of climate. Given that uncertainty, directors should consider issues such as:

- the robustness of the internal processes and assumptions on which the conclusion of reasonableness is based;
- input from relevant experts, and whether it is reasonable to rely on those particular experts (i.e. do they have the relevant expertise?); and
- whether disclosures relating to the material assumptions, dependencies, caveats or uncertainties associated with the forward-looking information should be made (equivalent 'significant judgements' or 'sources of estimation uncertainty' in the notes to the financial statements).

45. IFRS S2 para 14.
46. Section 769C CA, section 12BB ASIC Act.

2.6 WHAT SHOULD DIRECTORS DO TO MANAGE LIABILITY RISKS?

Whilst directors cannot completely eliminate liability risk, there are mitigating steps that can be taken. To do so, directors should ask management to ensure that it can demonstrate a **thorough and clearly documented due diligence process when gathering, analysing and communicating climate-related disclosures**. Practical steps can include:

- **Gathering information that may be relevant to disclosure:** Larger organisations or those which are sophisticated climate reporters will likely be expected to undertake a more thorough search for information than organisations which are smaller and only just starting their climate reporting journey.
- **Assessing information for relevance and materiality:** Ensure that management has clearly explained how they have identified and documented criteria for assessing whether information is relevant or material. When developing your criteria, have regard to the guidance on materiality set out in Section 2.3 and Section 2.4 above. Organisations should be able to clearly articulate why they have made a particular decision as to whether to, or how to, disclose on a specific metric. For example, why was a particular climate scenario chosen and why was a particular climate-related risk deemed material – what criteria was applied to assess materiality?
- **External assurance:** Enquiring of management regarding what level of external assurance may be obtainable (also considering the proposals around mandatory timelines for assurance outlined in Chapter 1). Although directors must always exercise independent diligence in assuring their company's reports, such external assurance may provide directors with greater confidence in signing off on disclosures and provide additional comfort to the market regarding the accuracy of reporting. Robust internal verification processes will also be key.
- **Disclosing the information:** Any disclosures subject to high degrees of outcome or measurement uncertainty should be clearly identified as such, and should include appropriately detailed information on key assumptions, judgements and methodologies (as required by the ISSB). For best practice, issues which are deemed to not be material (and therefore not disclosed) should be documented in management papers, with the process taken to come to that conclusion clearly set out. Directors should also consider whether they need to make disclosures in the notes to the financial statements to explain any uncertainty in material variables, the significant management judgements required, and the potential financial impacts.

> “In response to ASIC's scrutiny of greenwashing, some companies may be tempted to cease all voluntary disclosure, chasing greenwashing with a little 'greenhushing'...this kind of response is just another form of greenwashing; an attempt to garner a 'green halo' effect without having to do the work.
>
> **— Joe Longo**
> ASIC Chair, AFR ESG Summit, June 2023

BOX 2.5: GREENWASHING AND GREENHUSHING

'Greenwashing' is shorthand for misleading disclosure of a company's environmental credentials. In the context of climate-related financial reporting, it can commonly arise where companies understate the risks associated with climate change for their corporate strategy or financial prospects, or overstate the resilience of their business to those risks. This ultimately misrepresents the impacts of climate on their financial position or prospects.

Greenwashing is the subject of increasing scrutiny by environmental activists, shareholders and corporate regulators. This scrutiny, combined with concerns associated with forward-looking uncertainty and incomplete data, has led to the rise of 'greenhushing'.

Greenhushing refers to where companies seek to minimise the risks associated with climate-related financial disclosures by saying little to nothing on key risks, emissions reduction targets and/or transition plans.

Greenhushing can lead to poor commercial and legal outcomes and is not a sustainable solution to managing risk. Commercially, investors, customers and other market stakeholders increasingly view a viable and evidence-based transition strategy as a 'ticket to play'. There can also be legal implications for failing to make disclosures where these are required to be made (such as where climate-related risk is considered material), or where the disclosure is mandated under the ISSB Standards. This sentiment was echoed by ASIC Chair Joe Longo in a speech to the AFR ESG Summit in June 2023:[47] *"In response to ASIC's scrutiny of greenwashing, some companies may be tempted to cease all voluntary disclosure, chasing greenwashing with a little 'greenhushing'...this kind of response is just another form of greenwashing; an attempt to garner a 'green halo' effect without having to do the work."*

47. See speech by ASIC Chair Joe Longo at the AFR environmental, social, and governance (ESG) Summit, 5 June 2023.

2.7 WHAT HAPPENS IF DIRECTORS GET IT WRONG? PENALTIES FOR MISLEADING DISCLOSURE

There is a general prohibition on making misleading statements in financial reporting.[48] Directors can either be primarily 'engaged' in the misleading conduct,[49] or accessorily 'involved' in their corporation's misrepresentation where they have aided, abetted, counselled or procured the contravention or otherwise been knowingly concerned in it.[50]

The Government intends to make a failure to comply with mandatory climate reporting a civil penalty breach under the *Corporations Act*. However, it has proposed that certain disclosures (including scope 3 emissions, scenario analysis and transition planning disclosures) are subject to a three-year period of regulator-only enforcement from the reporting period commencing 1 July 2024.

It is important that directors remember the threshold of liability is not high under Australian law. It is based on whether the impression conveyed to a reasonable user of the reports is likely to mislead or deceive.[51] Intention to mislead (or otherwise) is not relevant - a director may have acted both honestly and reasonably in making the relevant statement (or omission) and still be exposed to liability.[52]

Shareholders may seek compensation for loss or damage caused by any misleading disclosure (usually relating to an amount of share price valuation decline). Declarations or injunctions may also be sought, for which there is no need to demonstrate that the misrepresentation caused loss or damage. As a consequence, claims for declaratory or injunctive relief alone are sometimes brought by activist groups and shareholders.

2.8 DUTIES BEYOND MISLEADING DISCLOSURE

It is now uncontroversial that consideration of climate change may be relevant to a director's duty to act in the best interests of the company and their duty of care and diligence[53]. This will apply to the spectrum of directors' corporate governance responsibilities, including strategy and risk oversight as well as reporting obligations.

2.8.1 Best interests' duty

In 2022, the AICD commissioned legal advice from Brett Walker AO SC and Gerald Ng of Counsel setting out their views on the content of the 'best interest' duty under s 181(1)(a) of the *Corporations Act*.[54] The opinion made clear that the law does not assume shareholder or member interests are best served by ignoring other stakeholders, particularly over the longer term. Rather, employees, customers, suppliers, creditors, Traditional Owners and the environment are legitimate concerns of company directors, tied back to the long-term interests of the company, including its interest in avoiding reputational harm.[55]

Accordingly, directors need not view their best interest duty as prohibiting consideration of climate change impacts. Indeed, such consideration may be necessary to build and maintain long term value.

2.8.2 Duty of due care and diligence

In addition to liability for misleading disclosure, directors can be liable for a breach of duty of due care and diligence[56] if the misleading statement is a product of their failure to adequately oversee the contents of the report, or the robustness of the systems by which the information is produced.

The duty of due care and diligence holds directors to a standard of competence that could be expected from a reasonable director acting in similar circumstances. 'Due care and diligence' requires much more than a passive reading and approval of the financial reports. Rather, active oversight and engagement with management is typically required for the board to sign off on major corporate reports.

48. Part 7 of the CA and Part 2D of the ASIC Act.
49. An example of directors being primarily engaged is involvement in the making of statements in the financial statements and annual report, to which directors are specifically required to attest.
50. Section 79 of the CA.
51. *Campomar Sociedad Limitada v Nike International Limited* (2000) 202 CLR 45; *Forrest v ASIC, Fortescue Metals Group Ltd v Australian Securities and Investments Commission* [2012] HCA 39 at [43].
52. *Yorke v Lucas* (1985) 158 CLR 661; *ASIC v Forrest & Ors*.
53. This is a result of the evolution of climate change from a purely 'ethical, non-financial, environmental' issue to one that can present foreseeable and often material financial risks and opportunities across mainstream investment horizons.
54. Brett Walker SC and Gerald Ng (May 2022) **Memorandum of Advice: The Content of Directors' "Best Interest" Duty.**
55. Australian Institute of Company Directors (May 2022) **AICD Practice Statement – Directors' "best interests" duty in practice.**
56. Section 180(1) of the CA.

BOX 2.6: SOME SUGGESTED STEPS PRIOR TO REPORT APPROVAL[57]

Directors must satisfy themselves of the accuracy of the Annual Report. In doing so, directors should carry out a careful review of the financial statements and Directors' Report, determine that the information contained is consistent with the board's knowledge of the company's financial position and affairs, and require material matters known to the board – or that should be known – are included. To support the discharge of their duties, directors should:

- **Apply a contemporary understanding of relevant climate-related issues and the evolving landscape of reporting obligations.** This does not mean that every director needs to become a 'climate expert'. However, it does mean ***all*** directors should develop and maintain a level of functional literacy in relation to climate change issues that enables them to robustly and critically evaluate the potential impact on the company and its reports. Capacity-building will be critical.
- **Specifically consider how climate-related issues have been integrated into the company's financial reports**. This includes interrogating the content of reports (both material disclosures and omissions), the reasonable grounds on which each disclosure is based, and areas requiring significant management judgement.
- Consider what **additional disclosures** may be required in order to present a true and fair view.
- **Inquire further** into any matters revealed by that financial report, of management and of external auditors as appropriate.
- Consider **what external assurance can be obtained** over proposed disclosures, to support directors in making the requisite declarations and demonstrating that they had reasonable grounds for inherently uncertain forward-looking disclosures. Robust internal verification processes should also be insisted upon.

Directors should also **consider whether the information gathering frameworks, internal controls and governance processes in place are robust and fit-for-purpose.**

57. ASIC (June 2017) Information Sheet 183 (INFO 183) Directors and financial reporting.

BOX 2.7: FURTHER GUIDANCE ON DIRECTORS' DUTIES AND CLIMATE CHANGE

Directors can learn more about the application of duty of due care and diligence to climate-related issues in a series of high-profile opinions by Noel Hutley SC and Sebastian Hartford-Davis of Counsel in 2016, 2019 and 2021.[58] You can also find out more in the following publications:

Directors' 'best interests' duty in practice

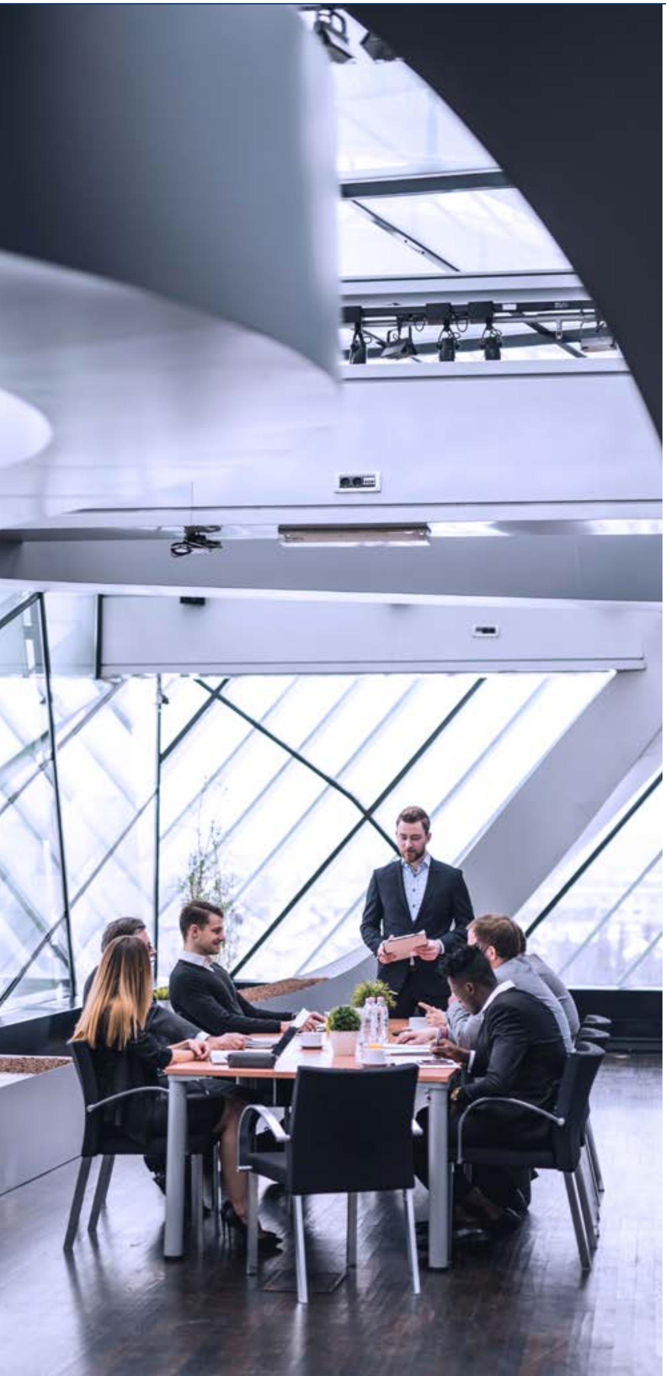
Climate risk governance guide

Bringing together ESG - Board structures and sustainability

QUESTIONS FOR DIRECTORS TO ASK

1. How did we decide that the identified risks and opportunities were material? Did we document that process?
2. How comfortable are we as to the robustness of our materiality assessment?
3. Have we clearly set out the assumptions, judgements and methodologies applied in respect of any disclosures subject to a high degree of uncertainty?
4. How comfortable are we as to the robustness of our due diligence process to ensure that forward-looking representations are made on 'reasonable grounds'? What external assurance should we seek to obtain?
5. Are climate-related disclosures consistent across the financial statements, Directors' Report/OFR and Remuneration Report? Are any amendments required to ensure consistency?

58. Directors can read about the 'Hutley Opinions' in Climate Change & Directors Duties – Legal Opinion by Sarah Barker in 2016 and CPD releases new materials on directors' duties, climate risk and net zero published on the CDP's website in 2023.



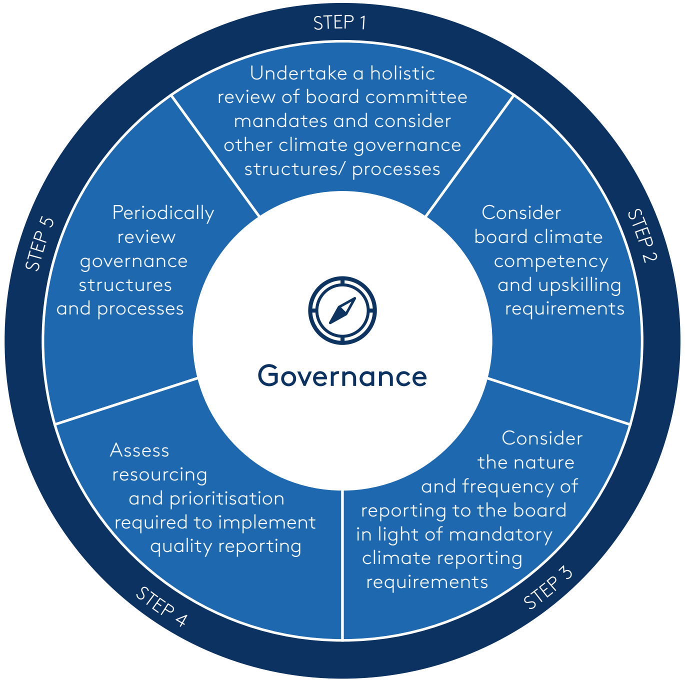
Chapter 3 | Practical steps to support mandatory climate reporting

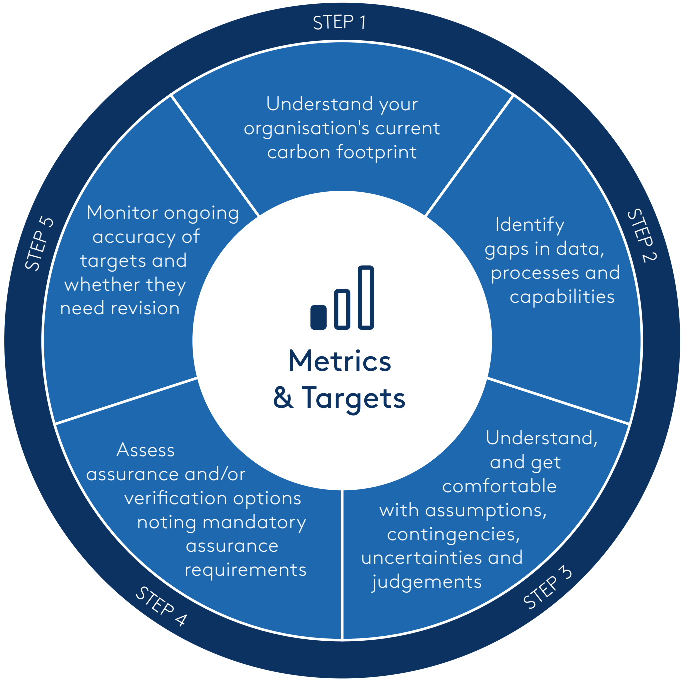
KEY POINTS

1. Take stock of what the organisation is already doing to manage climate-related risks and opportunities. This includes:
   a. who has executive responsibility;
   b. how climate-related risks and opportunities are identified and managed;
   c. what mitigation and adaptation activities are underway; and
   d. what disclosures and representations are currently being made.
2. Identify the gap between current state and required end state under IFRS S2, and consider:
   a. what additional resourcing is required;
   b. whether governance structures are fit for purpose;
   c. what can we learn from market leaders in our industry; and
   d. where does climate reporting sit relative to other priorities.
3. Do not let perfection stand in the way of progress. Getting started is most important, followed by communicating transparently with relevant stakeholders as to the organisation's methodologies, approaches, limitations and progress. Disclosures will improve as data gaps and capability shortages are addressed.

3.1 SUMMARY: WHAT SHOULD DIRECTORS BE DOING TO GET READY NOW?

To prepare for mandatory climate reporting, directors should focus their efforts on the below:





3.2 GOVERNANCE

Whilst management is responsible for implementation, it is ultimately the board that has final approval of strategy and risk management positions. It is therefore up to the board to require management to effectively address climate-related risk and opportunity while maintaining an active oversight role.

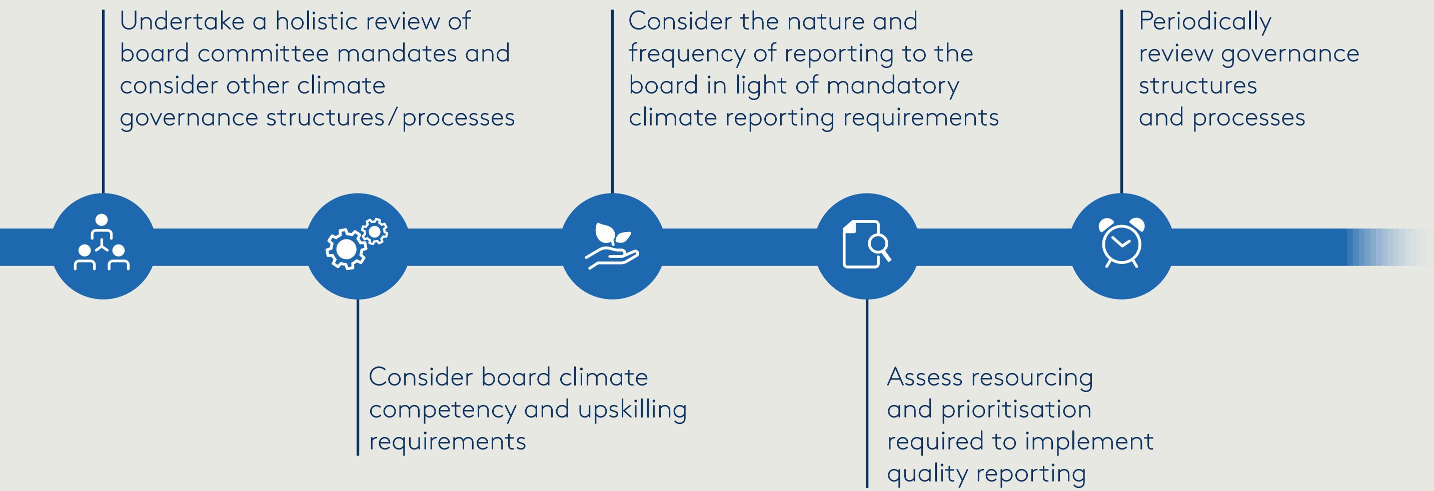
BOX 3.1: GOVERNANCE DISCLOSURES REQUIRED UNDER IFRS S2

IFRS S2 requires entities to make the following governance disclosures:

- Which body/individual has primary responsibility for the oversight of climate-related risks and opportunities, including whether the role is delegated to a specific management-level position/committee and how oversight is exercised over that position/committee.
- Details about how the body/individual oversees climate-related risks and opportunities, including:
  - how this responsibility is set out in the relevant constituent documents, such as the committee mandate or position description;
  - how the body/individual determines whether appropriate skills and competencies are available/will be developed to oversee strategies to respond to climate-related risks and opportunities;
  - how and how often the body/individual is informed about climate-related risks and opportunities;
  - how the body/individual takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and risk management processes, including the consideration of trade-offs;
  - how the body/individual oversees the setting of targets and how they monitors progress against the targets;
  - whether, or how, climate-related performance metrics are integrated into the remuneration policies of the individual/body; and
  - whether management uses controls and procedures to support the body/individual with its oversight function, and how these controls and procedures are integrated with other internal functions.

SUGGESTED ACTIONS DIRECTORS CAN TAKE WHEN PREPARING FOR GOVERNANCE DISCLOSURES UNDER IFRS S2

FIGURE 7: Suggested actions - governance disclosures under IFRS S2



BOX 3.2: HOW COMMON ARE SUSTAINABILITY COMMITTEES? WHAT DO I NEED TO SET ONE UP?

Bringing together ESG: Board structures and sustainability

HSF analysis found that by mid-2021 approximately 31 per cent of ASX200 companies had an ESG or sustainability-focused board committee.[59] For guidance on sustainability governance structures including a template committee charter, see the CGI Resource, **'Bringing together ESG (2022).'**

1 – UNDERTAKE A HOLISTIC REVIEW OF BOARD COMMITTEE MANDATES AND CONSIDER OTHER CLIMATE GOVERNANCE STRUCTURES/PROCESSES

As noted in the CGI Resource, **'Bringing together ESG'**, analysis conducted found that 50 per cent of ASX50 companies referred to 'environmental impact' or having regard to the environment in their board charters (as at 30 June 2021). It also found that 13 per cent of ASX200 companies made a reference to 'climate change' in their board Risk Committee charters and 11 per cent of Audit Committee charters. Boards may wish to consider whether relevant charters or terms of reference need to be updated to support effective oversight and make explicit how climate is relevant to existing committee structures.

Having done this analysis, directors should consider which board committee is best placed to have closer oversight over climate-related risks and opportunities. This may include a Sustainability Committee, if there is one.

However, whilst a Sustainability Committee may assist the board in identifying, prioritising and responding to climate-related risks and opportunities, **ultimate responsibility for climate-related issues should remain at the whole-of-board level.**

59. CGI, AICD and HSF (November 2022) **Bringing together ESG** at page 6.

If there is no stand-alone Sustainability Committee, climate-related responsibilities are most commonly allocated to the Risk Committee, followed by the Audit Committee (often these two committees are fused as a single 'Audit and Risk Committee'). It is important to recognise that, because of the reach and impact of climate change, it may be relevant to various committees in some shape or form. We set this out in Box 3.3 and Figure 8.

Whilst the board has oversight of the organisation's overall approach to climate-related risk and opportunities, management will have to day-to-day responsibility for execution.

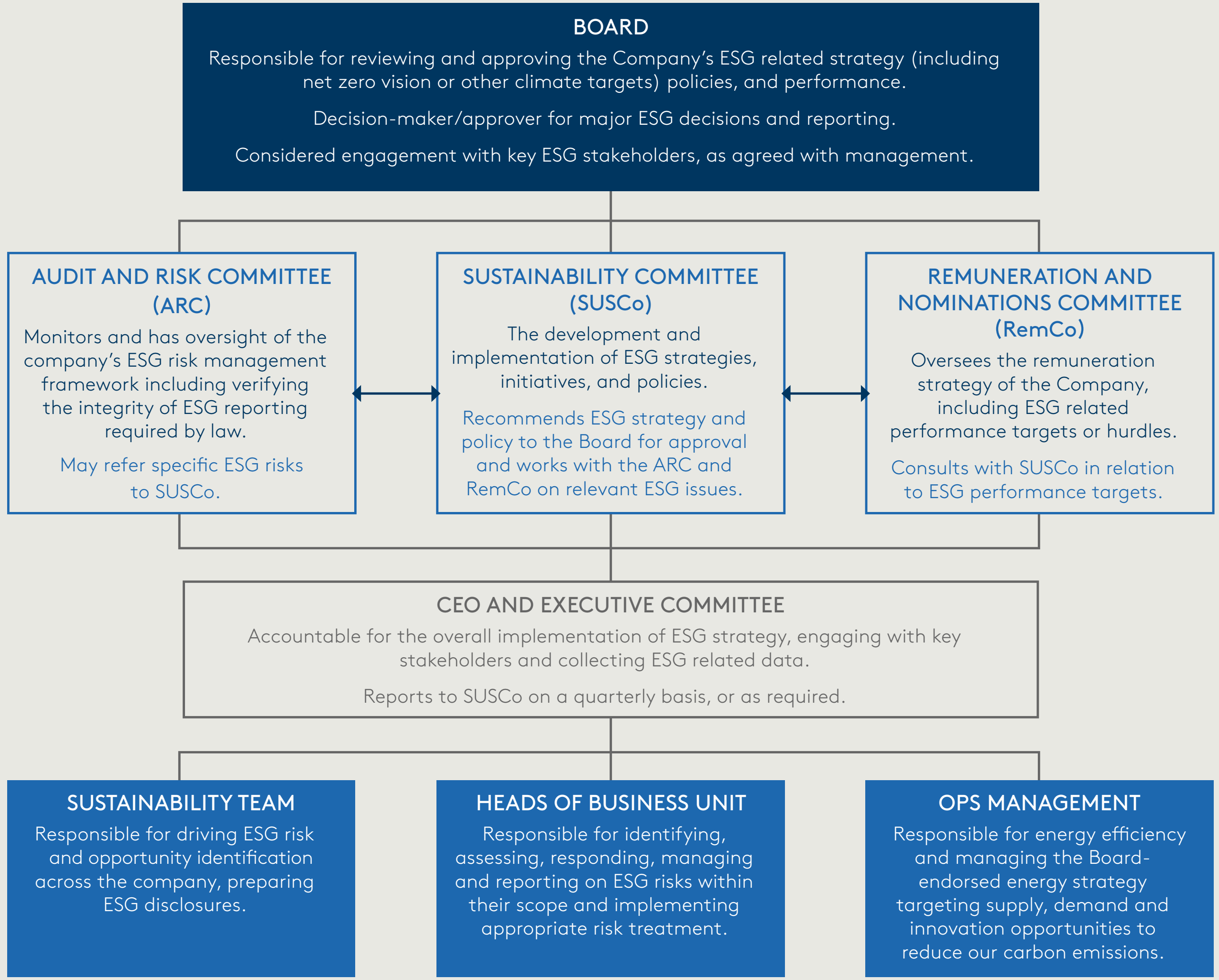
Directors should be clear on who within the organisation has overall responsibility for climate, and/or whether specific aspects are allocated between relevant executives (for example, the CFO would typically have accountability for the preparation of financial reports, while the Chief Risk Officer may have responsibility for incorporation of climate into broader organisational risk management frameworks).

Directors should also satisfy themselves that performance and remuneration structures are aligned with agreed climate-related responsibilities objectives. IFRS S2 specifically requires that organisations provide a description of whether and how climate-related considerations are factored into executive remuneration, and that organisations disclose the percentage of executive remuneration, recognised in the current period, that is linked to climate-related considerations.[60]

60. Paragraph 29(g) of IFRS S2.

61. While Figure 8 refers to ESG 'risks' this should include risks and opportunities.

FIGURE 8: Potential flow of ESG Governance structures



Source: CGI, AICD and HSF (November 2022) Bringing together ESG[61]

BOX 3.3: APART FROM THE SUSTAINABILITY COMMITTEE, WHAT OTHER COMMITTEES MAY NEED TO CONSIDER CLIMATE CHANGE?

The Sustainability Committee may not be the only board committee involved in overseeing climate reporting. In fact, in various places IFRS S2 requires disclosure of information that is likely to sit within board committees outside of the Sustainability Committee. These include:

Committee	Relevant IFRS S2 topics
Remuneration	• Whether and how related performance metrics are included in remuneration policies • The percentage of executive remuneration recognised in the current period that is linked to climate-related considerations
Nominations	• Ensuring that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities
Audit	• Oversight over climate reporting more broadly, including ensuring the accuracy of the reporting and that the assumptions, judgements and uncertainties are disclosed, where relevant
Risk	• The process/es used to identify climate-related risks and opportunities for risk management purposes • The process/es used to identify, assess and prioritise climate-related opportunities • The extent to which, and how the climate-related risk identification, assessment and management process/es are integrated into the entity's overall risk management process

2 – CONSIDER BOARD CLIMATE COMPETENCY AND UPSKILLING REQUIREMENTS

While directors are not expected to be climate experts, a base level of climate competency is necessary. A review of the board composition and skills matrix may be warranted to address any gaps, and upskilling may be required (e.g. board room briefings, formal educational programs, broadening board composition). For some boards, climate change may need to feature in strategy days and in board/committee annual calendars.

3 – CONSIDER THE NATURE AND FREQUENCY OF REPORTING TO THE BOARD IN LIGHT OF MANDATORY CLIMATE REPORTING REQUIREMENTS

Directors also need to consider how, and how frequently, it addresses climate as part of its board agenda. Directors need to consider questions such as whether climate change should be a standing-item on the board/board committee agenda, or an ad-hoc one.

Other issues for consideration include:

- What is the process for tracking progress against transition plans and climate metrics?
- How often is this done and how is this disclosed?
- Does this align with stakeholder expectations?

4 – ASSESS RESOURCING AND PRIORITISATION REQUIRED TO IMPLEMENT QUALITY REPORTING

It is important to ensure that organisations have sufficient human and financial resources to address this significant change in corporate reporting.

As stated above, directors also need to prioritise climate on the board and board committee agenda and insist on a coordinated approach to climate across the organisation which brings in various departments, such as finance, risk, legal, sustainability and marketing/communications. Such an approach ensures that disclosures and climate representations are consistent, which can assist in reducing greenwashing risk.

5 – PERIODICALLY REVIEW GOVERNANCE STRUCTURES AND PROCESSES

Given the fluid nature of climate-related developments and expectations, boards should periodically review their ongoing appropriateness.

QUESTIONS FOR DIRECTORS TO ASK

1. Do any of the existing board committees' mandates incorporate consideration of climate-related matters? Should they be updated to include this?
2. Which other existing board committees are most appropriate for supporting board oversight of climate-related issues?
3. Is there a need or benefit to establishing a separate board sustainability committee? And if so, how will it work with other relevant committees, such as to the Audit, Risk and Remuneration Committees?
4. Who, within management, has responsibility for climate-related issues? How, and how often, do they report to the board? What performance metrics are they judged against and how is this linked to remuneration?
5. By whom are we being advised, and what is their expertise and experience in this area?
6. What is the level of climate competency at board and management level? What is the plan to upskill, where necessary, and maintain competence?
7. How should, climate-related issues be addressed at board and board committee meetings – should there be standing-items on the board/board committee agenda, or should it be left to ad-hoc discussion based on developments?

3.3 STRATEGY AND RISK

SUGGESTED ACTIONS DIRECTORS CAN TAKE WHEN PREPARING FOR STRATEGY AND RISK DISCLOSURES UNDER IFRS S2

FIGURE 9: Suggested actions – strategy and risk disclosures under IFRS S2

1 – IDENTIFY CLIMATE-RELATED RISKS AND OPPORTUNITIES OVER THE SHORT, MEDIUM AND LONG TERM

Organisations are required to identify and report on how climate-related **risks** (see Box 3.4) and **opportunities** (see Box 3.5) could affect their prospects over the **short, medium and long term** (see Box 3.6). Directors need to constructively challenge management on its process to gain a comprehensive view of risks and opportunities covering the whole **value chain** (see discussion in Box 3.15) is taken.

BOX 3.4: KEY CLIMATE-RELATED RISKS

Two categories of climate-related risks are generally cited - physical risk and transition risk, although the two are interconnected.

- **Physical risks** arise from the impact of chronic and acute weather events that can have a significant impact on the supply chains, property, equipment and plant assets and product and services of businesses.
- **Transition risks** are related to the process of transitioning away from reliance on fossil fuels and toward a low-carbon economy such as changes in regulatory policy and law, technology or customer preferences.

Mitigating physical impacts requires accelerated decarbonisation which results in higher exposure to transition risks.

BOX 3.5: CLIMATE-RELATED OPPORTUNITIES

"

Companies should do this not because they're forced to - but choose to - because it's a great way to communicate to the market and attract capital. A company that is thoughtful on how it is managing sustainability risk and has a great transition plan should be able to attract capital

— Sue Lloyd
Vice-Chairperson of the ISSB

Climate-related opportunities can arise from:

- Strengthened corporate reputation and community standing leading to increased customer demand, rising revenue and increased attractiveness of capital inflows caused by investor interest.
- Resource efficiency opportunities that arise from the reduction of operating costs by improving efficiency across their processes, in particular technological innovation.
- Energy source changes as entities that shift their energy usage towards low-emission energy sources could potentially save on annual energy costs.
- Market opportunities as entities that proactively seek opportunities in new markets or types of assets may be able to diversify their activities.
- Resilience that arises from entities developing the adaptive capacity to respond to climate change to better manage risks and seize opportunities.

For more information on climate-related opportunities, see the CGI Australia **'Climate Change and organisational strategy, 2023'** report.

BOX 3.6: DEFINITIONS OF SHORT, MEDIUM AND LONG TERM UNDER ISSB STANDARDS

The ISSB Standards do not define short, medium and long term. Instead, they state that it is entity and industry-specific depending on factors such as cash flow, investment and business cycles and planning horizons. Preparers may wish to have regard to TCFD's guidance on short, medium and long-term targets (see Box 3.12).

To comply with IFRS S2 disclosure requirements, organisations need to disclose the following in respect of the identification of climate-related risks and opportunities:

- the identification of the climate-related risks and opportunities **within its value chain** which could reasonably affect the entity's prospects. To do so, management needs to identify the scope and boundaries of its value chain;
- identify the amount and percentage of assets or business activities vulnerable to physical and transition climate-related risks, and aligned to climate-related opportunities; and
- identify the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.

QUESTIONS FOR DIRECTORS TO ASK

1. What is our process/methodology for identifying climate-related risks and opportunities? How do we document this?
2. What are the key assumptions, uncertainties or judgements made in identifying climate-related risks and opportunities? Have we documented these? How are we reporting these?
3. Is there a potential impact of these uncertainties on our assessment of the current and future financial impact of the identified climate-related risks and opportunities?

BOX 3.7: CONSIDERING FIRST NATIONS EXPERIENCES WHEN IDENTIFYING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Australia's First Nations people have a deep and unique connection to Country, possessing an ancestral understanding of the land and water accumulated over countless generations. This knowledge, captured through lore, songs, cultural practices and land and sea management practices, includes critically important climate mitigation and adaptation practices.

Simultaneously, First Nations community are disproportionately impacted by the adverse impacts of climate change. For example, 6.2 per cent of those affected by the 2022 flooding in regional areas outside Sydney were Aboriginal and Torres Strait Islander people, despite making up just 3.3 per cent of the general population.[62] Such chronic and acute events also disrupt the traditional ways of life of First Nations communities, jeopardising connection with Country.

We encourage organisations to consider how they can integrate First Nations perspectives into their identification of climate-related risks and opportunities, and also when considering which climate mitigation and adaptation solutions to adopt in their climate strategy.

Genuine and respectful engagement with First Nations stakeholders will be key. See the AICD Stakeholder Guide for more insight into managing stakeholder relationships.

62. The Conversation (June 2022) Caring for Country means tackling the climate crisis with Indigenous leadership: 3 things the new government must do.

2 – ASSESS CURRENT AND FUTURE FINANCIAL AND STRATEGIC EFFECTS OF CLIMATE CHANGE, INCLUDING THROUGH SCENARIO ANALYSIS

Current financial impacts[63]

Management will need to report on the qualitative and quantitative effects of climate change on the entity's business model, value chain, financial position, financial performance and cash flows for the current reporting period. Section 2.3 and Box 2.3 provides detail on what some of these financial impacts may be, but as an illustration may include:

- **Revenue impacts –** for example, poorer agricultural yields due to extreme weather events.
- **Cost line implications** – for example, the impact of policy measures such as a carbon tax or levy on exports.
- **Changing estimated useful lives or residual values** – for example, energy intensive machinery being replaced, or losing its market value, sooner than expected.

Anticipated financial impacts

Management will need to provide the following relevant information:

- **Qualitative and quantitative effects** on the financial position, financial performance and cash flows over the short, medium and long term (see example of some financial impacts set out above).
- **Resilience of the entity's climate strategy and business model** to climate-related changes, developments and uncertainties using **scenario analysis.** We understand that the Government is proposing to mandate qualitative disclosure of scenario analysis initially, moving toward quantitative disclosure for reporting periods commencing 1 July 2027.[64]

63. Refer to Section 5 (page 11) of AASB/AUASB joint bulletin which outlines common current financial reporting considerations arising from climate related risk.

64. See Treasury June 2023 Consultation Paper, at page 13.

BOX 3.8: WHAT IS CLIMATE SCENARIO ANALYSIS?

Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an entity to explore and develop an understanding of how the physical risks and transition risks of climate change may affect its businesses, strategies and financial performance over time.

Entities typically use existing science-based data sourced from industry accepted datasets to build scenarios for material physical and transition risks and opportunities.

On a macro level, there is typically a trade-off between transition and physical risks. Aggressive transition to net zero reduces physical risks but increases transition risks in the short and medium term. Conversely, delayed transition to net zero increases the impacts of physical risks, despite the avoidance of some of the transition risks associated with decarbonisation.

Where do you get the data to perform scenario analysis?

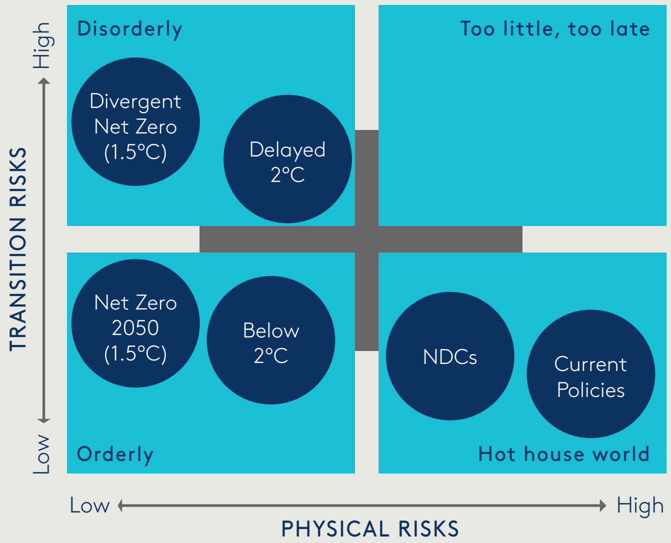
There are currently various scenarios which organisations can apply. These include scenarios produced by the Intergovernmental Panel on Climate Change (the Shared Socio-economic Pathways (SSPs) and the Representative Concentration Pathways (RCPs), the International Energy Agency (IEA) and the Network for Greening the Financial System (NGFS) framework. A number of scenarios from the NGFS framework can be seen in Figure 10.

Larger organisations will often engage climate modelers to develop climate models tailored to their business against which they disclose. The Government has proposed that from commencement, entities will be required to undertake qualitative scenario analysis, moving progressively to quantitative scenario analysis, against at least two possible future states, one of which must be consistent with the global temperate goal set out in the Climate Change Act 2022, being the Paris Agreement goal of *"well-below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."*

Challenges faced by entities undertaking scenario analysis

- **Data availability and certainty** - Obtaining accurate and reliable data on climate-related factors can be challenging. Companies may face difficulties in gathering data on climate variables, physical risks, market trends, and regulatory developments.
- **Uncertainty and complexity** - Climate scenarios involve a high degree of uncertainty due to the complex and interconnected nature of climate systems. Future climate patterns, policy developments, and technological advancements are difficult to predict accurately. Companies will need to navigate through this uncertainty and develop scenarios that encompass a range of possibilities.
- **Market skills shortages** - There is a scarcity of skilled professionals to support sophisticated scenario analysis.

FIGURE 10: NGFS (2022) Scenarios



Source: NGFS (Sep 2022) NGFS Scenarios for central banks and supervisors.

BOX 3.9: IFRS S2 REPORTING RELIEF FROM QUANTITATIVE DISCLOSURE

IFRS S2 provides the following relief for organisations that are unable to make quantitative disclosures:

1. **For disclosures as to climate resilience,** including the application of scenario analysis, IFRS S2 allows for proportionality in determining an approach to scenario analysis and requires the organisation to consider the available skills, capabilities and resources available. The ISSB's 'rule of thumb' is that the greater the entity's exposure to climate-related risks or opportunities, the more likely the entity will need to apply a more technically sophisticated form of scenario analysis.[65]
2. **For disclosures as to the current or anticipated financial effects of climate-related risk and opportunities,** an organisation does not need to provide quantitative information if it determines that:[66]
   - those effects are not separately identifiable; or
   - the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful; or
   - if the entity does not have the skills, capabilities or resources to provide that quantitative information.

Where an organisation takes advantage of the relief set out in 2 above, it must:[67]

- explain why it has not provided quantitative information;
- provide qualitative information about the specific financial effect(s) it is unable to provide quantitative information for;[68] and
- the financial effects are not separately identifiable, provide quantitative information about the combined financial effects of that climate-related risk or opportunity, unless the entity determines that quantitative information about the combined financial effects would not be useful.

The relief mechanisms above are set out in IFRS S2 and are still subject to Government consideration domestically.

65. Paragraph B4 of IFRS S2.
66. Paragraph 19 of IFRS S2.
67. Paragraph 21 of IFRS S2.
68. Specifics include identifying line items, totals and subtotals within the financial statements that are likely to be affected or have been affected.

Directors have an important role to play in constructively challenging management about their process and conclusions in reporting on the current and anticipated future financial effects of climate-related risk and opportunities.

The IASB is in the midst of a project aimed at greater connectivity between sustainability and climate-related disclosures under the ISSB Standards and the financial statements.[69]

As a threshold step, finance, legal, risk, marketing and sustainability teams will need to collaborate to prevent a siloed approach being taken to corporate reporting.

QUESTIONS FOR DIRECTORS TO ASK

1. Are disclosures on the current and future anticipated financial effects of climate-related risks and opportunities consistent with the financial statements, notes or narrative disclosures?
2. Has management appropriately documented the inputs, assumptions, limitations and methodologies underpinning scenario analysis? Has that process been clearly disclosed?
3. Are the conclusions on climate resilience reasonable, having regard to the scenario analysis results?
4. Are we at risk of overstating the resilience of the organisation to climate-related risk?

BOX 3.10: WHAT IFRS S2 DISCLOSURES MAY RESULT IN ADJUSTMENT TO THE FINANCIAL STATEMENTS, NOTES OR NARRATIVE REPORT?

In ensuring connectivity between financial and sustainability reporting, the following areas of climate disclosures may have relevance to financial statement disclosures (the list below is not exhaustive):

- the current effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period;
- the anticipated effects of significant climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, including how climate-related risks and opportunities are included in the entity's financial planning;
- the amount and percentage of assets or business activities vulnerable to physical and transition risks;
- the amount and percentage of assets or business activities aligned with climate-related opportunities;
- the price for each metric tonne of GHG emissions that the entity uses to assess the costs of its emissions - see **Fact Sheet 4**;
- the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities; and
- the percentage of gross exposure to asset classes included in the financed emissions calculation (for asset managers, commercial banks and insurers).

69. IFRS Foundation (March 2023) **IASB initiates project to consider climate-related risks in financial statements.**

3 – SET A CLIMATE STRATEGY AND DEVELOP A TRANSITION PLAN TO MANAGE RISKS AND SEIZE OPPORTUNITIES

Develop a climate strategy or incorporate climate-related risks and opportunities into broader business strategy in collaboration with management.

Although not mandatory under the ISSB Standards, stakeholders will likely expect to see a **transition plan** (see Box 3.11) that sets **short, medium and long-term targets** (see Box 3.12) and identifies **mitigation and adaptation activities** (see Box 3.13) that will help the organisation to meet these targets.

We note that IFRS S2 does not require an organisation to set a climate target or a transition plan, but does require the disclosure of details of the climate target in the event that one is set (being mindful of the impact this may have on future prospects).

An organisation's climate strategy and transition plan should be regularly revisited to reflect material developments and evolving market expectations.

A crucial part of the board's role is to probe management so that the climate transition plan and climate targets are accurate and founded on 'reasonable grounds'. This involves challenging management on the assumptions, inputs, and data used to develop these plans and targets.

BOX 3.11: SPOTLIGHT ON TRANSITION PLANS

The ISSB defines transition plans as *"an aspect of an entity's overall strategy that lays out the entity's targets and actions for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."* [70]

Directors should challenge any transition plans proposed by management to satisfy themselves they comply with expectations, which will include consideration of:

- **IFRS S2 requirements:** IFRS S2 specifically requires that entities disclose information that enables users to understand the effects of significant climate-related risks and opportunities on business model and strategy, including any ***transition plans.*** This includes disclosure of:
  - How the entity is responding to significant climate-related risks and opportunities and how it plans to achieve its climate targets.
  - Information regarding climate targets including whether targets will be met through emission reductions or through the use of carbon offsets.
  - Quantitative and qualitative information about the progress of plans disclosed in prior periods.
- **Use of carbon offsets:** The extent to which climate targets rely on the use of carbon offsets. In all cases, emissions reduction should be prioritised, with high quality offsets to be used only where reduction is not possible, such as for hard to abate operations or processes.[71]
- **Investor expectations:** Investors have emphasised that disclosures related to an entity's transition plan should detail specific actions and activities the entity is undertaking—or plans to undertake—to support the transition, and what capital or operating expenditure this will require.
- **Verification of transition plans:** There is an increasing expectation that companies conduct an independent assessment of a company's climate transition efforts to ensure their alignment with stated goals and targets. This process includes reviewing and analysing the company's emissions reduction strategies, implementation plans, and progress towards achieving their targets. The Science Based Targets Initiative (SBTi) is one such example that offers a rigorous verification process (see Box 3.14).

70. IFRS S2 Appendix A - Defined Terms.
71. See pages 19 and 20 of the Report of the UN's High-level Expert Group on the Net Zero Emissions Commitments of non-state entities (November 2022).

BOX 3.12: TARGETS AND TIME HORIZONS – WHAT'S REQUIRED?

Whilst IFRS S2 does not define short, medium and long term targets, it does require companies to disclose their definitions.

- **What is short, medium and long term?** Similarly to IFRS S2, the TCFD does not specify time frames for short, medium, and long term given that the timing of climate-related impacts on businesses will vary. Instead, the TCFD recommends preparers define time frames according to the life of their assets, the profile of the climate-related risks they face, and the sectors and geographies in which they operate.[72] For example, for a superannuation or resources company this may be a multi-decade time horizon.
- **What factors should directors consider when selecting time horizons for climate targets?** Directors need to consider the company's industry, the nature of its operations, the timeframes necessary for implementing sustainable practices, and the potential timing of impact of climate-related risks and opportunities. Directors should also consider whether their organisation's strategy is to be leading the transition within their industry, or whether they are content to follow competitors. They also need to consider the need for flexibility in adjusting targets as new information and technologies emerge.
- **What reporting is expected of companies?** Entities should explain the rationale behind the chosen timeframes, considering factors such as the company's business cycle, investment cycles, and technological advancements. Directors should also report on the progress made towards achieving the targets and any adjustments made to align with evolving climate-related risks and opportunities.

72. TCFD (June 2017) Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.

BOX 3.13: CLIMATE STRATEGY – ROLE OF MITIGATION AND ADAPTATION

Both climate mitigation and climate adaptation activities can be used when developing a climate strategy.

Climate mitigation focuses on reducing GHG emissions and addressing the root causes of climate change, while **climate adaptation** centres on building resilience and preparing for the impacts of climate change that cannot be avoided. We set out more detail below.

Climate mitigation

- **Refers to** efforts and actions taken to reduce or prevent GHG emissions, thereby minimising the extent and impact of climate change.
- **Involves** implementing strategies and measures to transition to a low-carbon economy, including adopting renewable energy sources, improving energy efficiency, and implementing sustainable practices.
- **Aims** to limit the increase in global temperature and mitigate the negative consequences of climate change.

Climate adaptation

- **Refers to** the actions taken to adjust and prepare for the unavoidable impacts of climate change. Given the uncertain nature of these impacts, scenario analysis and planning with time periods significantly longer than the historical norm, should be considered.
- **Involves** identifying and understanding the risks and vulnerabilities associated with changing climatic conditions and implementing measures to build resilience and adapt to these changes. Climate adaptation strategies can include infrastructure modifications, land use planning, implementing early warning systems, enhancing natural ecosystems, and promoting community resilience.
- **Aims** to reduce the vulnerability of societies, economies, and ecosystems to the impacts of climate change and enable them to cope and recover effectively.

BOX 3.14: 'SCIENCE-BASED' TARGETS

There is no current Australian sustainability taxonomy in place (although one is being developed) which defines what 'science-based' targets means in the context of Australian law. As such, there is a risk of greenwashing if the term is used in a misleading or deceptive way.

Directors need to constructively challenge management to ensure that it has reasonable grounds for calling its target science-based, for example, by complying with an accreditation regime such as the Science-Based Targets Initiative (SBTi).

The SBTi is part of the Climate Program and World Resource Institute (WRI)'s work to define and promote best practice in emissions reduction and the setting of net-zero targets in line with climate science.

According to the SBTi, targets are 'science-based' if they are in line with the latest climate science and projected to meet the goals of the Paris Agreement – limiting global warming to well below 2°C above pre-industrial levels, and pursuing efforts to limit warming to 1.5°C.[73]

QUESTIONS FOR DIRECTORS TO ASK

1. Do we have a realistic and evidence-based climate transition plan? Do we have short and medium term targets underpinning our long-term targets?
2. What process did we undertake to ensure that our climate transition plan was made on 'reasonable grounds'? Is this documented? Did we obtain external verification and/or assurance?
3. Do we understand how we will adapt to climate change and whether our physical assets are resilient?
4. How reliant are we on future technological developments? What role do carbon offsets play in our plan and how do we verify that offsets are of appropriate quality? Do our current disclosures expose us to greenwashing risk?
5. To the extent that climate targets have been set, have they been informed by the latest international agreements on climate change, including Australian commitments?
6. What are the key uncertainties, assumptions and judgements that underpin our climate strategy and transition plan, including climate targets? What have we done to make these clear in our reporting?
7. What process will we follow to review our transition plans? For listed companies, when will our continuous disclosure obligations be triggered? How will we handle reporting revisions to our plans?

73. SBTi homepage.

4 – OVERSEE COMMUNICATION OF REPORTING

Reporting should be as easily digestible as possible and avoid dense and unnecessary technical language.

Management should also be directed to ensure that any representations to the market or the public, including investor communications, statements on the website and on social media and advertising, are consistent with climate reports and legal obligations. Any inconsistency can create greenwashing risk. Some organisations have opted to undertake an audit of all climate-related communications (including social media accounts) to check for ongoing accuracy. This may be a step that more resourced companies may wish to consider.

Seeking feedback from investors and other stakeholders may also assist the company in its process of continual improvement and may highlight further areas for development.

QUESTIONS FOR DIRECTORS TO ASK

1. Are the climate-related disclosures consistent with other climate-related representations made by our organisation (e.g. website and social media content, investor briefings, public speeches)?
2. Are our disclosures easy to understand and navigate? Have we been transparent where expected disclosures have not been made?
3. Do we regularly benchmark our reporting against market-leading peers and evolving investor expectations, in Australia and globally?

5 – MONITOR AND PERIODICALLY REVIEW THE CLIMATE STRATEGY

To ensure effective oversight and accountability, it is crucial for the board to regularly engage with management on the progress on climate targets. This includes assessing whether the company is on track to achieve its targets, evaluating the effectiveness of implemented strategies, and identifying any challenges or obstacles that may hinder progress.

Governance structures should be in place to facilitate regular progress reporting by management to the board, and to have oversight that reporting processes are effective, robust, and capable of capturing relevant data, metrics, and key performance indicators. This allows the board to have a comprehensive understanding of the company's climate-related activities and make informed decisions.

Directors should schedule in periodic reviews of progress on transition plans and climate targets, including assumptions, inputs and judgements. This can involve management providing an update to the board or relevant board committee. It may also be prudent to feature climate change as part of scheduled board strategy days. Ad hoc reviews may also need to take place following any developments which materially impact the transition plan and its assumptions, inputs and judgements.

Management should be directed to maintain a 'watching brief' over climate change developments so as to ensure any such material developments will be quickly (ideally proactively) identified, and appropriate steps taken.

Listed companies should also be alive to their continuous disclosure obligations (See **Box 2.1**).

QUESTIONS FOR DIRECTORS TO ASK

1. Which body/ies are responsible for monitoring the implementation and continued relevance of the climate strategy?
2. How often will the responsible management personnel report to the board or relevant board committee on progress on the climate strategy, including progress on climate targets?
3. Is climate change included in the scheduled board strategy day/s?
4. Is there a process in place to respond to material developments requiring amendment of the climate strategy and/or developments which may trigger Continuous Disclosure obligations?

3.4 METRICS AND TARGETS

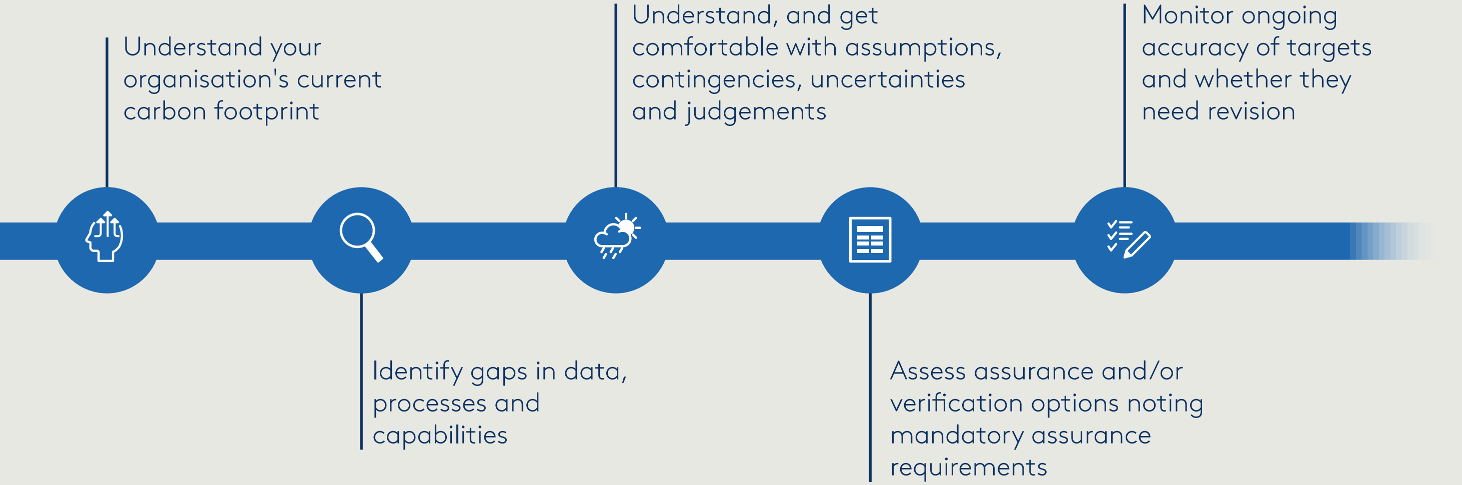
IFRS S2 builds on the TCFD in terms of the granularity of disclosures. In some cases, IFRS S2 requires the disclosure of additional new metrics not required by the TCFD core recommendations (as distinct from TCFD 2017 and 2021 Implementation Guidance). **Table 3** provides an overview of these.

TABLE 3: Overview of additional key metrics required in IFRS S2 that are a step-up from TCFD recommendations

TCFD	IFRS S2
General recommendation: • Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process. • Describe the targets used by the organisation to manage climate-related risk and opportunities. • Disclose scope 1, 2 and if appropriate, scope 3 emissions.	Specifically requires disclosure of: • Industry-based metrics relevant to an entity. • All the metrics from the TCFD 2021 guidance which includes: – The percentage of executive management remuneration linked to climate-related considerations. – Internal carbon prices (see **Fact Sheet 4**). – The amount and percentage of assets or business activities currently vulnerable to physical and transition risk and aligned with climate-related opportunities. – The amount of capital, financing or investment deployed towards climate-related risks and opportunities. • Any transition plans and climate targets (including details on the use of offsets), and processes in place to review transition plans and quantitative information about progress of transition plans. It also requires disclosure of how the target compares with those created in the latest international agreement on climate change, whether it has been validated by a third party, and whether the target was derived using a sectoral decarbonisation approach. • Absolute scope 3 emissions, including upstream, downstream and financed emissions (for those with asset management, commercial banking or insurance activities).

SUGGESTED ACTIONS DIRECTORS CAN TAKE WHEN PREPARING FOR METRICS DISCLOSURES UNDER IFRS S2

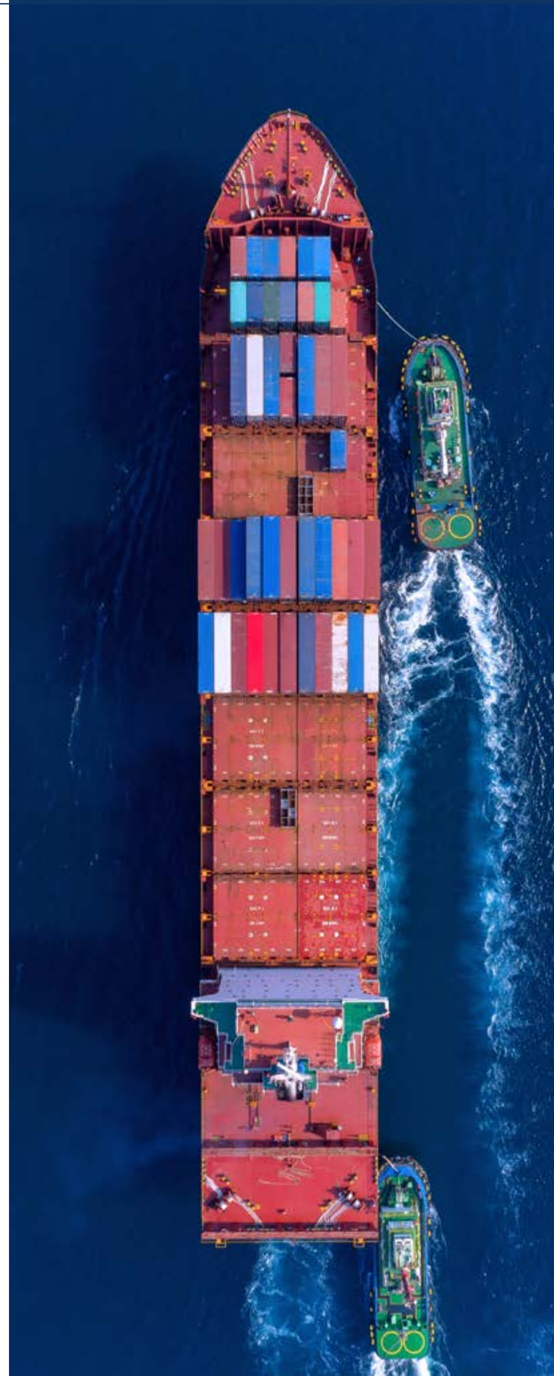
FIGURE 11: Suggested actions - metrics and targets disclosures under IFRS S2



1 – UNDERSTAND YOUR ORGANISATION'S CURRENT CARBON FOOTPRINT

Directors have an important role to play in challenging management about the robustness of the process of measuring GHG emissions, and how the uncertainties in these calculations are reported.

As a first step, directors may wish to take stock of the organisation's current carbon footprint and what is necessary to comply with IFRS S2 disclosure requirements for the measurement of scope 1, 2 and 3 emissions. Directors should also ask management how and why relevant inputs, assumptions and estimates have been used and whether they have changed from previous years (and if so, why).



BOX 3.15: WHAT ARE SCOPE 1, 2 AND 3 EMISSIONS?

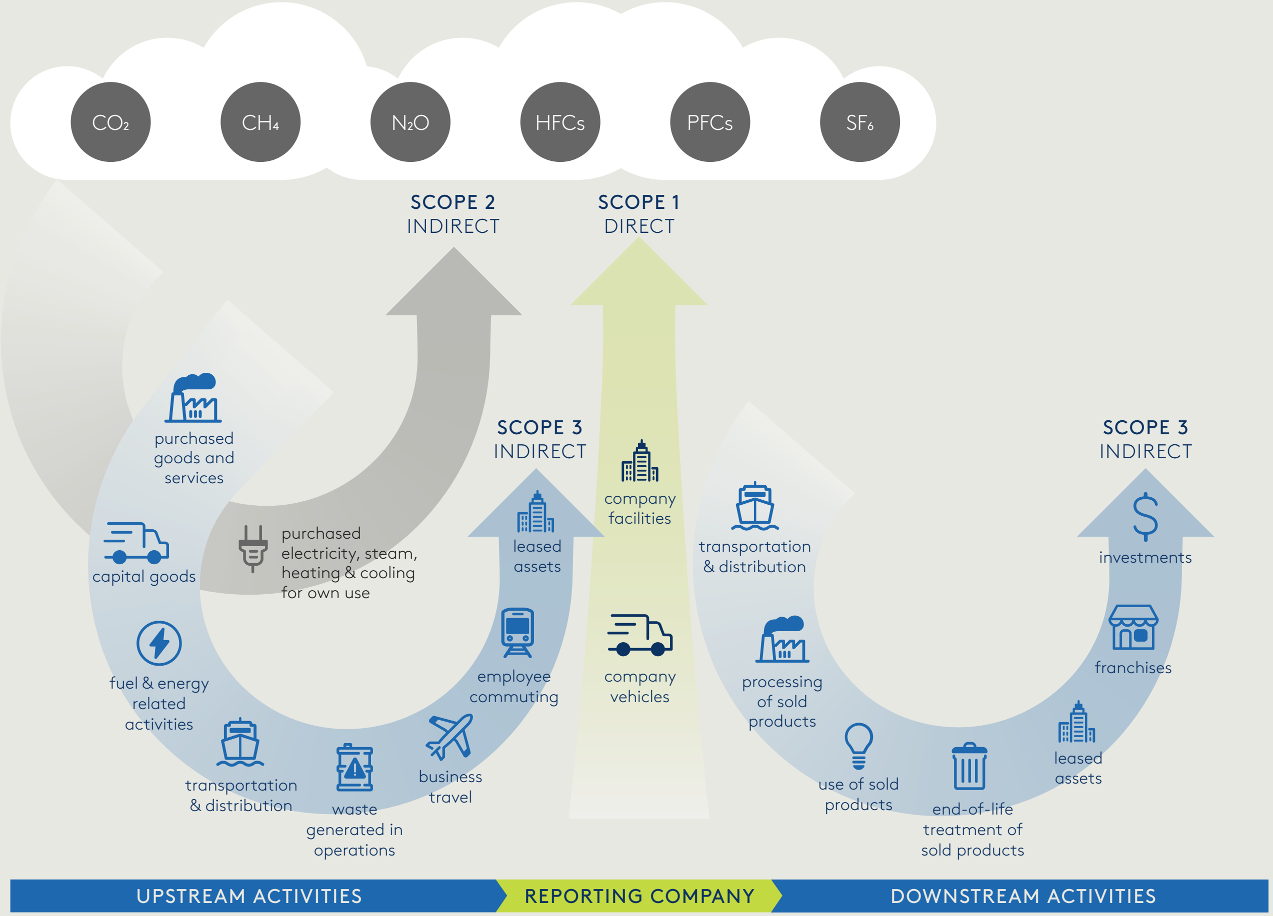
IFRS S2 requires disclosure of scope 1,2 and 3 emissions, which are defined below.[74]

Scope 1 emissions are direct GHG emissions emitted from sources that are owned or controlled by the disclosing company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, or emissions from chemical production in owned or controlled process equipment.

Scope 2 emissions are GHG emissions from the generation of purchased electricity consumed by the company.

Scope 3 emissions are all indirect emissions that occur in **the value chain** of the reporting company, including both upstream and downstream emissions. The value chain encompasses the full range of interactions, resources and relationships within an entity's business model and the external environment in which it operates. This includes everything from product or service conception to delivery, consumption and end of life. The GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) sets out 15 categories of sources of scope 3 emissions – see Figure 12. IFRS S2 requires that entities disclose which of these 15 categories it has included within its scope 3 calculation.

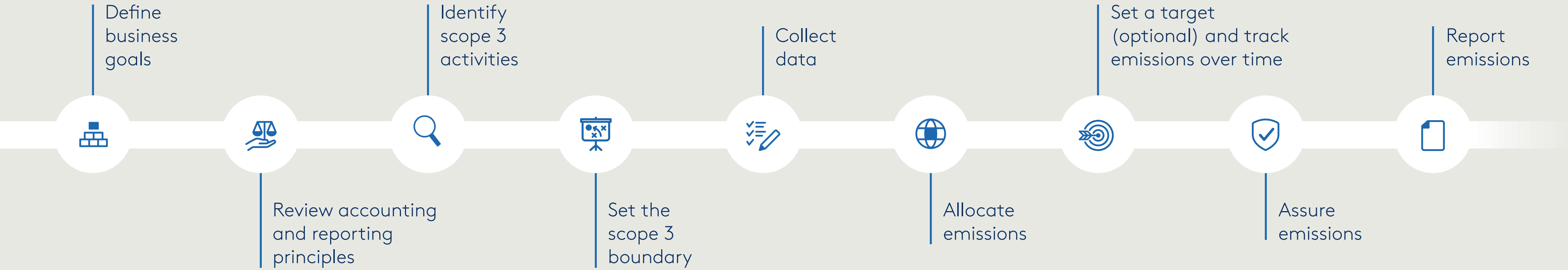
FIGURE 12: Overview of GHG Protocol scopes and emissions across the value chain.



Source: GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)

74. Definitions from the Greenhouse Gas Protocol – Corporate Standard (for scope 1 and 2 emissions) and the Greenhouse Gas Protocol – Corporate Value Chain (scope 3) Accounting and Reporting Standard (for scope 3 emissions).

FIGURE 13: An overview of the scope 3 calculation process under the Scope 3 GHG Protocol



Source: GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard

Larger organisations, such as the ASX100 and large financial institutions and those reporting under NGERS, are likely to already have information on their scope 1 and 2 emissions. It is proposed by Treasury that where a reporting entity is disclosing Australian-based emissions, these would need to be calculated consistent with methods set out in the NGER Scheme legislation. For smaller organisations, including NFPs, you may refer to the **Climate Governance for NFP Directors: Starting the Journey to Net Zero** which includes a section detailing how you can assess your organisation's carbon footprint.

IFRS S2 requires calculation of scope 3 emissions in accordance with the **GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard** (Scope 3 GHG Protocol), unless the entity is currently required by its jurisdiction to report its scope 3 emissions under a different protocol. The Scope 3 GHG Protocol overview of steps required to calculate scope 3 emissions are set out in **Figure 13**.

Treasury has proposed that organisations be required to disclose material scope 3 emissions from their second reporting year onwards.

75. Page 128 of the Scope 3 GHG Protocol.

Scope 3 emissions are significantly more difficult to measure than scope 1 and 2 emissions because they require access to information outside of an organisation's direct control. There are also limitations and uncertainties associated with the calculation methodologies. The Scope 3 Standard refers to three categories of uncertainty in the calculation and disclosure of scope 3 emissions, being parameter uncertainty, scenario uncertainty, and model uncertainty:

- **Parameter uncertainty** occurs as a result of data availability and quality issues associated with obtaining information from sources outside of your direct control. There are also issues associated with how organisations define their scope 3 activities and how they set the scope 3 inventory boundary. Uncertainty arising from data quality can be minimised through having a robust Data Management Plan in place to document the GHG inventory process and the internal quality assurance and quality control procedures.
- **Scenario uncertainty** occurs as a result of variations in calculations as a result of methodological choices made, which include allocation methods, product use assumptions and end-of-life assumptions.
- **Model uncertainty** arises when the models used do not accurately reflect the real world.

The Scope 3 GHG Protocol suggests that in reporting scope 3 emissions, reporters should *"provide as complete a disclosure of uncertainty information as possible"* to assist users.[75] Suggestions include qualitative descriptions of uncertainty sources, or quantitative representations or visualisation tools, such as using error bars, histograms, probability density functions.

IFRS S2 also includes specific disclosure requirements outlining judgements and choices made in applying the GHG protocol such as method and measurement approaches taken, and emission factors used. It also specifies how data based on direct measurement should be prioritised above estimated data.

Where estimated data is used, primary activity data and emission factors (i.e. data obtained directly from activities within the entity's value chain) when available should be used ahead of secondary data (i.e. data not obtained directly from activities within the entity's value chain, such as industry average information).

For further information on scope 3 emissions refer to **Fact Sheet 5**.

How to collect data from your value chain

While many organisations will eventually be subject to mandatory climate reporting, disclosure of scope 3 emissions by these entities will be predicated on access to good quality and reliable data by smaller non-reporting organisations within their supply chains. Organisations which want to take a more structured approach to access of this data may need to consider introducing a contractual requirement to provide emissions data.

QUESTIONS FOR DIRECTORS TO ASK

1. How do we ensure the quality of the inputs for our emissions calculations? Do we have a Data Management Plan in place? Does this include a plan to minimise any uncertainties or quality issues associated with our emissions calculations process?
2. What key judgements and assumptions were applied when calculating emissions, particularly scope 3 emissions?
3. Are our emissions subject to assurance? If so, what level of assurance? If not, what verification process do we have in place?

2 – IDENTIFY GAPS IN DATA, PROCESSES AND CAPABILITIES

In transitioning to mandatory reporting, an assessment of company data collection processes, quality, security, governance and digitisation is recommended. Disclosure of metrics and targets can be particularly difficult where there is measurement or outcome uncertainty, or whether there are data gaps. Disclosures in IFRS S2 which are subject to these difficulties include:

- the anticipated future effects of sustainability-related risks opportunities;
- the amount and percentage of assets or business activities vulnerable to physical and transition risk, and aligned with climate-related opportunities;
- climate resilience disclosures, including the undertaking of scenario analysis and its interpretation;
- transition plans and climate targets; and
- scope 3 emissions.

QUESTIONS FOR DIRECTORS TO ASK

1. Are our management accounting systems and other technology solutions fit-for-purpose for IFRS S2 reporting requirements?
2. Do we have the data and technology needed to undertake a full scope 3 emissions assessment?
3. Do we have the data and technology needed to undertake scenario analysis?
4. What expert support is needed?

3 – UNDERSTAND, AND GET COMFORTABLE WITH ASSUMPTIONS, CONTINGENCIES, UNCERTAINTIES AND JUDGEMENTS

The ISSB Standards acknowledge that many of the disclosures cannot be measured directly and can only be estimated (measurement uncertainty) and that outcomes are subject to assumptions and scenarios that are therefore subject to outcome uncertainty. IFRS S1 requires that entities disclose information to enable users to understand the most significant uncertainties affecting the amounts disclosed including the sources of measurement uncertainties and the assumptions, approximations and judgements the entity has made in measuring the amount.[76]

It is important that directors probe the assumptions, uncertainties and judgements in your climate reports, and seek confirmation from management that these are made on reasonable grounds.

Whilst the ISSB Standards provide a number of relief and proportionality mechanisms to reduce impact for organisations (see **Section 2.5**), and Treasury has proposed additional mechanisms to reduce liability exposure, directors should work with management to implement processes to minimise data and capability gaps as much as possible.

Finally, do not let perfection get in the way of progress. Set targets and take action based on the information the board has available. Be transparent about methodologies, approaches and limitations. Update as the organisation's climate transition evolves, as well as when data availability and quality improve.

QUESTIONS FOR DIRECTORS TO ASK

1. What key uncertainties exist when calculating and reporting on IFRS S2 metrics?
2. Do we have a strategy to reduce these uncertainties?
3. Do we clearly disclose the judgements, uncertainties and assumptions underpinning our disclosures?
4. Are our assumptions made on reasonable grounds? Have we documented them?

76. Paragraphs 77 to 82 of the IFRS S1.

4 – ASSESS ASSURANCE AND/OR VERIFICATION OPTIONS

As shown in **Figure 14,** the Government is proposing to phase-in mandatory assurance of climate disclosures. This starts with limited assurance of scope 1 and 2 emissions and reasonable assurance of governance disclosures in the first reporting year for each cohort, and moves towards reasonable assurance over all disclosures for Cohort 1 entities from the 1 July 2027 reporting period. Reasonable assurance over all disclosures will be required in the fourth year of mandatory reporting for each respective cohort, phased in on a staggered basis.

Assurance can provide directors with additional comfort that their disclosures have been through an additional level of interrogation. Treasury has proposed that assurance be conducted or led by the financial auditor.

In addition, like with other corporate reports, directors should expect management to have in place robust internal verification processes.

QUESTIONS FOR DIRECTORS TO ASK

1. What internal verification processes do we need in place? How robust are these processes?
2. Has the organisation satisfied the pre-conditions for assurance?
3. What are the costs and benefits of seeking external assurance?

FIGURE 14: Timeline for the phase-in of mandatory assurance

1 First year reporting

Limited assurance over scope 1 and 2 emissions

Reasonable assurance over governance disclosures

2 Second year reporting

Reasonable assurance over scope 1 and 2 emissions and other disclosures

Limited assurance over scope 3 emissions, scenario analysis, transition plans (specific requirements - processes/ methodologies/ assumptions)

3 Third year reporting

Reasonable assurance over scope 1 and 2 emissions and other disclosures

Limited assurance over scope 3 emissions, scenario analysis, transition plans (full quantitative assurance)

4 Fourth year reporting

Reasonable assurance over all climate disclosures

5 – MONITOR ONGOING ACCURACY OF METRICS AND TARGETS AND WHETHER THEY NEED REVISION

Boards must regularly ask management as to whether performance on climate metrics and targets is on track. Where progress has stalled or fallen behind, boards should consider the need to update climate targets and how this should be communicated to the market.

QUESTIONS FOR DIRECTORS TO ASK

1. How, and how often does management review progress against targets? How, and how often, does management report this to the board?
2. How does management come to the view that metrics and targets cannot be achieved and/or are no longer relevant?
3. Is there a process in place to revise targets where targets cannot be achieved and/or are no longer relevant?
4. In the event that metrics and/or targets need to be revised, how will this be communicated to stakeholders?

FIGURE 15: Summary of what's next for mandatory climate reporting in Australia

Q4 2023 (indicative)
AASB to issue Exposure Draft on ISSB alignment for consultation and Treasury to issue a final Position Paper

December 2023/ January 2024 (indicative)
AASB consultation closes

Early 2024 (indicative)
AASB to issue final Australian climate standard and Government to introduce Climate Reporting Bill into Parliament

1 July 2024
First reporting period for which mandatory climate reporting in Australia applies

BOX 3.16: RELEASE OF THE DRAFT INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE

There have been continued efforts to standardise the methodology and processes for climate and sustainability assurance. On 2 August 2023, the International Auditing and Assurance Standards Board (IAASB) issued, for public consultation, a global sustainability assurance (ISSA 5000) that is intended to be the 'global baseline' for limited and reasonable assurance over climate and sustainability disclosures, including under IFRS S2.

For further information on this standard, and on assurance over climate disclosures more broadly, see Fact Sheet 6.

3.5 WHAT'S NEXT FOR MANDATORY CLIMATE REPORTING IN AUSTRALIA?

The next steps on the road to Australian mandatory climate reporting is for the Government to set out its final policy position and for the AASB to issue a consultation on the adaptation of the ISSB Standards to the Australian context. The Government will then seek to legislate the new reporting framework, with mandatory reporting proposed to commence for Cohort 1 entities on or after 1 July 2024, with first disclosures forming part of the Annual Reports from August 2025 onwards. A summary of these key next steps is set out in Figure 15.

3.6 CONCLUSION

We suggest directors use the recommendations and practical steps in this Guide to prepare for climate reporting now.

We also encourage organisations to think of climate reporting not merely as a compliance exercise, but as an opportunity to integrate climate considerations into strategic decision-making, build organisational resilience, and drive sustainable business practices.

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Appendix A: Consolidated list of questions for directors

IS MY ORGANISATION COVERED BY MANDATORY CLIMATE REPORTING?

- If, and when, will our organisation be covered by the proposed mandatory climate reporting regime in Australia?
- How do the reporting requirements compare with our current practices? What is our plan to bridge any gap? What internal and external expertise is needed?
- If our organisation is not captured, are there organisations within our value chain that are likely to be impacted by others' reporting requirements?
- Are any of our overseas operations captured by climate reporting requirements overseas? (See Fact Sheet 3 for guidance for companies with EU or US issuance, operations or subsidiaries)

WHAT ARE THE DUTIES AND EXPECTATIONS OF ME AS A DIRECTOR?

- How did we decide that the identified risks and opportunities were material? Did we document that process?
- How comfortable are we as to the robustness of our materiality assessment?
- Have we clearly set out the assumptions, judgements and methodologies applied in respect of any disclosures subject to a high degree of uncertainty?
- How comfortable are we as to the robustness of our due diligence process to ensure that forward-looking representations are made on 'reasonable grounds'? What external assurance should we seek to obtain?
- Are climate-related disclosures consistent across the financial statements, Directors' Report/OFR and Remuneration Report? Are any amendments required to ensure consistency?

WHAT SHOULD DIRECTORS BE DOING TO GET READY NOW?

Governance

- Do any of the existing board committees' mandates incorporate consideration of climate-related matters? Should they be updated to include this?
- Which other existing board committees are most appropriate for supporting board oversight of climate-related issues?
- Is there a need or benefit to establishing a separate board sustainability committee? And if so, how will it work with other relevant committees, such as the Audit, Risk and Remuneration Committees?
- Who, within management, has responsibility for climate-related issues? How, and how often, do they report to the board? What performance metrics are they judged against and how is this linked to remuneration?
- By whom are we being advised, and what is their expertise and experience in this area?
- What is the level of climate competency at board and management level? What is the plan to upskill, where necessary, and maintain competence?
- How should, climate-related issues be addressed at board and board committee meetings – should there be standing-items on the board/board committee agenda, or should it be left to ad-hoc discussion based on developments?

Strategy and risk management

1 - IDENTIFY CLIMATE-RELATED RISKS AND OPPORTUNITIES OVER THE SHORT, MEDIUM AND LONG TERM

- What is our process/methodology for identifying climate-related risks and opportunities? How do we document this?
- What are the key assumptions, uncertainties or judgements made in identifying climate-related risks and opportunities? Have we documented these? How are we reporting these?
- Is there a potential impact of these uncertainties on our assessment of the current and future financial impact of the identified climate-related risks and opportunities?

2 - ASSESS CURRENT AND ANTICIPATED FINANCIAL AND STRATEGIC EFFCTS CLIMATE CHANGE, INCLUDING THROUGH SCENARIO ANALYSIS

- Are disclosures on the current and future anticipated financial effects of climate-related risks and opportunities consistent with the financial statements, notes or narrative disclosures?
- Has management appropriately documented the inputs, assumptions, limitations and methodologies underpinning scenario analysis? Has that process been clearly disclosed?
- Are the conclusions on climate resilience reasonable, having regard to the scenario analysis results?
- Are we at risk of overstating the resilience of the organisation to climate-related risk?

3 - SET A CLIMATE STRATEGY AND DEVELOP A TRANSITION PLAN TO MANAGE RISKS AND SEIZE OPPORTUNITIES

- Do we have a realistic and evidence-based climate transition plan? Do we have short and medium term targets underpinning our long term targets?
- What process did we undertake to ensure that our climate transition plan was made on 'reasonable grounds'? Is this documented? Did we obtain external verification and/or assurance?
- Do we understand how we will adapt to climate change and whether our physical assets are resilient?
- How reliant are we on future technological developments? What role do carbon offsets play in our plan and how do we verify that offsets are of appropriate quality? Do our current disclosures expose us to greenwashing risk?
- To the extent that climate targets have been set, have they been informed by the latest international agreement on climate change, including Australian commitments?
- What are the key uncertainties, assumptions and judgements that underpin our climate strategy and transition plan, including climate targets? What have we done to make these clear in our reporting?
- What process will we follow to review our transition plans? For listed companies, when will our continuous disclosure obligations be triggered? How will we handle reporting revisions to our plans?

4 - OVERSEE COMMUNICATION OF REPORTING

- Are the climate-related disclosures consistent with other climate-related representations made by our organisation (e.g. website and social media content, investor briefings, public speeches)?
- Are our disclosures easy to understand and navigate? Have we been transparent where expected disclosures have not been made?
- Do we regularly benchmark our reporting against market-leading peers and evolving investor expectations, in Australia and globally?

5 - MONITOR AND PERIODICALLY REVIEW THE CLIMATE STRATEGY

- Which body/ies are responsible for monitoring the implementation and continued relevance of the climate strategy?
- How often will the responsible management personnel report to the board/relevant board committee relevant board committee on progress on the climate strategy, including progress on climate targets?
- Is climate change included in the scheduled board strategy day/s?
- Is there a process in place to respond to material developments requiring amendment of the climate strategy and/or developments which may trigger Continuous Disclosure obligations?

Metrics and targets

1 - UNDERSTAND YOUR ORGANISATION'S CURRENT CARBON FOOTPRINT

- How do we ensure the quality of the inputs for our emissions calculations? Do we have a Data Management Plan in place? Does this include a plan to minimise any uncertainties or quality issues associated with our emissions calculations process?
- What key judgements and assumptions were applied when calculating emissions, particularly scope 3 emissions?
- Are our emissions subject to assurance? If so, what level of assurance? If not, what verification process do we have in place?

2 – IDENTIFY GAPS IN DATA, PROCESSES AND CAPABILITIES

- Are our management accounting systems and other technology solutions fit-for-purpose for IFRS S2 reporting requirements?
- Do we have the data and technology needed to undertake a full scope 3 emissions assessment?
- Do we have the data and technology needed to undertake scenario analysis?
- What expert support is needed?

3 - UNDERSTAND, AND GET COMFORTABLE WITH ASSUMPTIONS, CONTINGENCIES, UNCERTAINTIES AND JUDGMENTS

- What key uncertainties exist when calculating and reporting on IFRS S2 metrics?
- Do we have a strategy to reduce these uncertainties?
- Do we clearly disclose the judgements, uncertainties and assumptions underpinning our disclosures?
- Are our assumptions made on reasonable grounds? Have we documented them?

4 - ASSESS ASSURANCE AND/OR VERIFICATION OPTIONS

- What internal verification processes do we need in place? How robust are these processes?
- Has the organisation satisfied the pre-conditions for assurance?
- What are the costs and benefits of seeking external assurance?

5 - MONITOR ONGOING ACCURACY OF METRICS AND TARGETS AND WHETHER THEY NEED REVISION

- How, and how often does management review progress against targets? How, and how often, does management report this to the board?
- How does management come to the view that metrics and targets cannot be achieved and/or are no longer relevant?
- Is there a process in place to revise targets where targets cannot be achieved and/or are no longer relevant?
- In the event that metrics and/or targets need to be revised, how will this be communicated to stakeholders?

Appendix B: Glossary

Term	Definition
Australian Institute of Company Directors (AICD)	The AICD is a professional association based in Australia that provides education, training, resources, policy leadership and advocacy for company directors and governance professionals. The AICD aims to enhance the professionalism and effectiveness of directors and promote leading governance practices.[77]
Biodiversity	Variability among living organisms, including diversity within and between species and ecosystems.[78]
Carbon offsetting and carbon credits	Carbon offsets occur when a polluting entity purchases a carbon credit to compensate for a portion of greenhouse gas it has emitted, thereby decreasing its net emissions. Carbon credits are generated by projects that reduce, remove or capture emissions from the atmosphere, such as reforestation and renewable energy.[79] To achieve net zero emissions, SBTi guidance recommends that offsets account for less than 10% of baseline emissions in final targets, which limits its application within science-based targets.[80] Similarly, the UN's High-level Expert Group on the Net Zero Emissions Commitments of Non-State Entities has stated that "high integrity carbon credits in voluntary markets should be used for beyond value chain mitigation but cannot be counted toward a non-state actor's interim emissions reductions required by its net zero pathway."[81]
Climate Disclosure Standards Board (CDSB)	Established in 2007, the CDSB was a climate reporting framework formed by a consortium of business and environmental NGOs. The CDSB was consolidated into the International Sustainability Standards Board in November 2021.
Carbon Disclosure Project (CDP)	Established in 2000, the Carbon Disclosure Project (CDP) is a voluntary disclosure framework for companies, cities, states and regions. It is currently used by over 13,000 companies, 1,100 cities, states and regions and nearly 600 investors with over $110 trillion in Assets Under Management (AUM).[82]
Climate Governance Initiative (CGI)	The CGI (Climate Governance Initiative) is a global initiative driven by a community of non-executive directors focused on making climate a boardroom priority, building on the World Economic Forum's Principles for Effective Climate Governance. The AICD is host of the Australian chapter.
Decarbonisation	Decarbonisation is the process of reducing carbon dioxide and other greenhouse gas emissions to combat climate change. It involves transitioning to low-carbon alternatives and implementing sustainable practices to achieve a significant reduction in emissions and mitigate global warming.

77. Australian Institute of Company Directors (2023) About AICD.
78. IPCC (2023) Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change.
79. Climate Active (2019) Carbon offsets.
80. Science Based Targets (April 2023) SBTi Corporate Net Zero Standard.
81. See Report from the UN High-level Expert Group on the Net Zero Emissions Commitments of Non-state entities (November 2022).
82. See CDP homepage.

Term	Definition
Double materiality	The consideration of both the financial impacts of climate-related risks and opportunities on a company, as well as the impact of the company's activities on the environment and society.
Financed Emissions	GHG emissions associated with the investments, loans, and financial activities of commercial banks, insurers and asset managers, which is one of the categories of scope 3 emissions (Category 15 under the GHG Scope 3 Protocol).
Greenhouse Gas Protocol	The Greenhouse Gas Protocol is a partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) which was established to develop global standards and methodologies to measure and manage greenhouse gases for private and public sector operations, value chains and mitigation actions. IFRS S2 requires organisations to measure their GHG emissions in accordance with the Greenhouse Gas Protocol's Corporate Standard, unless required by a jurisdictional authority on which the entity is listed to use a different method.[83]
Global Reporting Initiative (GRI)	Established in 1997, the Global Reporting Initiative develops and issues sustainability reporting standards. The GRI Standards are used by more than 10,000 organisations in over 100 countries.
Greenhouse Gas (GHG) emissions	The seven greenhouse gases listed in the Kyoto Protocol–carbon dioxide (CO2); methane (CH4); nitrous oxide (N2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF3); perfluorocarbons (PFCs); and sulphur hexafluoride (SF6). In Australia, these are reported under the National Greenhouse and Energy Reporting (NGER) Scheme.[84]
Greenhushing	The act of corporate management teams under-reporting or concealing their sustainability action, performance and/or credentials.[85]
Greenwashing	The practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical.[86]
Integrated Reporting Framework	The Integrated Reporting Framework (IRF) was established in 2013 to promote a cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time. The IRF is not part of the IFRS Foundation and is under the joint responsibility of the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB).
Internal carbon price (ICP)	Price used by entities to assess the financial implications of changes to investment, production and consumption patterns, as well as potential technological progress and future emissions-abatement costs. See **Fact Sheet 4** for further details.
International Financial Reporting Standards (IFRS) Foundation	The IFRS Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards. IFRS comprises two 'sister' boards – the International Accounting Standards Board (IASB), which is focused on financial accounting standards, and International Sustainability Standards Board (ISSB), which is focused on sustainability standards. The IFRS Foundation is also home to the Integrated reporting and Connectivity Council which is an advisory body and provides guidance on how reporting required by the IASB and ISSB could be integrated and how the IASB And ISSB could consider applying principles and concepts from the Integrated Reporting Framework.

83. **IFRS S2** paragraph 29(a)(ii).
84. Australian Government Clean Energy Regulator (April 2023) **Greenhouse gases and energy**.
85. Planet Tracker (2023) **The Greenwashing Hydra**.
86. Australian Securities and Investments Commission (June 2023) **Information Sheet 271 (INFO 271) How to avoid greenwashing when offering or promoting sustainability-related products**.

Term	Definition
International Organisation of Securities Commissions (IOSCO)	Established in 1983, IOSCO comprises securities regulators from countries around the world, covering more than 95% of the world's securities markets in more than 130 jurisdictions. IOSCO provides technical assistance, education, training and research to its members and other regulators.
International Sustainability Standards Board (ISSB)	The International Sustainability Standards Board (ISSB) was formed in November 2021 with a remit to improve the quality and comparability of disclosures by issuing sustainability standards that could form a global baseline of sustainability information. It has also provided the opportunity to consolidate the 'alphabet soup' of existing sustainability disclosure standards and frameworks. In June 2023, the first two IFRS Sustainability Disclosure standards - IFRS® General Requirements for Disclosure of Sustainability-related Financial Information and IFRS® S2 Climate-related Disclosures (IFRS S2) were issued. These standards are colloquially referred to as the ISSB Standards.
Natural Environment	The natural, physical surroundings in which all living and non-living things occur on Earth or some region thereof. It includes ecological units that function as natural systems without much human interference, such as vegetation, micro-organisms, soil, rocks, atmosphere, and natural phenomena. The natural environment can also be divided into different domains, such as land, water, plants, and air.[87]
Net zero	The balance between the amount of greenhouse gas that is produced and the amount that is removed from the atmosphere. It can be achieved through a combination of emission reduction and emission removal.[88]
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change that was adopted by 196 countries at the UN climate change conference in 2015.[89] The goal of the Paris Agreement is to limit "the increase in the global average temperature to well below 2°C above pre-industrial levels" and drive action to "limit the temperature increase to 1.5°C above pre-industrial levels".
Physical risks	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. These risks may carry financial implications for entities, such as direct damage to assets, and indirect effects of supply-chain disruption. Entities' financial performance may also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting entities' premises, operations, supply chain, transportation needs and employee safety.[90]
Scenario analysis	Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an entity to explore and develop an understanding of how the physical risks and transition risks of climate change may affect its businesses, strategies and financial performance over time.[91]
Science-based	There is no current Australian sustainability taxonomy in place (although one is being developed) which defines what 'science-based' targets means in the context of Australian law. However, science-based targets are defined by the 'Science-Based Targets Initiative' (SBTi) (a well-regarded accreditation regime that defines and promotes best practices in emission reduction and net zero targets in line with climate science) as being those "in line with the latest climate science and projected to meet the goals of the Paris Agreement – limiting global warming to well below 2°C above pre-industrial levels, and pursuing efforts to limit warming to 1.5°C."

87. Victoria State Government (February 2022) The natural environment system.
88. Climate Council (April 2023) What does net zero emissions mean?
89. Paris Agreement to the United Nations Framework Convention on Climate Change, 12 December 2015.
90. Chartered Accountants, Australia and New Zealand (March 2023) What are climate-related risks and why should you know about them?
91. Corporate Finance Institute (September 2023) Scenario Analysis.

Term	Definition
Scope 1 emissions	Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.[92]
Scope 2 emissions	Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Purchased and acquired electricity is defined as electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 emissions physically occur at the facility where electricity is generated.[93]
Scope 3 emissions	Indirect emissions (not included in scope 2 emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 emissions include the scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).[94]
Sustainability Accounting Standards Board (SASB)	Established in 2011, the Sustainability Accounting Standards Board (SASB) has developed and issued sustainability disclosure standards for 77 industry sub-types. In August 2022 the International Sustainability Standards Board (ISSB) assumed responsibility for the SASB Standards. Under IFRS S2 organisations must refer to and consider SASB industry metrics, as set out in the IFRS S2 Illustrative Guidance, as part of their disclosures.
Taskforce for Climate-related financial disclosures (TCFD)	Formed in December 2015 by the Financial Stability Board, the Taskforce for Climate-related Financial Disclosures (TCFD) was tasked with identifying and setting out the information needed by investors, lenders and insurance underwriters to assess and price climate-related risks and opportunities. The TCFD released its final recommendations and report in June 2017, with disclosures framed around the four pillars of governance, strategy, risk management and metrics and targets.
Transition risks	Moving to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements relating to climate change. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to entities.[95]
Transition plan	A transition plan setting out an organisation's plan to contribute to, and prepare for, a transition towards a low Greenhouse Gas emissions economy.[96]
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. This encompasses conception to delivery, consumption and end-of life.[97]
Value Reporting Foundation	Established in 2021, the Value Reporting Foundation merged the Sustainability Accounting Standards Board (SASB) and the Integrated Reporting Framework. In November 2021, the Value Reporting Foundation was consolidated into the International Sustainability Standards Board (ISSB).

92. International Sustainability Standards Board (June 2023) IFRS S2.
93. International Sustainability Standards Board (June 2023) IFRS S2.
94. International Sustainability Standards Board (June 2023) IFRS S2.
95. United States Environmental Protection Agency (December 2022) Climate Risks and Opportunities Defined.
96. UK Transition Plan Taskforce (November 2022) Consultation: The Transition Plan Taskforce Implementation Guidance.
97. International Sustainability Standards Board (June 2023) IFRS S2.

Appendix C: Additional resources for directors

i. ISSB, IFRS S1 General requirements for Disclosure of Sustainability-related Financial Information (June 2023)

ii. ISSB, IFRS S2 Climate-related disclosure Standard Climate-related disclosure Standard (June 2023)

iii. Australian Institute of Company Directors and MinterEllison, Climate risk governance guide (Aug 2021)

iv. Australian Institute of Company Directors and Herbert Smith Freehills, Bringing together ESG - Board structures and sustainability (Nov 2022)

v. Australian Institute of Company Directors and Pollination, Climate change and organisational strategy (Feb 2023)

vi. Australian Institute of Company Directors and Pricewaterhouse Coopers, Climate Governance for NFP Directors (May 2023)

vii. ASIC Information Sheet 270 (INFO 271), How to avoid greenwashing when offering or promoting sustainability-related products (June 2022)

viii. Deloitte, Leading in the Age of Climate (August 2023)

ix. Deloitte, The CFO guide to data management strategy (2020)

x. Deloitte, Asia Pacific's Response to International Sustainability Board (ISSB)'s Finalised IFRS S1 and IFRS S2 Standards (July 2023)

xi. Climate Governance Initiative UK, Chapter Zero, Board Toolkit (2022)

xii. World Economic Forum Chairs Guide Series:

  a. The Chairperson's Insights into Climate Action (April 2022)

  b. The Chairperson's Guide to Climate Stakeholders (April 2022)

  c. The Chairperson's Guide to Decarbonization (April 2022)

  d. The Chairperson's Guide to a Just Transition (September 2022)

  e. The Chairperson's Guide to Valuing Nature (January 2023)

  f. The Chairperson's Guide to Climate Integrity (July 2023)

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