

Climate-related financial disclosures legislation passed

Reporting update

11 September 2024, 24RU-10 UPDATED



Legislation passed on mandatory climate-related financial disclosures for certain entities reporting under the Corporations Act

Climate scenario analysis to be carried out using both a 'low' and a 'high' global warming scenario

First reporting financial years ending 31 December 2025

Final sustainability standards imminent

In early September 2024, the climate-related financial disclosures legislation - [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024](#) (see Schedule 4) (Act) was passed.

The Act is largely consistent with the Bill introduced to Parliament in March 2024.

The **main change** is the requirement for entities to disclose information derived from scenario analysis using at least **both of the following scenarios**:

- **1.5C** – the increase in the global average temperature mentioned in the *Climate Change Act 2022* (a **low global warming scenario**); and
- **2.5C or higher** – the increase in the global average temperature that well exceeds the increase mentioned in the *Climate Change Act 2022* (a **high global warming scenario**).

Reporting is for financial years beginning on or after 1 January 2025 (or later). This means:

- **31 December 2025 year ends will report first**, and
- First mandatory reporting date for 30 June year ends will be **30 June 2026**.

The Act is the culmination of a series of consultations and proposed amendments to the *Corporations Act 2001* and the *Australian Securities and Investment Commission Act 2001* covering the following:

- **Reporting entities**: those with Corporations Act Chapter 2M reporting obligations meeting prescribed thresholds
- **Phasing**: timing of first reporting based on size or level of emissions.
- **Reporting content**: as required by Australian Sustainability Reporting Standards (ASRS), which includes Scope 3 emissions (with a first-year transition exemption)
- **Reporting framework**: within a sustainability report in the annual report and lodged in accordance with current annual reporting requirements
- **Assurance requirements**: phased approach ending with reasonable assurance of all climate-related financial disclosures made from years beginning 1 July 2030
- **Liability framework**: modified liability approach for both directors and auditors to disclosures of Scope 3 emissions, scenario analysis, transition plans and climate-related forward-looking statements.

Further details are set out in this Reporting Update.

What's next?

Australian Sustainability Reporting Standards

The Australian Accounting Standards Board (AASB) is close to finalising the first Australian Sustainability Reporting Standards (ASRS). The AASB will issue the final standards now that the legislation is passed (refer to [24RU-11 first Australian Sustainability Reporting Standards](#)).

AUASB to set pathway for phasing in requirements over time, with ‘end state’ reasonable assurance of all climate disclosures for years beginning 1 July 2030

ASIC’s role – guidance and reporting relief

Assurance requirement current proposals

The climate disclosures contained in the sustainability report will be subject to similar assurance requirements to those currently in the *Corporations Act 2001* for financial reports. The AUASB will set out a **pathway for phasing in requirements over time**, with an ‘end state’ of reasonable assurance of all climate disclosures made from years commencing 1 July 2030 onwards.

The AUASB are planning on issuing an exposure draft with their proposed assurance phasing model in September 2024, with the expectation of issuing a final assurance standard, including the assurance phasing model, by December 2024.

Further guidance and reporting relief

As the regulator responsible for administering the mandatory climate-related disclosures regime, ASIC has communicated that it will issue regulatory guidance and support in its implementation. This will include a regulatory guide on addressing its approach to relief from the obligations, and interaction of the regime with existing legal and regulatory requirements. ASIC also plans to provide resources on its website for preparers and users of sustainability reports.

ASIC has further advised that it will take a pragmatic approach to the supervision and enforcement of the regime.

“This is a significant milestone for mandatory climate-related financial disclosure reporting. It provides certainty for all stakeholders on the timing and legislative requirements. The ASRS will be finalised shortly, and we support the AUASB in its remaining consultation to finalise the assurance roadmap.”

**Adrian King
Partner in Charge, ESG Advisory & Assurance Services
KPMG Australia**



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11 September 2024



Snapshot – Treasury sustainability reporting legislation



What has been issued?

- **Climate-related financial disclosures reporting legislation** [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024](#) (Act) was passed in September 2024.
- The Act requires **relevant entities to disclose their climate-related** plans, financial risks and opportunities, in accordance with **Australian Sustainability Reporting Standards** (ASRS) made by the Australian Accounting Standards Board (AASB)¹



What is the impact?

- **Reporting entities:** those with Chapter 2M of the *Corporations Act 2001* reporting obligations meeting prescribed thresholds
- **Phasing:** The first sustainability report will be issued for **annual reporting periods starting 1 January 2025** (or 31 December 2025 year-end). First mandatory reporting date for 30 June year ends will be **30 June 2026**. The timing of first reporting by in-scope entities is **based on size or level of emissions**
- **Reporting content:** as required by the Australian Sustainability Reporting Standards, including information derived from climate scenario analysis carried out using at least two specified scenarios²
- **Reporting framework:** within a sustainability report in the annual report and lodged in accordance with current annual financial reporting requirements
- **Assurance requirements:** phased approach ending with reasonable assurance of all climate-related financial disclosures for years beginning 1 July 2030
- **Liability framework:** modified liability approach to disclosures of Scope 3 emissions, scenario analysis, transition plans and climate-related forward-looking statements for initial transition periods



Next steps

- **Get familiar** with the legislation content
- **Understand** when the legislation applies to you
- **Follow the issuance** of final standards by the AASB in September 2024
- **Start planning** – perform a gap analysis and create a roadmap to identify capacity constraints
- **Reach out** to your KPMG contact during your planning process
- **Be alert** for guidance and relief issued by ASIC, the regulator responsible for this new legislation

¹ See [24RU-11 First Australian Sustainability Reporting Standards](#) for further detail

² Climate scenario analysis should be carried out using at least both of the following scenarios:

- 1.5C – the increase in the global average temperature mentioned in the *Climate Change Act 2022* (a **low** global warming scenario); and
- 2.5C or higher – the increase in the global average temperature that well exceeds the increase mentioned in the *Climate Change Act 2022* (a **high** global warming scenario)

Reporting entities in scope and phasing

A three-phased implementation approach will require reporting of climate-related financial disclosures.

	Required to lodge financial reports under Chapter 2M of the <i>Corporations Act 2001</i> and falls within one (or more) of the following three categories (sustainability reporting thresholds)			National Greenhouse and Energy Reporting (NGER) Reporters	Asset Owners (Registered schemes, Registrable superannuation entities and retail CCIVs)
	Meet two of three reporting thresholds:				
	Consolidated gross revenue (For the financial year)	Consolidated assets (At the end of the financial year)	Employees		
Group 1 First annual reporting periods beginning on or after 1 January 2025	\$500 million or more	\$1 billion or more	> 500	Above NGER publication Threshold ²	Scoped out of Group 1
Group 2 First annual reporting periods beginning on or after 1 July 2026	\$200 million or more	\$500 million or more	> 250	All other NGER reporters	\$5 billion or more assets under management
Group 3¹ First annual reporting periods beginning on or after 1 July 2027	\$50 million or more	\$25 million or more	> 100	N/A	Refer to Group 3 reporting thresholds (see left)

¹ Limited disclosure for Group 3 entities if they have no material financial risks or opportunities relating to climate – see [next page](#)

² NGER reporters meeting Group 1 thresholds will be in Group 1 even if emission is below NGER publication threshold

i. How are employees counted?

Part-time employees are considered as an appropriate fraction of a full-time equivalent.

ii. How are consolidated revenue and consolidated assets calculated?

Calculations must be done in accordance with the accounting standards in force at the relevant time.

iii. How are assets under management (AUM) defined and calculated?

There is currently no consistent definition of AUM. We are anticipating further clarification of AUM in the policy position statement or other form.

iv. Are all entities within a consolidated group required to provide climate-related financial disclosures?

An entity required to prepare consolidated financial statements may choose to provide climate-related financial disclosures (“sustainability report” – as defined on [next page](#)) on a consolidated basis (as the parent). In this case, each individual entity within the group that is otherwise required to prepare a sustainability report under the *Corporations Act 2001* **does not need to**, if the group consolidated sustainability report covers those individual entities.

v. Does an Australian subsidiary of a foreign parent need to prepare a sustainability report, if the foreign parent prepares one in its local jurisdiction?

An Australian subsidiary lodging a financial report under Chapter 2M of the *Corporations Act 2001* that meets the sustainability reporting thresholds **must prepare** a sustainability report.

vi. Is an entity required to prepare a sustainability report if it is exempt from lodging a financial report under Chapter 2M?

If exempt, e.g. is registered with the ACNC or exempt by ASIC class order relief, it is **not** required to prepare a sustainability report.

vii. Are companies limited by guarantee in scope of the disclosures?

A company limited by guarantee with annual (consolidated) revenue of \$1 million or more, meeting any of the other sustainability reporting thresholds, is required to prepare a sustainability report.

Reporting content, location and timing

Reporting content

Group 3 entities with no material climate-related financial risks or opportunities

Where Group 3 entities (entities that are in-scope for reporting but that do not meet the thresholds for Group 2) assess that they **do not have material climate-related risks or opportunities**, the entity's climate statement will only include a statement to that effect, as well as an explanation of how it reached this conclusion. A directors' declaration and auditor report on the sustainability report is still required.

Materiality is assessed in accordance with the sustainability standards.

Scope 3 emissions

Scope 3 emissions **will be required to be disclosed** (with a first-year transition exemption in ASRS).

An entity required to prepare a sustainability report is also required to keep records that correctly explain and record its preparation of the statements in the report for 7 years.

Reporting location

Climate-related disclosures are required within a *sustainability report* forming part of the annual report

The **sustainability report** is required by the *Corporations Act 2001* and consists of:

- The climate statements as required by ASRS, incorporating the Group 3 materiality exemption (see 'Reporting content') where applicable
- Notes to the climate statements (if any)
- Any statements prescribed by legislative instrument
- The directors' declaration about the compliance of the statements with the relevant sustainability standards

This sustainability report forms the fourth report¹ of an entity's annual report.

Cross referencing

The ability to incorporate disclosures required by legislation through cross-referencing to other sections in the annual report will require ASIC clarification.

¹ the other three being the directors' report, financial report and auditor's report

Timing of reporting

The timing of lodgement of the sustainability report with ASIC and reporting to members will follow the current annual financial reporting timing requirements

ASIC

Timing of lodgement of financial report under section 319 of the *Corporations Act 2001*:

- Disclosing entities and registered managed investment schemes: within **three months** after the end of the financial year.
- All other companies: within **four months** after the end of the financial year.

Members and AGM

The sustainability report must be sent to members and, where relevant, considered at an entity's AGM, in accordance with the relevant timing requirements for the annual financial report.

The prospectus for continuously quoted securities or a product disclosure statement relating to a managed investment scheme that is an enhanced disclosure security must inform of their right to obtain a copy of the most recently lodged sustainability report, where relevant. The contents of an offer information statement for the issue of a body's securities must include a copy of the most recent sustainability report prepared.

Liability framework and assurance

Liability framework

Modified liability for climate-related financial disclosures

Climate-related financial disclosures will be subject to the current legal framework in various areas including directors' duties, misleading representation provisions and reporting requirements. These requirements are embedded in the *Corporations Act 2001*, *Australian Securities and Investment Commission Act 2001* and the *Competition and Consumer Act 2010*.

The application of misleading and deceptive conduct provisions to Scope 3 emissions, scenario analysis and transition plans disclosures will be **limited to regulator-only actions for a fixed period of three years**.

In addition, the modified liability is also extended to cover **all forward-looking statements for the first financial year for Group 1 entities**.

This modified liability extends to statements made in an auditors' report of an audit or review of a sustainability report for the same periods.

Beyond this period, the pre-existing liability arrangements will apply.

Assurance requirement current proposals

The sustainability report will be subject to assurance requirements similar to those currently in the *Corporations Act 2001* for financial reports, including the same obligations of the auditor. The Act requires an 'end state' for all entities to obtain reasonable assurance over the sustainability report for financial years beginning on or before 1 July 2030.

The Australian Auditing and Assurance Standards Board (AUASB) will develop the **extent** and **level of assurance** required for climate-related financial disclosures. The AUASB discussed the below **proposed assurance phasing model** for inclusion in an exposure draft which is expected to be released for comment in September 2024. A final standard is expected by December 2024.

The proposed assurance phasing model below is tentative and still subject to change.

Source: AUASB 6 August 2024 Meeting Agenda Paper

Reporting year	1st ¹	2nd	3rd	4th	5th	6th ²
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and opportunities ³	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate resilience assessments/scenario analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

¹ Group 1 – First financial year commencing on or after 1 January 2025. Group 2 – First financial year commencing on or after 1 July 2026. Group 3 – First financial year commencing on or after 1 July 2027.

² Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1 July 2030.

³ The phasing for assurance on statements that there are no material climate-related risks and opportunities would be the same as for 'Strategy – Risks and Opportunities'.



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