

Australian Sustainability Reporting legislation and standards finalised

Reporting update

23 September 2024, 24RU-12



Australian Sustainability Reporting Framework now in place

Mandatory climate reporting

Australian Sustainability Reporting Standards now issued

First reporting financial years ending 31 December 2025

AUASB proposes phasing in assurance 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

Australia's sustainability reporting framework is now in place after the climate-related financial disclosures legislation – [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024](#) (see Schedule 4) (Act) received Royal Assent in early September 2024.

The Act mandates 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). The first ASRS were also issued in September 2024 by the AASB and comprise:

- AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* – a **voluntary** Standard
- AASB S2 *Climate-related Disclosures* – a **mandatory** Standard.

AASB S1 and AASB S2 are aligned internationally to IFRS S1 and IFRS S2 with minimal variations.

Mandatory reporting of climate-related disclosures is for financial years beginning on or after 1 January 2025 (or later).

Further details are set out in this Reporting Update.

What's next?

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 issued exposure draft [ED 02/04 Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports Under the Corporations Act 2001](#) in September 2024 outlining the **proposed assurance phasing model** with the expectation of issuing a final standard by December 2024. The assurance phasing model aligns with the requirement in the Act for an 'end state' of reasonable assurance of all climate disclosures made from years commencing 1 July 2030 onwards.

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.



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23 September 2024

Snapshot – Australian sustainability reporting framework



What has been issued?

- Australia's sustainability reporting framework is now in place after **Climate-related financial disclosures reporting legislation** [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024](#) (Act) received Royal Assent in early 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)
- The first ASRS were also issued in September 2024 by the AASB and comprise:
 - ✓ **AASB S1** *General Requirements for Disclosure of Sustainability-related Financial Information* – a **voluntary** Standard
 - ✓ **AASB S2** *Climate-related Disclosures* – a **mandatory** Standard
- AASB S1 and AASB S2 are based on IFRS® Sustainability Disclosure Standards¹ with minimal variations

¹ IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*



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 Australian sustainability reporting framework now in place
- **Understand** when the reporting requirements apply to you
- **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 overseeing sustainability reporting practices
- **Access** further KPMG resources

[First Impressions – IFRS S1 and IFRS S2](#)

Insights and illustrative examples



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.

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 (see [AASB S2 page](#)), incorporating the Group 3 materiality exemption (see 'Reporting content' section) where applicable
- Notes to the climate statements (if any)
- Any statements prescribed by legislative instrument
- The directors' declaration¹ about the compliance of the statements with the relevant sustainability standards

This sustainability report forms the fourth report² 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 For financial years beginning within 3 years from 1 January 2025, the Act allows the directors' declaration stating the sustainability report is in accordance with the Act to be taken to mean that in the opinion of the directors, reasonable steps have been taken to ensure the report is in accordance with the Act. Beyond this period the transition relief does not apply.

² 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 issued exposure draft [ED 02/04 Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports Under the Corporations Act 2001](#) in September 2024 outlining the **proposed assurance phasing model** below. The final standard is expected by December 2024. **The proposed assurance phasing model is tentative and still subject to change.**

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'.

AASB S2 *Climate-related Disclosures* (mandatory standard)

AASB S2 sets out disclosure requirements for climate-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, access to finance or cost of capital over the short, medium or long term. The climate-related financial disclosures are divided into four key pillars, being governance, strategy, risk management, and metrics and targets, and include required disclosures on scenario analyses and greenhouse gas emissions (Scope 1, 2 and 3).

AASB S2 is a **mandatory** standard, modelled on IFRS S2 with minimal variations to fit the Australian context (see Appendix 1).

AASB S2 incorporates selected content from AASB S1 necessary to make AASB S2 function as the standalone standard for all climate-related financial disclosures (including location of disclosures, timing of reporting and disclosures related to judgements, uncertainties and errors). That content is included in Appendix D of AASB S2. Entities required by the *Corporations Act 2001* to comply with AASB S2 are not required to comply with AASB S1 but, may refer to it for guidance. Entities may voluntarily elect to apply AASB S1 in preparing their sustainability report.



General requirements

Aligns with AASB S1 – see *Key Features* on [AASB S1 page](#) except for:

- **Reporting entity** – same as the related financial statements, **unless otherwise permitted by law**. Under the Act, a parent entity has the choice of preparing a sustainability report for either the consolidated entity or the parent entity. AASB S2 has been aligned to this requirement.



Transitional relief

- Not required to disclose Scope 3 emissions metrics until the second period of reporting.
- Not required to provide comparative information for any period before the date of application.



Core Content



Governance and Risk Management

Aligns with AASB S1 – see *Core content: Governance and Risk Management* on [AASB S1 page](#).



Scenario analysis

- Undertake climate resilience assessments using an approach commensurate to the entity's circumstances.

For entities that are **required to report under the *Corporations Act 2001***, the Act** mandates the disclosure of information derived from scenario analysis carried out using both a 'low' (1.5C) and a 'high' (2.5C or higher) global warming scenario.

**Not a requirement of AASB S2 but by legislation



Strategy

Aligns with AASB S1 – see *Core content: Governance and Risk Management* on [AASB S1 page](#), **plus:**

- How climate-related targets will be resourced and achieved.
- Any climate-related transition plan, including key assumptions and dependencies.
- Planned adoption of new technologies.
- Adaptation and mitigation efforts, including use of offsets.
- Use of climate-related scenarios (which used, why and time horizon).
- Key inputs, assumptions and uncertainties in scenarios and corresponding impact on strategy and business model.

AASB S2 *Climate-related Disclosures* (continued)

Core Content

Metrics and Targets

7 metrics consistent for all industries:

- Greenhouse gas (GHG) emissions – Scope 1, 2 and 3
- Transition risks – \$ and % of assets or business activities vulnerable to transition risks
- Physical risks – \$ and % of assets or business activities vulnerable to physical risks
- Climate-related opportunities – \$ and % of assets or business activities aligned with climate-related opportunities
- Capital deployment – \$ of capital expenditure, financing or investment deployed towards climate-related risks and opportunities
- Internal carbon price, where used - \$ per metric tonne of GHG emissions
- Remuneration – proportion of executive management remuneration linked to climate-related considerations in the current period.

Industry-specific metrics:

- Not **required** to disclose

The AASB plans to embark on a future project on industry-specific measures for climate-related disclosures.

Greenhouse gas (GHG) emissions

- **Measurement** – GHG Protocol¹, unless required by a jurisdictional authority to use a different method
This means that if an entity is required by an Australian authority (e.g. Australian legislation) to use a specific method for measuring its GHG emissions (e.g. methodologies in NGER Scheme legislation) it may use that methodology to report their GHG emissions. Otherwise, the GHG Protocol must be prioritised.
- **Scope 3 emissions** – consider and disclose which of the 15 categories of Scope 3 emissions in GHG Protocol Corporate Value Chain² are included in the entity's disclosures
- **Scope 3 financed emissions** – required for those involved in asset management, commercial banking, or insurance

Scope 3 – First year transition relief

- Not required to disclose Scope 3 emissions metrics until the second period of reporting

¹ Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)

² Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)

AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (voluntary standard)

AASB S1 prescribes how an entity prepares and reports its **sustainability-related financial disclosures** that form part of its general-purpose financial reporting. It sets out general requirements for the presentation of those disclosures, guidelines for their structure and minimum requirements for their content to provide users of general-purpose financial reports with a complete set of sustainability-related financial disclosures.

AASB S1 is a **voluntary** standard modelled on IFRS S1 with minimal variations (see Appendix 1).



Key Features

- **Framework** – based on 4 pillars of IFRS S1. Broadly, the *Task Force on Climate-related Financial Disclosure* (TCFD) have been adopted as the base disclosure framework.
- Disclose **material information** about sustainability-related risks and opportunities*:
 - **Materiality concept** – aligned with Australian Accounting Standards.
- **Reporting entity** – same as the related financial statements, covering the entity's full value chain.



- **Connected reporting** – between sustainability-related disclosures and the financial statements, and across the annual report more generally. This includes requiring consistency of data and assumptions, where relevant, between sustainability and financial information.
- **Timing of reporting** – same time and same period as financial statements.
- **Location of disclosures** – within general purpose financial reports. Can cross-reference out to another report as long as meet certain conditions.



Transitional relief

- Not required to provide comparative information for any period before the date of application.



Core Content

Governance

- Who is tasked with governance?
- Skills and competencies
- How often they are informed
- Remit of oversight (targets, risks, opportunities)
- Delegation of responsibilities

Strategy*

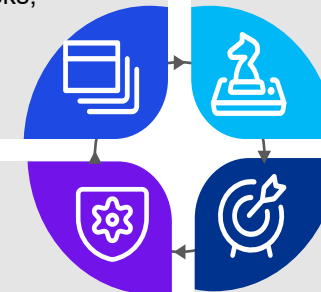
- Sustainability risks / opportunities, impact on business model, value chain, strategy, cash flows and capital, financial position and performance
- Resilience of strategy
- Quantitative and qualitative progress of plans

Risk Management*

- Process for identification and prioritisation
- Assessment of likelihood and impacts
- Assumptions
- Monitoring, management and integration

Metrics and Targets*

- Specific metrics not identified
- Include industry metrics and refer to SASB Standards
- Guidance provided on how to report on metrics
- Any targets or revisions to targets



* Relief from disclosing information about a sustainability-related **opportunity** if that information is commercially sensitive.

Appendix 1: ISSB™ Standards vs Australian Sustainability Reporting Standards

Topic	Both IFRS S1 and IFRS S2	AASB S1 and AASB S2
Application	For-profit entities	Both for-profit and not-for-profit entities
Topic	IFRS S1	AASB S1
Scope		Voluntary standard
Transition relief	<ul style="list-style-type: none"> Comparative information not required for any period before the date of application Timing of reporting relief for first year 	Comparative information not required for any period before the date of application
Topic	IFRS S2	AASB S2
Scope		Mandatory standard for climate (as required in the Act)
Industry-based metrics	<ol style="list-style-type: none"> Required to disclose common industry- based metrics When identifying these metrics, required to consider SASB Standards and consider industry-based metrics adapted from SASB Standards 	<ol style="list-style-type: none"> No requirement to disclose common industry-based metrics No requirement to refer to and consider SASB Standards
Reporting entity	Same as the related financial statements	Same as the related financial statements, unless otherwise permitted by law
General requirements for disclosure (e.g. location of disclosures, timing of reporting and disclosures relating to judgements, uncertainties and errors)	Reference IFRS S1	Content of AASB S1 necessary to make AASB S2 function as the standalone standard for all climate-related financial disclosures incorporated in Appendix D of AASB S2

Scenario analysis – For entities that are **required to report under the Corporations Act 2001**, the Act** mandates the disclosure of information derived from scenario analysis carried out using both a 'low' (1.5C) and a 'high' (2.5C or higher) warming scenario. ****Not a requirement of AASB S2 (or IFRS S2).**



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