

ASIC Sustainability reporting Regulatory Guide consultation

Reporting update

19 November 2024, 24RU-15



**Consultation for
sustainability reporting
Regulatory Guide released**

**Draft Regulatory Guide
expands guidance on new
sustainability regime
requirements**

**Final Regulatory Guide
expected in Q1 2025**

**Comments due by
19 December 2024**

As regulator responsible for the new mandatory sustainability reporting regime, ASIC released [Consultation Paper 380 Sustainability reporting](#) seeking feedback on:

- Draft Regulatory Guide 000 for Sustainability Reporting ([Draft RG 000](#))
- Whether any existing ASIC financial reporting-related relief instruments should be extended to sustainability reporting
- Any other areas of uncertainty on sustainability reporting where ASIC should provide support.

The content of Draft RG 000 is largely consistent with previously communicated requirements of the new sustainability regime and covers the following topics:

- The preparation of the sustainability report
- Specific issues about the contents of the sustainability report
- Sustainability-related financial disclosures outside the sustainability report
- ASIC's administration of the sustainability reporting requirements, including relief powers and surveillance program

ASIC expects to release the final Regulatory Guide in **Q1 2025**.

Comments are due by 19 December 2024, including feedback on any other areas where guidance should be provided.

Further details are set out in this Reporting Update.

“We welcome the release of the draft regulatory guide on sustainability reporting. As mandatory climate reporting draws closer, reporting entities would greatly benefit from the clarity the regulatory guide will provide on areas of uncertainty and address any potential diversity in application.”

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



ASIC Draft Regulatory Guide 000 - Sustainability Reporting

Consultation Paper 380

November 2024



ASIC Draft Regulatory Guide 000 - Sustainability Reporting



What's been issued?

- [Consultation Paper 380 Sustainability reporting](#) was released by ASIC seeking feedback on:
 - Draft [Regulatory Guide 000](#) for Sustainability Reporting (Draft RG 000)
 - Whether any existing ASIC financial reporting-related relief instruments should be extended to sustainability reporting
 - Any other areas of uncertainty on sustainability reporting where ASIC should provide support.
- Draft RG 000 covers:
 - The preparation of the sustainability report [[Part B](#)]
 - Specific issues about the contents of the sustainability report [[Part C](#)]
 - Sustainability-related financial disclosures outside the sustainability report [[Part D](#)]
 - ASIC's administration of the sustainability reporting requirements, including relief powers and surveillance program [[Part E](#)]
- **Comments are due by 19 December 2024**
- ASIC expects to release the final Regulatory Guide in **Q1 2025**.



ASIC Regulatory Guides

The mandatory sustainability reporting regime is new to the Australian reporting context. ASIC is the regulator responsible for this new mandatory sustainability reporting regime and has drafted this Regulatory Guide to provide certainty and address areas of potential diversity in application.

ASIC Regulatory Guides seek to provide guidance to entities about complying with their sustainability reporting obligations by:

- Explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- Explaining how ASIC interprets the law
- Describing the principles underlying ASIC's approach
- Giving practical guidance.

Next steps

- **Get familiar** with the draft regulatory guide on sustainability reporting
- **Engage in discussions** on the consultation paper
- **Provide feedback** to ASIC
- **Reach out** to your KPMG contact
- **Be alert** for guidance and relief issued by ASIC



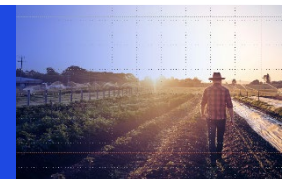
Draft RG 000

The contents of Draft RG 000 is largely consistent with previously communicated requirements of the new sustainability regime. ASIC is seeking feedback on a wide range of proposals set out in Draft RG 000, asking:

- Whether you agree with the proposed guidance – and if not, why not?
- Whether there are any other areas on the particular topic where guidance should be provided.

This document focuses on **those areas where Draft RG 000 provides clarification and/or further guidance than has previously been communicated**. The tables on our [Further guidance page](#) provide a summary of the remaining topics covered by Draft RG 000.

[Australian sustainability reporting legislation and standards finalised](#)



Preparing a sustainability report

Sustainability reporting thresholds

Entities must prepare a sustainability report if they have financial reporting obligations under Chapter 2M of the *Corporations Act 2001* and meet at least one of the sustainability reporting thresholds¹. The thresholds depend on the definitions of revenue, assets and employees. Revenue and the value of assets are determined in accordance with relevant accounting standards.

Draft RG 000 reiterates these thresholds with little practical guidance. To ensure consistent application, we strongly urge ASIC to provide further guidance on the following:

- **‘Revenue’** is defined in accounting standards as “income arising in the course of an entity’s ordinary activities”. This is a broad definition, and its interpretation/application varies across industries/sectors giving rise to the risk of different scoping outcomes for similar entities.

For example, certain entities operating in the same industry may include fair value and revaluation gains/losses or equity accounted profits when assessing the revenue threshold, whilst others may explicitly exclude them.

- **‘Assets under management’** is used in Draft RG 000 when considering the application of sustainability reporting requirements to asset owner’s. This term is not defined and also differs to the terminology used in the *Corporations Act 2001*. Clarification is needed on whether ‘assets under management’ refers to the value of assets recognised in the asset owner’s consolidated financial report or based on the value of assets under its management. The latter approach would increase the scope of entities within the sustainability reporting requirements.
- Clarification is needed on the application of the asset and revenue requirements to reporting entities deemed to be **Investment entities** by AASB 10 *Consolidated Financial Statements* (AASB 10) as these do not consolidate subsidiaries in their financial reports.

For example, an asset owner controls several funds under AASB 10 and meets the definition of an investment entity. In its annual report, it recognises investments in these funds at fair value of \$3bn rather than consolidating and recognising the underlying controlled funds’ gross assets of \$10bn and gross liabilities of \$7bn. Should the asset owner consider the total assets reported in its annual report (\$3bn) or the value of gross assets held by the funds it controls (\$10bn) when assessing its reporting requirements?

¹ 24RU-12 *Australian Sustainability Reporting legislation and standards finalised* for details of sustainability thresholds.

Modified liability

Under the modified liability settings, no legal action other than criminal action, or action by ASIC, can be brought in relation to ‘protected statements’ made in the sustainability report or the auditor’s report on the sustainability report.

Draft RG 000 clarifies that the **modified liability settings do not extend to statements voluntarily made outside a sustainability report** (such as in investor presentation), unless required by regulation.

Sustainability reporting relief

Financial reporting relief

Draft RG 000 confirms that any existing financial reporting relief under an ASIC instrument will automatically extend to sustainability reporting. This would be the case, for example, where a company has relief from preparing a financial report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*. Other forms of financial reporting relief (e.g., deferral of financial reporting obligation) will require a separate application for sustainability reporting relief.

Stapled entities

Draft RG 000 sets out that the financial reporting relief for stapled entities under *ASIC Corporations (Reporting by Stapled Entities) Instrument 2023/673* extends to sustainability reporting requirements.

This relief allows a stapled entity to prepare a sustainability report in relation to all stapled group members. If a stapled entity relies on this relief, each stapled issuer in the stapled group is not required to prepare individual sustainability reports.

Other possible sustainability reporting relief opportunities

We would support ASIC considering providing relief that permits Australian sister subsidiaries with multiple entry points into Australia (i.e. no one common parent entity with Chapter 2M reporting requirements) to prepare one aggregated/combined sustainability report.

Reporting content and interaction with other requirements

Cross-referencing

Draft RG 000 addresses incorporation of disclosures by cross-reference. **Material information can be included in a reporting entity's climate statements by cross-referencing to another document** published by the reporting entity as permitted in AASB S2¹, provided:

- cross-referenced information is available on the same terms and at the same time as the climate-related financial disclosures and
- climate-related financial disclosures are not made less understandable by including information by cross-reference.

Cross-referencing is consistent with current practice of some reporting entities who have voluntarily disclosed sustainability-related information as part of their integrated reporting.

The reporting entity is strongly encouraged to lodge the other documents containing the cross-referenced information with its sustainability report (if not already been lodged) with ASIC to ensure a complete and permanent sustainability report is available for public access.

KPMG welcomes the proposed clarifications on cross referencing and labelling as it supports current market practice and will reduce unnecessary duplication and segregation of sustainability related information between the annual report and other pre-existing sustainability reports issued by entities historically.

Labelling

Draft RG 000 states that the terms 'sustainability report' and 'climate statements' have precise meanings in the *Corporations Act 2001* and should be used to exclusively refer to statutory information required by regulations. They should be sufficiently differentiated from other reports or statements that may have been historically labelled as 'sustainability report'. The terms 'voluntary sustainability statements²' and 'voluntary climate statements²' are recommended to be used for statements containing sustainability-related information that are not required to be included in the statutory climate statements/statutory sustainability reports.

Draft RG 000 notes that appropriate labelling reduces the risk that users may be misled about whether sustainability-related information³ disclosed is required by law or provided on a voluntary basis.

ASIC proposes that the statutory sustainability report should be clearly distinguished and be separately presented from other information in the annual report.

¹ AASB S2 *Climate-related Disclosures*

² Refers exclusively to statements prepared by applying all or parts of AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* or statements prepared by voluntarily applying all or parts of AASB S2.

³ In Draft RG 000, 'sustainability-related information' refers to information about sustainability. It is not limited to sustainability-related financial information under AASB S1 or AASB S2 and may include sustainability-related information that is not relevant or useful in assessing the entity's prospects. It may also include sustainability-related information disclosed under other sustainability reporting standards (other than AASB S1 or AASB S2) or frameworks.

Disclosures outside the sustainability report [Part D]

Draft RG 000 provides guidance on climate-related financial information and other sustainability-related financial information that are required by legislation to be considered and disclosed in documents outside the sustainability report (e.g., operating and financial review in the directors' report, Product Disclosure Statement) as well as principles related to the reproduction of climate statements in other documents (e.g., investor presentations, and other market disclosures directed to investors).

Operating and financial review (OFR)

If considered a material business risk, a listed entity is required to disclose sustainability-related financial information in the OFR. While the sustainability report is part of an annual report, it is a report separate from the directors' report where the OFR is located. It could be possible that duplication of sustainability-related information disclosed in the annual report (i.e., directors' report and sustainability report) exists.

It is unclear how this Draft ASIC guidance on the OFR interacts with the cross-referencing guidance provided, particularly in an environment where users of financial reports are looking for greater integration and reduced duplication of relevant information.

ASIC's reviews of sustainability disclosures will extend to voluntary information to identify instances where reporting entities selectively includes or references information from a sustainability report in a misleading manner.

Further guidance

Draft RG 000 also provides further guidance on the following matters:

Preparing the sustainability report [Part B]

| Matter | Guidance |
|---|--|
| Obligation to keep sustainability records | An entity is required to keep records comprising documents and working papers that explain the methods, assumptions and evidence from which the sustainability report are made up. These records must be kept for at least 7 years, be available on request by ASIC, and be provided to auditors promptly to support their audit/assurance. |
| Directors' duties | As part of directors' duty to exercise their powers with reasonable care and diligence, they should consider the extent that material climate-related physical and transition risks pose a foreseeable risk of harm to the interests of the entity which will then inform their declaration in relation to any climate-related financial disclosures. |
| Directors' declaration | The directors' declaration must be made in accordance with a resolution of the directors, specify the date on which the declaration is made, be signed by a director, and declare that, in the directors' opinion, the sustainability report is in accordance with the Corporations Act. For financial years commencing between 1 Jan 2025 – 31 Dec 2027 the declaration only requires directors to have taken reasonable steps to ensure that the sustainability report is in accordance with the Corporations Act. |

ASIC's administration of the sustainability reporting requirements [Part E]

| Matter | Guidance |
|--|--|
| ASIC's power and approach to grant sustainability reporting and audit relief | ASIC has discretion to grant relief from the sustainability reporting and audit requirements when satisfied that complying with the obligations would make the sustainability report or other report misleading, be inappropriate, or impose unreasonable burdens. ASIC will consider the sustainability reporting policy objectives; users of the sustainability report; and established policy and precedents in relation to financial reporting. ASIC will also consider the relevant circumstances of the applicant, including for example, the entity's size. Relief is unlikely to exceed one reporting period. Extension of time to lodge a sustainability report will be granted only in rare circumstances. |

Content required in the sustainability report [Part C]

| Matter | Guidance |
|---|---|
| Overview of required content | A sustainability report for a financial year consists of climate statements; notes to the climate statements; and the directors' declaration. Notes to climate statements in a sustainability report are not expected to be necessary given that neither AASB S2, nor any legislative instruments currently require any notes. |
| No financial risks or opportunities relating to climate | Qualifying reporting entities may lodge a climate statement explaining that there are no material financial risks or opportunities relating to climate for a financial year; and how the entity determined that it had no material financial risks or opportunities relating to climate. The assessment must be documented for each applicable financial year and be supported by adequate sustainability records. |
| Statements with forward-looking climate information | Reporting entities that are disclosing entities must comply with their continuous disclosure obligations, including for forward-looking information in the climate statement, when relevant facts or circumstances change. Reporting entities that are not disclosing entities should also provide an update to the market when these relevant facts or circumstances change. |
| Proportionality mechanisms and exceptions under AASB S2 | Reporting entities can apply AASB S2 proportionality mechanisms and exceptions to comply with sustainability reporting requirements using reasonable and supportable information available without undue cost or effort. When such mechanisms are applied, reporting entities will still be required to keep adequate sustainability records substantiating the application of these aspects. ASIC may direct a reporting entity to make available to ASIC this information for scrutiny. |



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