



Release of Treasury's final consultation on climate-related financial disclosures

Draft legislation illustrates the expectation of increased transparency among Australian reporters

- Treasury has released its **third and final consultation** on mandatory climate reporting, including an exposure draft of legislation to be tabled to Parliament
- The proposals are largely consistent with previous consultations, impacting listed and unlisted companies, financial institutions, registrable superannuation entities and registered investment schemes, with reporting requirements introduced on a phased basis according to size criteria. NGER-covered entities will also be required to report
- Group 1 entities will be required to prepare their first sustainability report for annual periods commencing 1 July 2024, subject to feedback on a potential six-month deferral by Treasury
- There are some notable changes from previous proposals including for example:
 - A new \$5 billion asset threshold category that automatically brings entities not otherwise captured by other size thresholds into Group 2
 - Group 3 entities may be exempt from providing detailed disclosures in circumstances where they are able to state they do not have material climate-related risks or opportunities
 - Changes to proposals regarding what disclosures will be subject to assurance, the extent of this assurance and when this will be phased in
 - Potential relief for group entities to only provide a consolidated sustainability report at the ultimate Australian parent entity level
- It is expected that the timeline for passing the legislation will be short and entities that fall into one of the categories for mandatory reporting should already be considering their implementation strategies.

"The draft legislation gives companies the opportunity to build capacity to make high quality climate risk disclosures by providing early visibility of the proposed reporting requirements and expand the breadth of entities required to report over time."

The Hon Dr Jim Chalmers MP
Treasurer

Background

It is well known within boardrooms and the halls of Parliament that the Australian government has been keen to push forward with mandatory climate reporting for Australian reporting entities. Since the initial consultation paper was released by Treasury in December 2022, steady progress has been made with the recent release on 12 January 2024 of Treasury's final consultation. This release includes a **policy statement**, a **policy impact analysis** and **exposure draft legislation**, with accompanying **explanatory memorandum**, for the first time, although the contents are largely in line with expectations set by previous consultations, but with some key changes. These changes have been highlighted below with a **green line**.

The draft legislation builds on the Australian Government's commitment to enhance transparency and comparability of information about climate-related risks that Australian reporters are exposed to, in order to better inform decision-making. The consultation is open for comment until **9 February 2024**. At the same time, the Australian Accounting Standards Board's (AASB) exposure draft ED-SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* remains open for comment until **1 March 2024**. The AASB's proposals will provide the requirements as to what entities report.

Treasury has estimated that approximately 1,800 entities will be required to report. Costs will vary depending on the size of the company. However, Treasury's estimate is that this will initially add between \$1 million to \$1.3 million per captured entity in initial transition costs and this would fall and stabilise to ongoing costs of \$500,000 to \$700,000 per year.

Who will be required to report, and when?

The mandatory climate-related financial disclosures are expected to be implemented in a three-phased approach, **commencing from 1 July 2024** (for Group 1, being the largest entities) with Group 2 and Group 3 entities two years and three years later respectively.

Notably, the recent consultation has sought feedback on whether the start date for Group 1 should be deferred for an additional six months to 1 January 2025.

It is only those reporting entities who are required to prepare financial reports under Chapter 2M of the *Corporation Act 2001*¹ which are included in scope of the legislation, subject to meeting prescribed thresholds as outlined below. Specifically:

- Entities which meet two or more of the prescribed size thresholds related to employees, consolidated assets and consolidated revenue, **or**
- Entities reporting under the *National Greenhouse and Energy Reporting Act 2007* (NGER), **or**
- Overriding asset test that captures all entities with consolidated assets of \$5 billion or more.

The specific scoping criteria for entities are set out in the table below:

¹ For clarity, entities that are not required to report under Chapter 2M, or have obtained relief from reporting under Chapter 2M (e.g. entities registered with the Australian Charities and Not-for-profits Commission (ACNC) or entities who have obtained ASIC class order relief) will not fall under mandated climate reporting.



“A rigorous, internationally aligned and credible climate disclosure regime will support Australia's reputation as an attractive destination for international capital and will help draw the investment required to net zero”

Treasury Policy Statement

The three phases of mandatory reporting

Group	First year of reporting	Category				
		Meets two or more of these thresholds				
		Employees	Consolidated assets	Consolidated revenue	NGER reporters	Overriding asset test
1	2024-2025	More than 500	\$1 billion or more	\$500 million or more	Above NGER publication threshold	N/A
2	2026-2027	More than 250	\$500 million or more	\$200 million or more	All other NGER reporters	\$5 billion assets under management or more
3	2027-2028	More than 100	\$25 million or more	\$50 million or more	N/A	N/A

Importantly, the final consultation has added an overriding asset test such that notwithstanding the other criteria, if the entity has consolidated gross assets of \$5 billion or more under its control, it is included in Group 2.

Entities falling in Group 3 would only be required to provide disclosures if they face material climate-related risks or opportunities, and where this is not the case, would be able to comply by disclosing a statement that they do not have material climate-related risks and opportunities.

Concessions have also been proposed that would see consolidated groups being able to elect to prepare a sustainability report for the Australian consolidated group, meaning that individual entities within the consolidated group would then not be required to prepare a separate sustainability report.



Assurance requirements of climate disclosures

Climate disclosures would be subject to assurance requirements similar to those for financial statement audits. Assurance requirements for the climate-related financial disclosure information would also be subject to a phased approach. Providers of assurance over climate-related disclosures would be required to be independent from the entity being audited. Treasury propose that financial auditors would lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, as required.

The current proposed phased approach for assurance requirements is:

Type of assurance	Disclosures	Timing
Limited assurance (review)	Scope 1 and 2 emissions	From 1 July 2024
Reasonable assurance (audit)	All disclosures	From 1 July 2030 onwards

Despite the phased implementation outlined in the table above, the pathway to mandatory assurance is currently unclear. Although the legislation indicates the start point (i.e. limited assurance over Scope 1 and 2 emissions from 1 July 2024) and end point (i.e. reasonable assurance over all disclosures from 1 July 2030), Treasury has indicated that the Australian Auditing and Assurance Standards Board (AUASB) will “set out a pathway for phasing in requirements over time.”

Where and when climate information should be provided

It is envisaged that the new “sustainability report” would form a **fourth report** as part of the annual report, alongside the directors’ report, financial report and auditor’s reports. The auditor’s report on the sustainability report would be separate from the report on the financial report.

The sustainability report would include:

- A climate statement
- Notes to the climate statement
- Any statements prescribed by the regulations
- A directors’ declaration.

The aim is to have the financial and sustainability information report prepared as part of the same cohesive document to enhance the connectivity between financial and non-financial information.

The climate statement would include material climate-related financial risks and opportunities, metrics and targets related to climate (including Scope 1, Scope 2 and Scope 3 greenhouse gas emissions) and climate-related governance or risk management processes, controls and procedures.

Scope 1 and Scope 2 emissions would be determined in accordance with NGER, whereas Scope 3 emissions would be determined in accordance with the Corporate Value Chain (Scope 3) Accounting and Reporting Standard under the Greenhouse Gas Protocol.

The sustainability report would comply with sustainability standards set by the Australian Accounting Standards Board (AASB) (and any requirements in the regulations), would be given to members (with some exceptions) and laid before the annual general meeting (where held).

The sustainability standards to be set are intended to be based on the International Sustainability Standards Board’s standards. These standards contain specific disclosure requirements for climate-related governance, risk management, strategy, and metrics and targets.

The reporting timetable for the sustainability report would be consistent with existing requirements under the *Corporations Act 2001*, with:

- Disclosing entities, registered managed investment schemes and registrable superannuation entities to report **within three months** of the end of the financial year
- Other entities **within four months** of the end of the financial year.



More information

For more information on the proposed content of climate reports in Australia, see our Clarity publication [Australia’s first climate standards: no more waiting](#) that discusses in more detail the specific requirements of *Exposure Draft SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*.

Significant time and resources may be necessary for the compilation of the sustainability report

A “modified liability” framework

Treasury has proposed the introduction of a temporary “modified liability” framework to give entities time to adjust and internally build up their capability to be able to adequately disclose relevant information in accordance with the requirements of the proposed climate-related disclosure standards.

This framework will provide limited immunity from liability for company directors for statements in sustainability reports relating to Scope 3 emissions and scenario analysis, in relation to financial years commencing between 1 July 2024 and 30 June 2027². It is important to note that this is a limited immunity, which means that only the regulator will be able to bring action relating to perceived breaches in relation to disclosures of Scope 3 emissions and climate-related forward looking statements, and the remedies available to the regulator will be limited to injunctions and declarations. During this period, the existing liability arrangements related to misleading and deceptive conduct provisions will still apply to climate disclosures, except for as outlined above.

The seven year record keeping requirement applying to financial records would also be extended to information explaining or used in preparing the sustainability report. Similar requirements apply to audit information for the auditor.

Next steps

The current and final consultation is open for comment until 9 February 2024, and late submissions will not be considered. It is expected that the draft bill will be introduced to Parliament early in the Parliamentary year and it is expected that the government is keen to turn this into official legislation sooner rather than later. This is in line with consistent signalling from the Treasurer, the AASB and other regulators that mandatory reporting is here to stay, and estimates indicate that the cost of implementing the reporting requirements may be significant. Following the passing of legislation, the AASB is expected to release the detailed reporting standards – at the time of publication this is expected to be in Q2 2024.

It should be noted that in its consultation, Treasury has requested feedback as to whether implementation should be pushed back for Group 1 entities by six months to the period beginning 1 January 2025 (currently 1 July 2024). It is currently unclear whether the deferral will be adopted in the draft bill.

Reporting entities that have not yet already started to consider what changes will need to be made are encouraged to do so as soon as possible, and to reach out to your Deloitte contacts for advice.



² Treasury's Policy Position Statement notes this will be for reports issued between 1 July 2025 and 30 June 2028.

Key resources



Treasury consultation

- **Final consultation** (January 2024)



Thought leadership

- **A director's guide to mandatory climate reporting** (Co-authored publication between Deloitte, MinterEllison and the AICD) (October 2023)



IAS Plus summaries

- **Summary of IFRS S1**
- **Summary of IFRS S2**



ISSB Sustainability Reporting Standards

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

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