



Towards mandatory sustainability reporting in Australia

Treasury has released two consultations that set the scene for mandatory sustainability reporting to be introduced in Australia in a phased implementation, possibly from 2024-25

In summary:

- Consistent with Federal government announced policies, Treasury has released two consultations that seek to introduce mandatory sustainability reporting in Australia
- The consultations seek to introduce a standardised and internationally-aligned framework for disclosing sustainability related risks and opportunities, underpinned by four pillars: governance, strategy, risk management, targets and metrics
- The requirements may be aligned with the IFRS® Sustainability Disclosure Standards once they are available
- The initial thematic focused on climate-related financial risks and opportunities are aligned with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations
- Mandatory reporting would initially be focused on large listed entities and large financial institutions, and may later be extended to other entities and government
- Initial application has not been determined, but it is suggested as an example, that first reporting could be required for the 2024-25 financial year
- The broader consultation closes for comment on 17 February 2023.

“We welcome the introduction of mandatory and internationally aligned sustainability reporting requirements in Australia. This will address market expectations, ensure consistency and assist Australian companies to access capital on a global basis”

Jo Gorton
Managing Partner, Audit and Assurance

Clarity in financial reporting

Towards mandatory sustainability reporting in Australia

Overview

Background

Globally, there is a growing push to introduce a consistent baseline of sustainability reporting standards that can be applied by organisations around the world. Responding to this objective, the IFRS Foundation established the International Sustainability Standards Board (ISSB), which issued two exposure drafts, Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and Exposure Draft IFRS S2 *Climate-related Disclosures* (IFRS S2). The ISSB intends to finalise IFRS Sustainability Reporting Standards based on these exposure drafts as early as possible in the 2023 calendar year.

Until now, sustainability reporting in Australia has been undertaken on a voluntary basis, although guidance from the Australian Securities and Investments Commission (ASIC) and Australian Accounting Standards Board (AASB) have strongly recommended that organisations give due consideration to climate-related and other emerging risks in financial reporting, including the operating and financial review (OFR) and the financial statements themselves.

Federal Government policy initiatives

As part of the 2022 Federal Election, the Australian Labor Party announced that in government, as part of its [“Powering Australia” policy](#), it would work with large businesses to provide greater transparency on their climate-related risks and opportunities.

On forming government, the [October 2022 Federal Budget](#) included funding for Treasury and the Australian Accounting Standards Board to develop and introduce climate reporting standards for large businesses and financial institutions in line with international reporting requirements.

Subsequently, Treasury released two consultations seeking feedback on sustainability reporting related topics:

Title and link	Overview	Issued	Comments due
Empowering the AASB to deliver sustainability standards (Exposure Draft)	Exposure draft legislation that would provide the AASB with the explicit power to make sustainability reporting standards	28 November 2022	16 December 2022
Climate-related financial disclosure (Consultation Paper)	Consultation paper seeking feedback on proposals to implement and mandate the disclosure of sustainability and climate-related financial risks and opportunities in Australia, and to ensure Australia's financial reporting bodies are appropriately positioned for climate and sustainability reporting	12 December 2022	17 February 2023

Thinking it through

At first blush, it may seem unusual that Treasury is running two consultations on sustainability reporting at the same time, particularly when the broader Consultation Paper considers which bodies should be responsible for setting and monitoring sustainability reporting standards.

However, when considered in the context of the Federal Government's intention to rapidly implement mandatory sustainability reporting as part of an overall climate change and sustainability policy, the short-term provision of sustainability reporting standards setting powers to the AASB permits continued development of Australian sustainability reporting standards while the broader legislative and regulatory framework for regulatory reporting is implemented. Giving AASB authority avoids delays in implementing sustainability reporting in Australia whilst the framework is finalised and allows Australia to further input into and influence the finalisation of the ISSB IFRS Sustainability Reporting Standards, on which the Australian standards are likely to be ultimately based.

The key message is the government's clear intention that mandatory sustainability reporting will be implemented in Australia as rapidly as possible.

Summary of the proposals

Overview

Other than the Exposure Draft proposals to give the AASB sustainability disclosure standard setting authority, there is no draft legislation available to determine the detail of the proposals. In fact, the Consultation Paper is quite short given the topics it covers, providing high-level objectives and proposals and seeking feedback on specific implementation alternatives and approaches.

In an [address](#) to the Australian Sustainable Financial Institute in December 2022, Federal Treasurer Jim Chalmers explained that further detailed consultation on the implementation of mandatory sustainability reporting in Australia will be released after feedback from the Consultation Paper is considered and after the ISSB has issued its first IFRS Sustainability Reporting Standards.

It is clear that the government intends to introduce mandatory sustainability reporting, starting with the largest entities (which the government sees is an extension of the voluntary disclosures already being made by these entities), and be phased in over time, both in terms of entities covered and the reporting that is required.

Key proposals

The table below provides a high-level overview of the areas for feedback under the consultations:



Implementation

- **Phased approach** to implementation, commencing with large, listed entities and large financial institutions (such as banks, insurers, credit unions and superannuation funds)¹
- **Mandatory application** which could (noted as “for example”) commence in 2024 for 2024-25 financial years
- Consideration of whether **phased introduction of disclosure requirements** should occur (e.g. Scope 3 greenhouse gas emissions).



Base for disclosures

- Possibility of mandating sustainability standards, such as the **IFRS Sustainability Disclosure Standards**.



Regulatory framework

- Options being sought on the best approach to incorporate obligations for climate disclosures (governance, strategy, risk management, targets and metrics) **into the Australian regulatory framework**
- **Location** of the climate disclosures to be mandated, specifically whether they should be included in the operating and financial review (OFR), or a separate report included as part of the annual report
- How **materiality judgements** should be applied
- Whether **assurance** should be required for climate disclosures and, if so, who should provide that assurance
- The **forward-looking statements** and the **proportionate application of liability**, including consideration of the suitability of the ‘reasonable grounds’ requirement in the Corporations Act 2001, to ensure entities provide accurate, comprehensive, and timely disclosures
- **Interaction** of climate reporting requirements with other reporting obligations (including continuous disclosure and fundraising documents).



Sustainability standard setter

- The Exposure Draft would see the **AASB** have **authority** to formulate sustainability disclosure standards
- The Consultation Paper seeks views on whether the **AASB**, a **separate board** (following the IFRS Foundation model) or a **single, flexible entity** (similar to the New Zealand External Reporting Board) should be created.

¹ In a [television interview](#) on 12 December 2022, Federal Treasurer Jim Chalmers noted that he would expect government entities to be subject to sustainability reporting requirements in due course, but that “it makes sense to begin with the ASX 200” and that a number of Australian largest companies are already disclosing their climate risks and opportunities.

Clarity in financial reporting

Towards mandatory sustainability reporting in Australia



Metrics and transition plans

- Feedback is sought on the interaction of the disclosure of **Scope 1 and Scope 2** greenhouse gas emissions and how they interact with existing Australian emissions reporting frameworks (e.g. the National Greenhouse & Energy Reporting (NGER) framework)
- It is proposed that some form of **Scope 3** emissions will also be required
- Consideration of whether **standardised metrics** for disclosures, including economy wide or industry-specific metrics, should be defined (such as is included in Exposure Draft IFRS S2)
- **Transparent disclosure** of how an entity **manages climate related risks, transition plans** and the use of greenhouse gas emissions **offsets** to meet published targets
- Consideration of **data and capability challenges** in the Australian environment
- Whether a particular authority should be responsible for providing **supporting information** (e.g. climate scenarios, or standardise calculation of Scope 3 emissions) for use in climate related financial disclosures in Australia.



Other matters

- Whether **flexibility** should be included to incorporate growth of other sustainability reporting, including social and governance disclosures (e.g. labour standards, tax transparency, diversity, relations with First Nations stakeholders)
- Whether **digital reporting** should be mandated for sustainability risk reporting.

Conclusion

The introduction of mandatory sustainability reporting in Australia represents a significant change in the Australian reporting framework. A broad range of entities may be expected to eventually fall into the regime. It is important that entities understand the proposals and respond to the broader Consultation Paper in order to influence the final form of this new reporting regime.

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