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Bold leadership on climate reporting will inspire confidence

Society at large needs to overcome a myriad of challenges to effectively address climate change and the transition to a net zero future. Addressing these challenges presents us with the need – and more importantly the opportunity – to transform the way we live and work, which requires transformation at scale.

It isn't easy.

Take the ever-changing nature of global and national climate regulation and stakeholder expectations. As Audit and Risk Committee executives, it's important that you and your organisation's leadership, Environmental, Social and Governance (ESG), strategy and finance teams navigate a complex landscape of disparate climate and sustainability reporting and disclosure requirements to develop a consistent global baseline for sustainability-related financial disclosures.

Why? Because if you don't clearly and constantly show what your organisation is doing to take climate action and decarbonise, your employees, customers and investors will likely be drawn to those that do.

“The ISSB represents a unique opportunity to end the current confusion resulting from competing definitions, frameworks and metrics and to give investors the information they need to understand sustainability risks and opportunities.”

Elizabeth Seeger, inaugural member of the International Sustainability Standards Board (ISSB), July 2022

New climate and sustainability standards

Following COP26 in Glasgow, the International Financial Reporting Standards (IFRS) Board of Trustees announced the formation of the International Sustainability Standards Board (ISSB), responsible for developing standards that result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets. These ISSB's proposed standards, and what they mean for Australian business, are outlined in our September 2022 guide, [Making sense of ISSB: Navigating climate regulation, compliance and reporting](#).

New standards are an opportunity to act now

In November 2021, at the UN Climate Change Conference (COP26), the ISSB was launched, a body tasked with developing a globally consistent approach to sustainability reporting, outlining its role in developing a comprehensive global baseline of sustainability and climate disclosure standards.

Exposure drafts of two new standards were released in March 2022 and these are currently being redeliberated and are expected to be finalised in early 2023. They are designed to give stakeholders (particularly investors) clear, consistent and comparable information about a company's sustainability and climate-related risks and opportunities.

The proposed standards:

- Leverage the existing Taskforce on Climate-related Financial Disclosures (TCFD) framework's four pillars of governance, strategy, risk management and metrics and targets.
- Require disclosure of the governance structures, strategic choices and risk management approaches the company has invested in, in order to respond to identified sustainability and climate risks and opportunities.
- Specify that ESG and financial metrics and data be disclosed across thematic and industry-specific domains.
- Propose that this information is disclosed as a part of general-purpose financial reporting. Upon finalisation in early 2023, it is expected that the ISSB standards will be released for voluntary adoption in Australia (regulatory change will be required before these standards become mandatory).

New disclosures like the ISSB standards are an important step for organisations in their acceleration to a net zero future. Here in Australia, it's up to our national regulators to impose mandates in jurisdictions as they see fit – although we anticipate that our local investment community will effectively make it mandatory regardless.

In the meantime, along with the rest of your board and leadership team, you play a vital role in leading from the front: across your sector – including actively collaborating with its representative bodies – your organisation and teams. In doing so, you'll also be responding to pressure from investors and financial institutions on the need for more consistent and comparable data across all sectors, industries and time horizons to support investment decision making.

Key challenges and opportunities

The biggest challenge boards and committee chairs face – along with the rest of the leadership team – is getting ready for the ISSB standards now, in a relatively ambiguous reporting and regulatory environment, even though the ISSB standards haven't been finalised yet.

On the flip side, this challenge is also the biggest opportunity: getting ready now gives you the chance to make sure your organisation can build competitive advantage in the age of climate. Thoughtful planning and implementation can help you unlock new climate change opportunities while managing key risks.

“Transforming Australia to a low carbon economy is inevitable and complex. If we get it right, the opportunities are immense.”

**Philip Chronican, Chair,
National Australia Bank,
All systems go report July 2022**

To help lead the way and make the most of this opportunity, Boards and Audit Committee executives can:



Make sure your organisation has a comprehensive climate and sustainability strategy

This requires an aspirational climate and sustainability ambition, clear C-suite ownership, tangible objectives and success measures to indicate what the organisation is doing to ready itself for the new standards in the short, medium and long-term. Importantly, this strategy will need to continually evolve and be revisited every quarter to make sure it remains relevant and responsive to any emerging regulations.



Challenge your strategy and finance teams to make sure you have relevant and reliable data

The data challenge should not be underestimated. To make better holistic decisions and well managed, well controlled disclosures, organisations will need access to quality data assets. Data integrity, transparency and verification are a major challenge, not least when considering value chain and scope 3 reporting. If organisations don't invest in and implement the right monitoring and reporting systems, along with new models and methods for data sharing, leaders won't have the information they need to manage stakeholder expectations – or to confidently make the right decisions at the right time to lead their organisations into a net zero future. Data has proved time and time again to be one of the biggest challenges that come with new financial reporting requirements and we expect this to amplify with the climate and sustainability standards.



Lead the way in making better, more holistic decisions

When Boards and leadership teams are able to consider the full impacts of climate and other material sustainability risks on the business, they can make better decisions. Adopting ISSB standards also provides the opportunity to integrate these considerations into existing governance mechanisms and capital allocation decisions. This will require a commensurate investment in systems to support better and more timely access to climate and sustainability data.



Provide guidance on the right messages to communicate with external stakeholders

As appropriate, it's important that the organisation's intentions are clearly communicated to external stakeholders including investors (if applicable), customers and regulators. This includes making sure the right processes are in place to validate that all messages and data are accurate, complete and defensible. We recommend that a holding statement is always kept up to date so if enquiries are made in relation to climate and sustainability regulation reporting, the right messages can readily be communicated at all times.

Although not mandatory in Australia at this time, the Australian Prudential Regulation Authority and Australian Securities & Investments Commission have both welcomed the significant progress made toward establishing global sustainability reporting standards and cited the TCFD recommendations as being best practice for climate-related financial disclosures.

It's time to start planning now, take action and maintain momentum towards a net zero future - and use this as an opportunity to take your internal and external stakeholders along the journey with constant, transparent and engaging communication.

Questions Audit & Risk Committees should be asking

Asking and answering these questions will ensure you're using the evolving nature of climate and sustainability reporting and disclosure to confidently inspire climate action and spearhead the way towards a net zero future in your sector and beyond.

1 Strategy

Do we have a clearly defined climate and sustainability ambition and strategy – and can its implementation be accurately measured in a reliable, unambiguous manner?

2 Data

What data do we need to support the successful implementation of the climate and sustainability strategy, so we can confidently report in line with likely ISSB requirements? How will we satisfy ourselves that such data is complete and accurate?

3 Evidence

What is our track record on disclosure and commitments – and what lessons can we learn from this?

4 Team

Do we have the right project team in place, with the right representation from around the business, to effectively implement the reporting requirements when finalised?

5 Governance

What should our Board and Committee governance structures be to effectively oversee implementation of this new way of ESG reporting?

6 Role

Has the Audit Committee's role regarding climate-related matters been recognised in its terms of reference or charter?

7 Operation

What processes and controls do we have in place to address evolving climate and sustainability risks and related disclosures?

8 Expertise

Has our management engaged with auditors on how to evolve and mature our ISSB reporting to meet the increasing requirements of the market and regulators?

9 Remuneration

Are our reward strategy incentives appropriate and incorporating the right degree of challenge?

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Find out more

Visit our [Deloitte Climate & Sustainability](#) webpage for the latest updates including our [‘Making sense of ISSB: Navigating climate regulations, reporting and disclosure’](#) guide.



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