

MANDATORY CLIMATE-RELATED FINANCIAL DISCLOSURE

The Australian Accounting Standards Board (**AASB**) has invited feedback on three exposure drafts of climate-related reporting standards by 1 March 2024 ahead of mandatory reporting proposed to commence from 1 July 2024 for large companies. This follows earlier consultation between Treasury and stakeholders on mandatory reporting and legislation amending the *Australian Securities and Investments Commission Act 2001* (Cth) (**ASIC Act**) to introduce mandatory climate-related reporting requirements (see our briefing "[Mandatory Climate Related Financial Disclosure is Coming for Australia](#)"). The legislation amending the ASIC Act was [assented to](#) on 27 November 2023.

EXPOSURE DRAFTS

The exposure [draft AASBs](#) are modelled on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. A key difference to the IFRS standards is that the draft AASBs are limited to climate-related reporting for greenhouse gas emissions (**GHG**), rather than ozone depleting emissions that are not GHG, or, more broadly, sustainability reporting.

ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* and ASRS 2 *Climate-related Financial Disclosures* introduce standardised reporting requirements for disclosures regarding governance, strategy, risk management and metrics and targets. The draft standards adopt the TCFD 4-pillar structure as articulated in IFRS S1 and S2, with modifications for Australian matters and requirements.

The Australian modifications are to (i) limit the reporting to climate-related financial disclosures, (ii) avoid industry-based requirements (although companies can use these if they wish) and (iii) require a company to disclose the fact if there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects and explain how it came to this conclusion.

Key issues

- ASRS 1 and ASRS 2 are the **new climate-related reporting accounting standards** due to be implemented for reporting periods from 1 July 2024
- The standards are **legislative instruments**, compliance with which will be regulated by ASIC according to new legislation assented to on 27 November 2023
- A **new regulatory body** will be responsible for implementing the climate reporting standards combining the AASB, ASA and FRC into an integrated body
- **Large companies** (listed, unlisted and NGOs) are expected to be first to be required to report
- **Scope 3 reporting** requirements are likely to prompt GHG data input from suppliers to large companies

LEGAL OBLIGATIONS

AASBs are promulgated under section 334 of the Corporations Act 2001 (Cth) (**Corporations Act**). When the new AASBs come into force they become legislative instruments, compliance with which will be mandatory for companies which meet the statutory criteria for reporting.

Directors also have a duty to consider the impact of climate- and nature-related impacts on the company and ensure there are processes, controls and procedures in place to manage and monitor climate and nature-related risks and opportunities. The principles of governance and strategy articulated in the draft AASBs also provide a useful guide for directors in building understanding and experience in the approach to risk assessment and the financial implications of those risks.

QUESTIONS FOR BOARDS AND DIRECTORS

The questions for Boards and Directors to be asking about mandatory climate-related reporting are:

Do the AASBs apply to financial reporting by the company?

Whether and when the AASBs apply will depend on whether the company meets the criteria set by the Corporations Act and/or whether any climate related risks are material for the company. If a company is required to lodge financial reports under Chapter 2M of the Corporations Act, the entity will meet the proposed 'large company' thresholds where 2 out of 3 of the following criteria are satisfied:

- the consolidated revenue for the financial year of the entity (and any entity it controls) is AUD 500 million or more;
- the value of the consolidated gross assets at the end of the financial year of the entity (and any entity it controls) is AUD 1 billion or more; and/or
- entity (and any entity it controls) has 500 or more employees at the end of the financial year.

Alternatively, a company that is registered as a "controlling corporation" reporting under the National Greenhouse and Energy Reporting Act 2007 (Cth) (**NGER**) and exceeds the Clean Energy Regulator's publication threshold is required to report.

The reporting entity is the same reporting entity as the related financial statements. If an entity reports on a consolidated basis, then the reporting is for the parent and its subsidiaries in the consolidated group [AusB38.1].

The reporting scope then differs for for-profit versus not-for-profit companies. Not-for-profit companies need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects but are expected to use reasonable and supportable information available to the entity to report at the reporting date without undue cost or effort [ED ASRS1, Aus 6.1].

What will the company need to do differently in Australia as compared to offshore?

A company that is already required to report under IFRS standards or has chosen to voluntarily report will likely have developed sophisticated internal data-collection in order to report against Scope 1, 2 and 3 GHG emissions.

The expectation in ED1 ASRS 1 is that an entity would be required to measure its scope 1 GHG, location-based scope 2 GHG, market-based scope 2 GHG and scope 3 GHG emissions separately using methodologies set out in the NGER legislation (if practicable) and using Australia-specific data sources and factors for the estimation of GHG (to the extent practicable). Where companies aggregate data for consolidated reporting offshore, this could prove to be a challenge for complying with local reporting requirements.

Remuneration committees may also be called upon to consider how climate-related considerations are factored into executive remuneration and the percentage of executive remuneration recognised in the current period that is linked to climate-related considerations. This could involve an assessment of the achievement of KPIs in Australia as against reported measurements of scope 1, 2 and 3 GHG.

If the company does not meet the thresholds, how will this impact the company, if at all?

Even if a company is not a large company, companies which are part of the supply chain for a large company may be required to provide data on climate-related risks and opportunities, as well as measurements of GHG, in order for large companies to comply with their Scope 3 reporting obligations. For entities which participate in asset management, commercial banking or financial activities associated with insurance, their reporting obligations will extend to disclosures relating to its financed emissions. Whilst this is not as onerous for a downstream or financed company as reporting itself, accurate data collation and reporting is likely to be sought and could form part of contractual obligations and/or standard terms and conditions.

In addition, climate-related metrics set by large companies will have flow-on effects to the business activities and supply chain for that entity. Choice of vendor could be influenced by efforts to achieve short-term and longer-term climate objectives.

NEW REGULATORY BODY FOR FINANCIAL REPORTING

Regulation of climate-related financial reporting will fall to a new regulatory body expected to be formed soon. At the ASIC Forum in Melbourne on 21 November 2023, the Treasurer, Dr Jim Chalmers announced that the government is going to combine the three bodies that oversee financial reporting in Australia to form a single integrated entity. The new body will bring together the AASB, the Auditing and Assurance Standards Board and the functions of the Financial Reporting Council and will focus on implementing the new climate and sustainability standards, accounting and auditing standards alongside other work being done in the professional services sector. The expected benefit for businesses, investors and other stakeholders is engaging with a single entity responsible for corporate reporting, reducing red tape and delivering collaborative and effective standards.

November 2023

CONTACTS

Corporate



Nadia Kalic
Partner

T +61 2 8922 8095
E Nadia.Kalic
@cliffordchance.com



David Clee
Partner

T +61 2 8922 8575
E David.Clee
@cliffordchance.com



Mark Currell
Partner

T +61 2 8922 8035
E Mark.Currell
@cliffordchance.com



Dale Straughen
Senior Associate

T +61 2 8922 8040
E Dale.Straughen
@cliffordchance.com



David Alfrey
Senior Associate

T +44 207006 4559
E David.Alfrey
@cliffordchance.com



Williams Lucas
Senior Associate

T +61 2 8922 8558
E William.Lucas
@cliffordchance.com

Litigation and Dispute Resolution



Naomi Griffin
Partner

T +61 2 8922 8093
E Naomi.Griffin
@cliffordchance.com



Donna Wacker
Partner

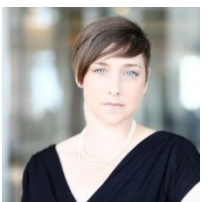
T +852 2826 3478
E Donna.Wacker
@cliffordchance.com



Angela Pearsall
Partner

T +61 2 8922 8007
E Angela.Pearsall
@cliffordchance.com

Antitrust



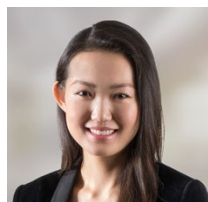
Elizabeth Richmond
Partner

T +61 2 8947 8011
E Elizabeth.Richmond
@cliffordchance.com



Mark Grime
Counsel

T +61 2 8922 8072
E Mark.Grime
@cliffordchance.com



Angel Fu
Senior Associate

T +61 2 8922 8089
E Angel.Fu
@cliffordchance.com

This publication does not necessarily deal with every important topic or cover every aspect of the topics with which it deals. It is not designed to provide legal or other advice.

www.cliffordchance.com

Clifford Chance, Level 24, 10 Carrington Street,

Sydney, NSW 2000, Australia

© Clifford Chance 2023

Liability limited by a scheme approved under professional standards legislation

We use the word 'partner' to refer to a member of Clifford Chance LLP, or an employee or consultant with equivalent standing and qualifications

Abu Dhabi • Amsterdam • Barcelona • Beijing • Brussels • Bucharest • Casablanca • Delhi • Dubai • Düsseldorf • Frankfurt • Hong Kong • Houston • Istanbul • London • Luxembourg • Madrid • Milan • Munich • Newcastle • New York • Paris • Perth • Prague • Riyadh • Rome • São Paulo • Shanghai • Singapore • Sydney • Tokyo • Warsaw • Washington, D.C.

AS&H Clifford Chance, a joint venture entered into by Clifford Chance LLP.

Clifford Chance has a best friends relationship with Redcliffe Partners in Ukraine.