



# ISSB™ Sustainability Standards in Australia

5 October 2023



# Your facilitators are...



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# Agenda

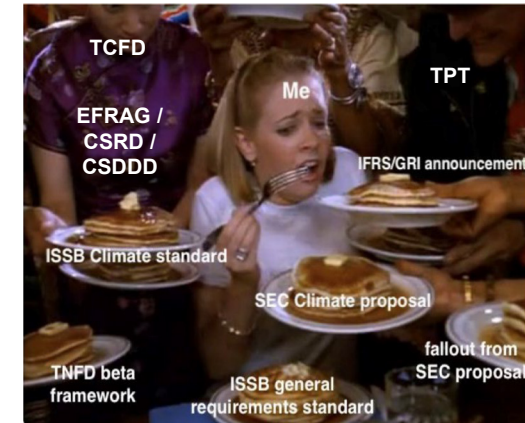
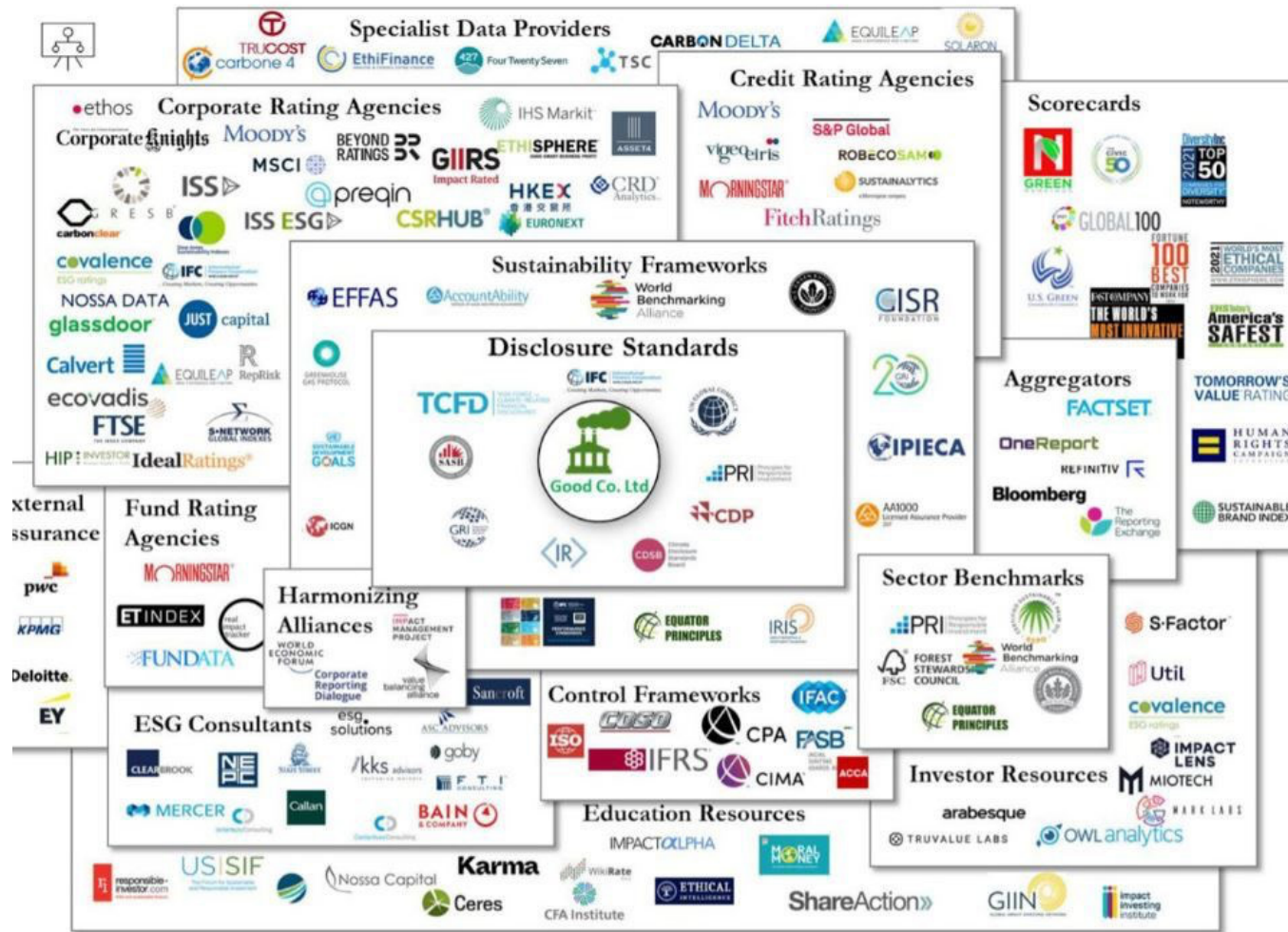
- 01** ESG reporting developments overview:
  - International developments and ISSB Standards
  - Australian implications – Treasury consultation and AASB
- 02** Practical considerations
- 03** Q&A

**01**

# **ESG Reporting Developments Overview**

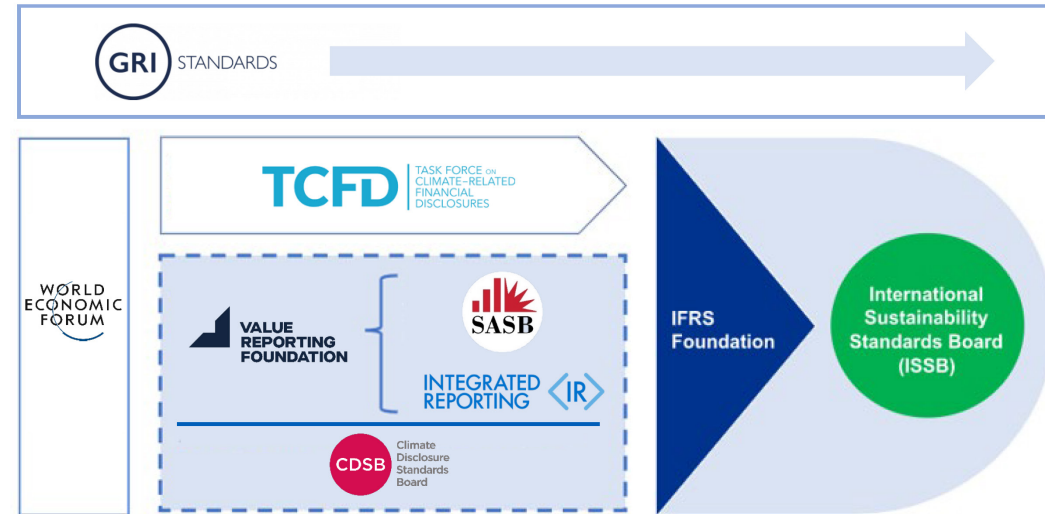


# ESG Reporting Current State



2,000+ reporting frameworks

# What has been released



- Investor focus (financial materiality)
- Global baseline
- Minimum requirements
- More topic based standards to come (nature and biodiversity, inequality, human rights, etc..)

# ISSB IFRS S1 Overview

## IFRS S1

- Reporting should present **'connected information'** i.e. how sustainability-related risks impact, or might impact on financial performance or prospects
- Sustainability Accounting Standards Board (SASB) Industry-specific ESG metrics and CDSB Framework to inform what to report
- >50 requirements across 4 pillars

## Governance

- Who's tasked with governance?
- Skills and competencies
- How often they're informed
- Remit of oversight (targets, risks, opportunities)



## Strategy

- Sustainability risks / opportunities, impact on business model, strategy, cash flows and capital, financial position and performance
- Resilience of strategy
- Quantitative and qualitative progress of plans



## Risk Management

- Process for identification and prioritisation
- Assessment of likelihood and impacts
- Assumptions
- Monitoring and management



## Metrics and Targets

- Specific metrics not identified
- Guidance provided on how to report on metrics
- Any targets or revisions to targets



# ISSB IFRS S2 Overview

## IFRS S2

- Governance and risk considerations align to IFRS S1 but with a focus on climate-related risk
- Will require **Scope 3 greenhouse gas emissions, and use of scenario analysis** when describing their assessment of climate-related resilience

## Strategy

- Same as general disclosure, plus:
- How climate-related targets will be resourced and achieved
- Planned adoption of new technologies
- Adaptation and mitigation efforts, including use of offsets
- Use of climate-related scenarios (which were used, why, and whether they are Paris-aligned)
- Key inputs and assumptions into the scenario



## IFRS S2 – Metrics and Targets

### 7 consistent for all industries:

- Greenhouse gas emissions – Scope 1,2 and 3
- Transition risks
- Physical risks
- Climate-related opportunities
- Capital deployment
- Internal carbon price
- Remuneration

### 5 – 10 industry-specific metrics (across 68 industries):

#### *Industrial Machinery & Goods:*

- Energy Management: total energy consumed; % grid electricity / renewable
- Emissions in Use-phase: Sales-weighted emissions of: nitrogen oxides (NOx) and particulate matter (PM).



### Transition reliefs

Companies are not required to:

- provide comparative information for any period before the date of initial application; or
- disclose Scope 3 emissions metrics or information on topics other than climate until the second period of reporting.



# Treasury proposals: Framework & reporting content

## Location & timing

### Within annual report

- Requirement to be in **Corporations Act** Part 2M.3
- Directors' report (OFR for listed entities) and financial report

### Format requirements

- Index table
- Listed entities – may incorporate metrics and targets by cross-reference to separate report

### Timing

- **Same** as annual report

Climate-related information in separate report subject to same requirements as annual report

## Reporting content

**Materiality** – aligned with financial statement principles

**Scenario** analysis – one future state must be consistent with *Climate Change Act 2022* temperature goal

Governance, strategy, risk management and metrics and targets – consistent with IFRS S2

Expect to be detailed in the Australian equivalent of IFRS S1 and IFRS S2 when Exposure Draft issued by AASB in October 2023

## Liability & enforcement

Concern regarding forward-looking statements

### Modified liability approach

- Climate-related financial disclosure requirements would be drafted as **civil penalty provisions** in the Corporations Act
- Application of misleading and deceptive conduct provisions to Scope 3 emissions and forward-looking statements would be **limited to regulator-only actions for a fixed period of three years**

Anticipated that requirement of reasonable grounds is not too high a threshold after three years

**Based on Treasury Climate-related disclosure: Second consultation of 27 June 2023**  
**Subject to change prior to final legislation**

# Treasury proposals: Reporting entities and assurance requirements

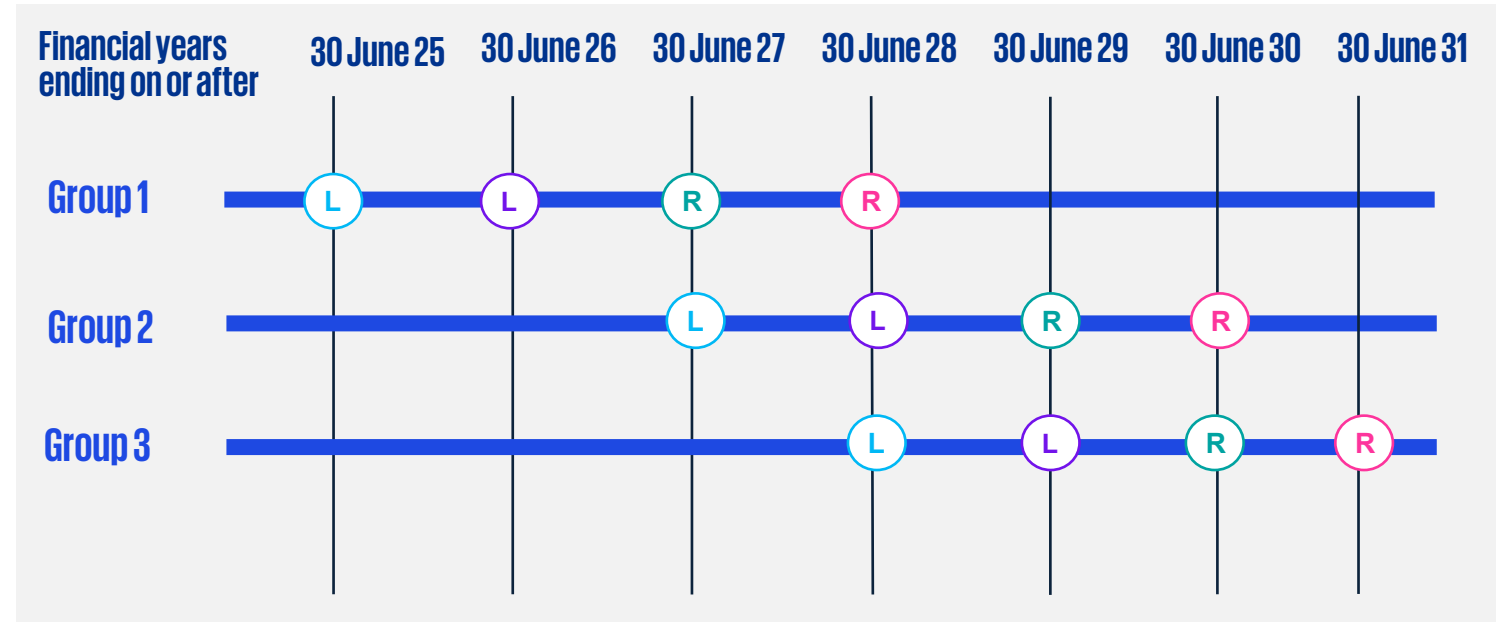
## Assurance requirements and timeline

### Reporting entities and phasing

Three-phased approach if it meet prescribed size thresholds and required to lodge financial reports under Chapter 2M of the *Corporations Act 2001*. NGER reporters are considered separately.

	Entities required to report under Chapter 2M			Reporting under NGER Act
	Meet <b>two</b> of <b>three</b> thresholds:			
	Gross assets	Revenue	Employees	
<b>Group 1</b> 2024/25 onwards	\$1 billion or more	\$500 million or more	> 500	'controlling corporation' meet NGER publication threshold <sup>1</sup>
<b>Group 2</b> 2026/27 onwards	\$500 million or more	\$200 million or more	> 250	
<b>Group 3</b> 2027/28 onwards	\$25 million or more	\$50 million or more	> 100	All remaining 'controlling corporation' <sup>1</sup> under NGER Act

<sup>1</sup>Regardless of size 'controlling corporation' under NGER Act would be in scope



- L** Limited assurance Scope 1 and 2 emissions  
Reasonable assurance of governance disclosures
- L** Reasonable assurance Scope 1 and 2 emissions  
Limited assurance Scope 3 emissions, scenario analysis and transition plans (specific requirements – process/methodology/ assumption assurance)
- R** Reasonable assurance Scope 1 and 2 emissions and other climate disclosures  
Limited assurance Scope 3 emissions, scenario analysis and transition plans (full quantitative assurance)
- R** Reasonable assurance all climate disclosures

**Based on Treasury Climate-related disclosure: Second consultation of 27 June 2023**  
**Subject to change prior to final legislation**

# AASB developments

## August 2023

### AASB Exposure draft decisions

**IFRS S1** – limit scope to address general requirements for **climate-related financial disclosures only** (at this stage)

**IFRS S2** – align on:

- no requirement to disclose GHG emissions intensity
- require internal carbon price disclosures
- require executive remuneration disclosures

**SASB** – remove references. Add Australian-specific industry classification system aligning with Australian Bureau of Statistics

## January 2024

Submissions on exposure draft close

## 1 July 2024

Climate Disclosure Standard effective date (financial years beginning on or after)

## October 2023

Issue Climate Exposure Draft

90-day comment period

## June 2024

Issue Australian Climate Disclosure Standard

**02**

# **Practical considerations**



# Practical roadmap



## Impact assessment

- Understand when, where and how these standards will impact your company
  - ISSB Gap Analysis
  - GHG inventory (Scope 1, 2 and 3)
- Research and understand current (and emerging) requirements
- Management and Board briefings

# Practical roadmap



## Impact assessment

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## Project planning

- Leverage gap analysis
- Multi-disciplinary
- Accountabilities, milestones
- Monitoring and management

# Practical roadmap



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1

## Project planning

- Leverage gap analysis
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2

## Maturity assessment

- Assess the maturity of processes, the control environment, data model and policies
- Understand the current distribution of roles and available knowledge and capacity
  - Process, controls, data systems
  - Existence / alignment of definitions and methodologies

3

# Practical roadmap



## Impact assessment

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## Project planning

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- Assess the maturity of processes, the control environment, data model and policies
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## Reporting transformation

- Design the future state of your reporting
- Quantitative and qualitative information
- Coherent and connected narrative



# Practical roadmap

## Assurance

- **Holistically assess the control environment, data quality and availability of sufficient documentation to support assurance**
- **Rectify issues ahead of the formal assurance process**
  - **Pre-assurance**
  - **Internal audit**
  - **Limited assurance**
  - **Reasonable assurance**

## Reporting transformation

- **Design the future state of your reporting**
- **Quantitative and qualitative information**
- **Coherent and connected narrative**



## Impact assessment

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- **Management and Board briefings**

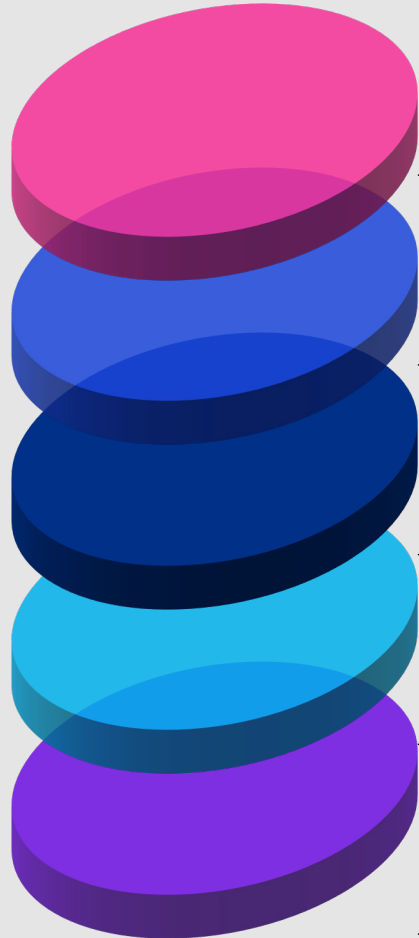
## Project planning

- **Leverage gap analysis**
- **Multi-disciplinary**
- **Accountabilities, milestones**
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- **Assess the maturity of processes, the control environment, data model and policies**
- **Understand the current distribution of roles and available knowledge and capacity**
  - **Process, controls, data systems**
  - **Existence / alignment of definitions and methodologies**

# KPMG's Insights into the current Australian environment



- 01** Greater scrutiny is being placed on reporting, requiring continual evolution
- 02** Organisations need to be prepared for on-going changes over an extended period
- 03** Responsibility for ESG/Sustainability reporting is shifting within the organisation
- 04** Work is needed to fully embed ESG/Sustainability within organisations
- 05** Strengthening systems, data governance and controls is required

# Call to action

Assess when your organisation needs to implement the ISSB requirements.



Determine your reporting strategy – compliance focused vs value driven focused.



Undertake a gap assessment against current disclosures/information available to the requirements of the ISSB.



Confirm ownership and structure within your organisation for ISSB reporting (Finance, Sustainability, General Counsel).



Start planning your path to implementation, identified key areas of work and determine your strategy for technology (both short term and long term).



# ISSB Reporting Cross Firm Delivery Team

## Climate Change and Sustainability



**Adrian King**  
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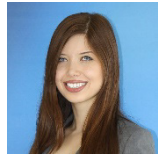
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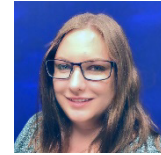
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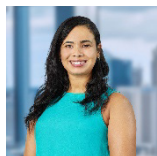
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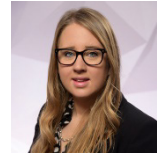
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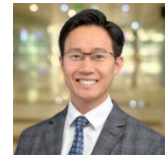


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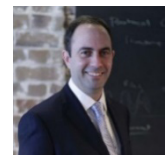


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**03**

**Q&A**



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