



Mandatory sustainability reporting in Australia

Your questions answered

Aletta Boshoff

The Australian Government has finally fulfilled its promise to mandate sustainability reporting in Australia. The Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Bill) passed through both Houses of Parliament on 9 September 2024 and received Royal Assent on 17 September 2024. The legislation commenced 1 January 2025.

Determining which entities must report and by when can be challenging. This paper includes a detailed Q&A section based on client feedback. Notably, it incorporates an in-depth guide on identifying which entities need to prepare mandatory sustainability reports in their annual reports, featuring a simple decision tree. It also covers whether mandatory sustainability reporting is required in half-year financial reports and what should be included in a sustainability report.

The Bill amends the *Corporations Act 2001* (Corporations Act) and mandates sustainability reporting (initially only consisting of climate statements and notes thereto) to be included in annual reports. The law will expand in future so that mandatory sustainability reports in annual reports will cover other sustainability topics, such as nature and biodiversity when the relevant IFRS® Sustainability Disclosure Standards

are issued by the International Sustainability Standards Board.

Meanwhile, we encourage entities wishing to report on additional sustainability topics in their separate supplementary sustainability reports to do so using the Australian Accounting Standards Board's (AASB) S1 *General Requirements for the Disclosure of Sustainability-related Financial Information*.

Which entities must prepare mandatory sustainability reports as part of their annual reports?

Australian entities required to prepare and lodge a financial report with the Australian Securities and Investments Commission (ASIC) under Chapter 2M of the Corporations Act must prepare a sustainability report if they meet certain criteria.

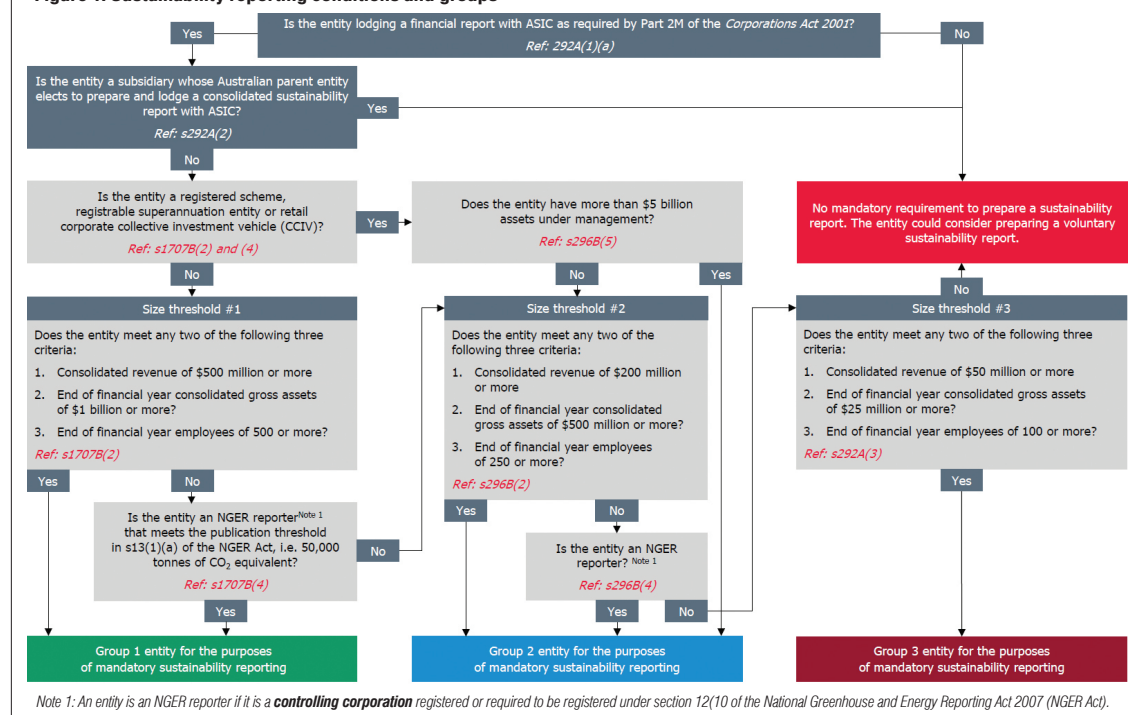
The decision tree depicted in Figure 1 on the next page will assist in determining whether your entity is subject to mandatory sustainability reporting, and if applicable, which of the three groups it falls into.

Types of entities reporting under Chapter 2M

Types of entities required to prepare and lodge financial statements under Chapter 2M include:

- listed entities
- unlisted disclosing entities

Figure 1. Sustainability reporting conditions and groups



- other public companies (including companies limited by guarantee that are not registered with the Australian Charities and Not-for-profits Commission)
- large proprietary companies
- certain small proprietary companies (e.g. if foreign-controlled or subject to crowd-sourced funding)
- registered schemes
- registrable superannuation entities.

Criteria

These aforementioned entities must prepare a sustainability report only if they meet one of the three

criteria shown in Table 1.

Entities must apply accounting standards to determine whether one entity controls another (AASB 10 *Consolidated Financial Statements*) and to calculate consolidated revenue, the value of consolidated gross assets, and the value of assets held by asset owners.

These new rules will apply to all large proprietary companies because they automatically meet the size thresholds. However, smaller listed companies, disclosing entities, registered schemes and companies limited by guarantee may not have to prepare sustainability reports if they do not meet any of these three tests.

Table 1. Circumstances when entities must prepare a sustainability report

Criterion 1: Size thresholds	Criterion 2: National Greenhouse Energy Reporting (NGER) reporters	Criterion 3: Asset owners
<p>The entity and its controlled entities satisfy at least two of the following three criteria:</p> <ul style="list-style-type: none"> • Consolidated revenue for the financial year of \$50 million or more • End-of-year consolidated gross assets of \$25 million or more • End-of-year employees of 100 or more. <p>Section 292A(3)</p>	<p>Under the <i>National Greenhouse and Energy Reporting Act 2007</i> (NGER Act), the entity is either:</p> <ul style="list-style-type: none"> • a registered corporation, or • required to apply to be registered under section 12(1).^{Note} <p>Section 292A(5)</p>	<p>Both the following criteria are met:</p> <ul style="list-style-type: none"> • The entity is a registered scheme, registrable superannuation entity or retail corporate collective investment vehicle (CCIV). • The value of its assets at the end of the financial year of the entity and the entities it controls is \$5 billion or more. <p>Section 292A(6)</p>

Note: Under section 12(1) of the NGER Act, a **controlling corporation** must register if either:

- During a financial year, the controlling corporation's group, from the operation of facilities under the operational control of members of the group:
 - emitted total greenhouse gas (GHG) emissions of 50,000 tonnes or more of CO₂ equivalent, or
 - produced energy of 200 terajoules or more, or
 - consumed energy of 200 terajoules or more, or
- During a financial year, an entity that is a member of the controlling corporation's group, has operation control of a facility, which during the year:
 - emitted total GHG emissions of 25,000 tonnes or more of CO₂ equivalent, or
 - produced energy of 100 terajoules or more, or
 - consumed energy of 100 terajoules or more.



The quote

Determining which entities must report and by when can be challenging.



Aletta Boshoff, BDO

Aletta is an advisory partner and national leader of IFRS & Corporate Reporting and Sustainability at BDO in Australia. She has over 30 years' experience in financial reporting and accounting, including International Financial Reporting Standards. Aletta has lectured on financial accounting and reporting, auditing and assurance and taxation at various Australian and South African universities. She also spent several years as a project manager at the Australian Accounting Standards Board.

Are sustainability reports required for entities applying the relief in legislative instruments?

No. The following legislative instruments provide relief to eligible entities from having to prepare and lodge financial statements with ASIC under Chapter 2M of the Corporations Act:

- *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204*
- *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

Small foreign-controlled entities not part of a large group and wholly owned subsidiaries that meet the criteria in the above legislative instruments do not have to prepare a sustainability report.

It should be noted that entities with audit relief under *ASIC Corporations (Audit Relief) Instrument 2016/784* must prepare a sustainability report.

Are sustainability reports required for subsidiaries lodging financial statements with ASIC?

It depends. Sometimes, a group may be required to prepare and lodge financial statements separately with ASIC for various group entities with reporting obligations under section 292 of the Corporations Act. This could include, for example, subsidiaries that are large proprietary companies and unlisted public companies where there is no deed of cross guarantee in place, and the entity does not obtain the relief available in *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

A separate sustainability report is ordinarily required for subsidiaries meeting one of the abovementioned criteria. However, if accounting standards require the parent entity to prepare consolidated financial statements for the group, the parent entity can choose to prepare a sustainability report that covers the whole group. In such cases:

- it is only the parent entity that must prepare a sustainability report (for the group as a single entity)
- each subsidiary will lodge its financial statements separately with ASIC but without a sustainability report.

Is there a phasing-in period?

Once you have established that you need to prepare a sustainability report, the next question is when? Although the start date for the legislation is 1 January 2025, not all entities required to prepare sustainability reports will have to do so in the first year. There is a phase-in period whereby Group 1 entities must report first, followed by Group 2 and Group 3 entities.

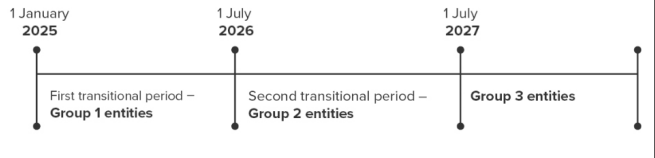
When is the first sustainability report required?

Group 1 entities will prepare their first mandatory sustainability report for the year ending 31 December 2025. March, June and September reporters will have slightly longer.

There is a phase-in period where Group 1 entities must prepare their first mandatory sustainability reports during the first transitional period, Group 2 entities during the second transitional period, and Group 3 entities thereafter (see Figure 2).

To determine the first financial year for which a mandatory sustainability report is required, we first consider the date that the financial year commences within the relevant transition period, and from there, we can work out which year-end is affected.

Figure 2. Climate reporting timeline



For a Group 1 entity with a financial year starting on 1 July, the first transitional period runs from 1 January 2025 to 30 June 2026. Since 1 July 2025 falls within this period, the first mandatory sustainability report will be for the year ending 30 June 2026.

Similarly, a Group 2 entity with a financial year beginning on 1 October must report for the first time during the second transitional period. As 1 October 2026 falls within this period, the entity will prepare its first sustainability report for the year ending 30 September 2027.

While sustainability reporting for Group 2 entities with 31 December and 31 March year-ends is two years later than for Group 1, Group 2 entities with June and September year-ends only have one year's grace.

Table 2 shows the effect of applying these transitional periods to entities with different year-ends.

Table 2. Effect of transitional periods on entities with different year-ends

Year-end	Sustainability reports required for the first year ending on dates shown below		
	Group 1 entities	Group 2 entities	Group 3 entities
31 December year-end	31 December 2025	31 December 2027	31 December 2028
31 March year-end	31 March 2026	31 March 2028	31 March 2029
30 June year-end	30 June 2026	30 June 2027	30 June 2028
30 September year-end	30 September 2026	30 September 2027	30 September 2028

Is sustainability reporting required in half-year financial reports?

No. Section 292A(1) of the Corporations Act requires a sustainability (climate) report for a financial year. Section 292A is contained within Division 1 of Part 2M, which has been expanded to cover annual financial and sustainability reports. No such change has been made to Division 2, which deals with half-year reporting.

What are the contents of a sustainability report?

As noted previously, the legislation requires a sustainability report which requires the following (refer to section 296A):

- The *climate statements* for the year
- Any *notes* to the climate statements
- Any statements that the Minister determines by legislative instrument concerning environmental sustainability and related notes (not applicable at the time of writing)
- Directors' declaration about the above.

Climate statements are those required by sustainability standards issued by the AASB.

Notes include those required by the sustainability standards, those required by the Ministerial legislative instruments, and the additional disclosures specified in section 296D.

Section 296D requires the climate statements and notes for the entity to disclose, as required by sustainability standards:

- any material financial risks and material financial opportunities relating to climate
- any metrics and targets relating to climate, including those relating to Scope 1, Scope 2 and Scope 3 GHG emissions (including financed emissions for Scope 3)
- information about the governance of, the strategy of, or risk management by the entity in relation to the risks, opportunities, metrics and targets referred to earlier.

Entities must refer to sustainability standards to determine whether there are material financial risks and opportunities relating to climate. These section 296D disclosures appear redundant because they specify disclosures already required by the sustainability standards.

Global average temperature scenario analysis

Section 296D(2B) of the Corporations Act requires the scenario analysis to be carried out using *at least both* of the following scenarios:

- Where the increase in the global average temperature well exceeds the increase mentioned in subparagraph 3(a)(i) of the *Climate Change Act 2022* (Climate Change Act) (i.e. 2°C above pre-industrial levels)
- Where the increase in the global average temperature is limited to the increase mentioned in subparagraph 3(a)(ii) of the Climate Change Act (i.e. limit the temperature increase to 1.5°C above pre-industrial levels).

Australian sustainability reporting is, therefore, more prescriptive than IFRS S2 *Climate-related Disclosures* because it specifies which global average temperature increases must be considered.

Specifying these two mandatory scenarios is intended to ensure entities consider both *transition risks* and *physical climate-related risks*:

- Climate-related *physical risks* are generally associated with higher average global temperature outcomes, such as warmer climate, acute weather-related events or long-term shifts in climate patterns. This is a high-global-warming scenario, defined as an increase in global average temperature that well exceeds 2 degrees above pre-industrial levels. Therefore, the high global warming scenario analysis should be based on at least 2.5 degrees above pre-industrial levels.
- Climate-related *transition risks* are generally associated with lower average global temperature outcomes (reflecting efforts to transition to a lower carbon emission economy). This is a low-global-warming scenario, where the increase in global average temperature is limited to 1.5 degrees above pre-industrial levels.

What if climate-related risks and opportunities are not material?

Section 296B provides an exception from detailed sustainability reporting if an entity (group) has no material financial risks or opportunities regarding climate.

This exception only applies to Group 3 entities.

In other words, during the financial year, the entity, and entities it controls, cannot:

- satisfy at least two of the following three criteria:
 - » have consolidated revenue for the financial year of \$200 million or more
 - » have consolidated gross assets at the end of the financial year of \$500 million or more
 - » have employees at the end of the financial year of 250 or more.
- be an NGER reporter
- be an asset owner.

What does the climate statement look like if risks and opportunities are not material?

If the entity has no material climate-related financial risks and opportunities, the climate statement must state that there are no material financial risks and no material financial opportunities relating to climate for the financial year. It must also explain how/why this exemption applies to the entity.

Entities must refer to sustainability standards to determine whether there are material financial risks and opportunities relating to climate.

Who sets sustainability standards?

Section 336A of the Corporations Act provides for the AASB, by legislative instrument, to make sustainability standards (which will include climate disclosures).

The AASB considered various approaches and settled on aligning Australian standards for sustainability reporting as closely as possible with IFRS S1 and IFRS S2. These standards are similarly named AASB S1 (a voluntary standard) and AASB S2 (a mandatory standard) and were issued by the AASB on 8 October 2024.

Is the sustainability report audited?

Yes. The legislation requires the sustainability report to be audited (section 301A), and the auditor must conduct the audit in accordance with the auditing standards (section 307AB). The auditor must also reference the sustainability report as part of their independence declaration under section 307C.

The Auditing and Assurance Standards Board (AUASB) must make standards to specify the extent of and provide for the audit and review of sustainability reports. The AUASB has published its final timeline for assurance over the sustainability report. At least initially, some but not all the climate disclosures specified in AASB S2 will be subject to limited assurance (review), progressing to all disclosures subject to audit for financial years beginning on or after 1 July 2030.



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Is the sustainability report lodged with ASIC?

Yes. Although not specifically mentioned, section 319(1) requires entities preparing a report for a financial year under Division 1 of Part 2M of the Corporations Act to lodge that report with ASIC. Division 1 includes the relevant sections that mandate sustainability reports and financial reports, which means the sustainability report must be lodged with ASIC together with the financial report.

Is the sustainability report sent to members?

Yes. The sustainability report is sent to members with the financial report. If sustainability reporting applies to members of companies limited by guarantee, this also applies to them. Sections 316 and 316A of the Corporations Act have been amended to include references to sustainability reports.

Is the sustainability report considered at the annual general meeting (AGM)?

Yes. Section 317(1) has been amended so that the sustainability report is presented before the AGM along with the financial report, directors' report, and auditor's report.

Other legislative requirements

The Bill also introduces requirements in the Corporations Act to maintain sustainability records, including the place where records are kept.

ASIC also has the ability to direct an entity to take certain actions if it considers statements made in a sustainability report incorrect, incomplete or misleading. **FS**