



IFRS Sustainability Disclosure Standards **Introduction to IFRS S1 and IFRS S2**

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By - Climate Change Response*

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Foreword by ASIC Chair

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Guide Audience and Structure of the Guide:

The **primary intended readership** of this guide comprises directors of organisations falling under the purview of Australia's forthcoming mandatory climate reporting framework. Some of these organisations might already be engaged in voluntary climate reporting practices. Nevertheless, directors of organisations currently outside the framework's scope may also discover value in this guide. This is particularly relevant as such organisations may encounter information requests from entities within the framework due to the imperative to report across the entire value chain.

The Guide is organised into three distinct chapters:

1. Chapter 1 offers an introduction to the present state of climate reporting, encompassing a summary of the International Sustainability Standards Board (ISSB)'s Standards, notable distinctions between the ISSB's Climate Standard, IFRS S2, and the TCFD, as well as an examination of the Australian Government's forthcoming mandate for climate reporting in Australia.

2. Chapter 2 outlines the legal obligations and roles that directors hold concerning climate reporting. This encompasses an examination of directors' responsibilities in financial reporting, their obligations for due diligence, and the legal prohibition against engaging in misleading or deceptive conduct.

3. Chapter 3 furnishes directors with actionable measures to fulfill their obligations in reporting climate-related risks and opportunities. These steps certain to governance, strategic planning, risk management, and aligning with the metrics and targets specified in IFRS S2.

In each chapter, you'll find a set of pertinent questions tailored to the topic covered. For your convenience, all the questions from throughout the guide are compiled into a consolidated list, accessible in Appendix A.

Executive Summary

To prepare for mandatory climate reporting, directors should concentrate their efforts on the following key areas:



Assessment of Significance

CCR's Methodology for Assessing Materiality

Key Point:

1. The Australian Government is currently in the process of instituting compulsory climate disclosures, which will be aligned with the International Sustainability Standards Board (ISSB)'s climate standard known as IFRS S2.
2. The proposed plan entails incorporating climate disclosures within the Annual Report, with the requirement for the largest emitters and organisations to commence reporting for the reporting period starting on July 1, 2024.
3. IFRS S2 encompasses and extends upon the framework established by the Taskforce for Climate-related Financial Disclosures (TCFD). However, it mandates more comprehensive and quantitative disclosures pertaining to the present and anticipated financial impacts of climate change across short, medium, and long-term horizons.
4. IFRS S2 mandates companies to disclose climate-related impacts across their entire value chain. Consequently, even organizations not falling directly under the ambit of mandatory climate reporting will likely face information requests from those that are within scope. Numerous organizations that do not fall under the purview of compulsory climate reporting may opt for voluntary disclosure. This proactive step is often taken to attract investment capital, especially at a time when investors are placing a significant emphasis on managing climate-related risks within their investment portfolios.
6. A substantial number of organizations not subject to mandatory climate reporting may opt for voluntary disclosure to position themselves to attract capital, especially in a climate where investors are increasingly prioritizing the management of climate-related risks within their investment portfolios.
7. Directors have a responsibility to exercise due care and diligence in overseeing the effectiveness and robustness of corporate reporting systems and processes. This accountability arises from the board's general responsibility for public disclosures.
 1. The existing climate governance structures within the organization.
 2. The current climate-related representations and disclosures across various channels, including reporting, marketing materials, and other communication platforms such as websites and social media.

c. The level of climate competency within both the board and the management team and
d. The data and systems necessary for climate reporting. If gaps are identified, directors should work with management to consider the need to upskill, make technological investments and/or seek out external support.

8. High-performing businesses will view climate reporting as a strategic opportunity to showcase the value and resilience of their organization, rather than simply treating it as a routine compliance task to check off.

9. Regardless of whether a company is currently subject to mandatory reporting, directors should evaluate the extent to which climate change exerts a material impact on the company's financial standing, performance, or future prospects.

They should also assess what disclosures may be necessary to ensure that financial reports provide a 'true and fair view' of the company's financial position.

Climate Governance Initiative Australia

The Australian Institute of Company Directors (AICD) serves as the host organization for the Australian chapter of the Climate Governance Initiative (CGI) Australia. This chapter is a part of a broader global CGI network comprising 29 entities. These organizations collectively promote the adoption of the World Economic Forum Climate Governance Principles among boards and advocate for the implementation of effective climate governance practices within their respective jurisdictions.

As of the publication date of this Guide, CGI Australia has:

- Conducted webinars that garnered approximately 5,800 attendees.
 - Released practice guides and reports covering various subjects such as climate risk management and sustainability governance structures, accumulating a total of around 10,000 unique downloads.
 - Distributed monthly climate newsletters to approximately 15,500 recipients; and
 - Orchestrated two significant climate governance conferences, with nearly 1,400 participants at the 2022 Climate Governance Forum and over 1,500 attendees at the August 2023 event.
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Chapter 1 | The Mandatory Climate Reporting Landscape

- 1.1. Australian Government is currently in the process of instituting compulsory climate disclosures, which will be aligned with the International Sustainability Standards Board (ISSB)'s climate standard known as IFRS S2.
2. The mandatory regime is proposed to commence from the reporting period starting 1 July 2024 for large entities and large emitters, with organisations phased-in over the financial years commencing 1 July 2026 and 1 July 2027 based on organisational size.
3. IFRS S2 draws its foundation from the framework of the Taskforce for Climate-related Financial Disclosures (TCFD). However, it elevates the standards by mandating more comprehensive and quantitative disclosures of climate impacts across short, medium, and long-term horizons.
4. The board assumes a pivotal role in supervising climate reporting due to the substantial reputational, legal, and strategic implications it entails.
5. Instead of adopting a compliance-centric approach, boards should perceive this regulatory shift as a chance to fortify organizational resilience and showcase their value in an swiftly decarbonizing economy.

The 'Climate risk governance guide: An introductory resource for directors on climate risk governance' provides a plain-language introduction to fundamental climate change concepts, and considers this issue in the context of the non-executive directors' role and duties.

1.1 THE JOURNEY TO ISSB REPORTING

Climate reporting came to the fore with the introduction of the recommendations of the TCFD in 2017. Since then, there has been steady uptake of Australian organisations adopting the TCFD as the basis of their climate reporting, increasing from approximately five per cent of ASX200 in 2018 to 67.5 per cent of the ASX200 in 2021.

Among climate-related information disclosures in Australia, which represent less than 40 percent of the total ASX-listed population, comprehensive and detailed disclosures remain relatively uncommon. In 2021, only nine percent of ASX-listed entities with climate-related disclosures in their annual reports reported under all four pillars of the Taskforce for Climate-related Financial Disclosures (TCFD), as opposed to merely making general references to the TCFD framework. Corporate climate-related disclosures in Australia have faced criticism from various stakeholders, particularly investors. The criticisms include the disclosures being overly generalized and disconnected from the financial statements. Furthermore, some companies have been criticized for adopting net-zero targets without a realistic roadmap for achieving them, which has led to accusations of greenwashing.

In November 2021, the International Financial Reporting Standards (IFRS) Foundation created the International Sustainability Standards Board (ISSB) to operate alongside the International Accounting Standards Board (IASB). The ISSB was established with the objective of enhancing the quality and comparability of disclosures by issuing sustainability standards that could serve as a global foundation for sustainability information. This move also presents an opportunity to streamline the multitude of existing sustainability disclosure standards and frameworks, often referred to as the 'alphabet soup,' into a more cohesive and universally recognized system.

In June 2023, the International Financial Reporting Standards (IFRS) Foundation issued the first two IFRS Sustainability Disclosure standards: "IFRS General Requirements for Disclosure of Sustainability-related Financial Information" and "IFRS S2 Climate-related Disclosures," commonly known as the ISSB Standards.

These standards set a global adoption effective date for the financial year starting on or after January 1, 2024. However, entities are permitted to postpone the application of the disclosure requirements outlined in IFRS S1 by one year. The implementation of these standards at the local level, such as in jurisdictions like Australia, will be determined by individual authorities, including decisions on how and when they are implemented.

BOX 1.1: LOOKING BEYOND CLIMATE – IS NATURE AND BIODIVERSITY THE NEXT CAB OFF THE RANK?

While climate is the initial thematic focus of sustainability disclosure, the ISSB has consistently emphasized the principle of 'climate first, but not climate only.' In addition to climate, the preservation of nature has emerged as a critical environmental risk for organizations to address. There is a growing recognition of the impact of corporate operations on the natural environment, intricate ecosystems, and associated social factors, including considerations related to a 'just transition.' As part of its agenda priorities, the ISSB is actively considering topics related to human capital, human rights, and biodiversity.

The launch of the Taskforce on Nature-related Financial Disclosures (TNFD), inspired by the TCFD model and initiated in September 2023, suggests that nature-related considerations will likely become a prominent area of attention for both the ISSB and domestic policymakers in 2024 and beyond.

Given Australia's substantial support for the Taskforce on Nature-related Financial Disclosures (TNFD), directors should be actively contemplating their organization's impact on biodiversity and considering how adopting nature-positive solutions can contribute to the achievement of the organization's climate-related objectives. This broader perspective acknowledges the interconnectedness of climate and nature and underscores the importance of a holistic sustainability approach.

Although corporate awareness of nature risks is relatively nascent, directors should expect that market and regulatory expectations for action are likely to quickly accelerate over the coming years. For more information, see the CGI Resource Biodiversity as a material financial risk: What board directors need to know and the World Economic Forum's Chairperson's Guide to Valuing Nature.

2. See Figure 1 of the Australian Council of Superannuation Investors (ACSI) (August 2023) Promises, Pathways & Performance – Climate Change disclosure in the ASX 200. The Figure 1 shows that approximately 10 of the ASX200 had adopted TCFD reporting in 2018 (5 per cent). This has grown to 135 in 2022 (67.5 per cent).

3. Up from 4.7 per cent in 2018. See Jean You and Professor Roger Simnett, (December 2023) AASB-AUASB Joint Research Report on Climate-related Disclosures and Assurance in the Annual Reports of the ASX Listed Companies.

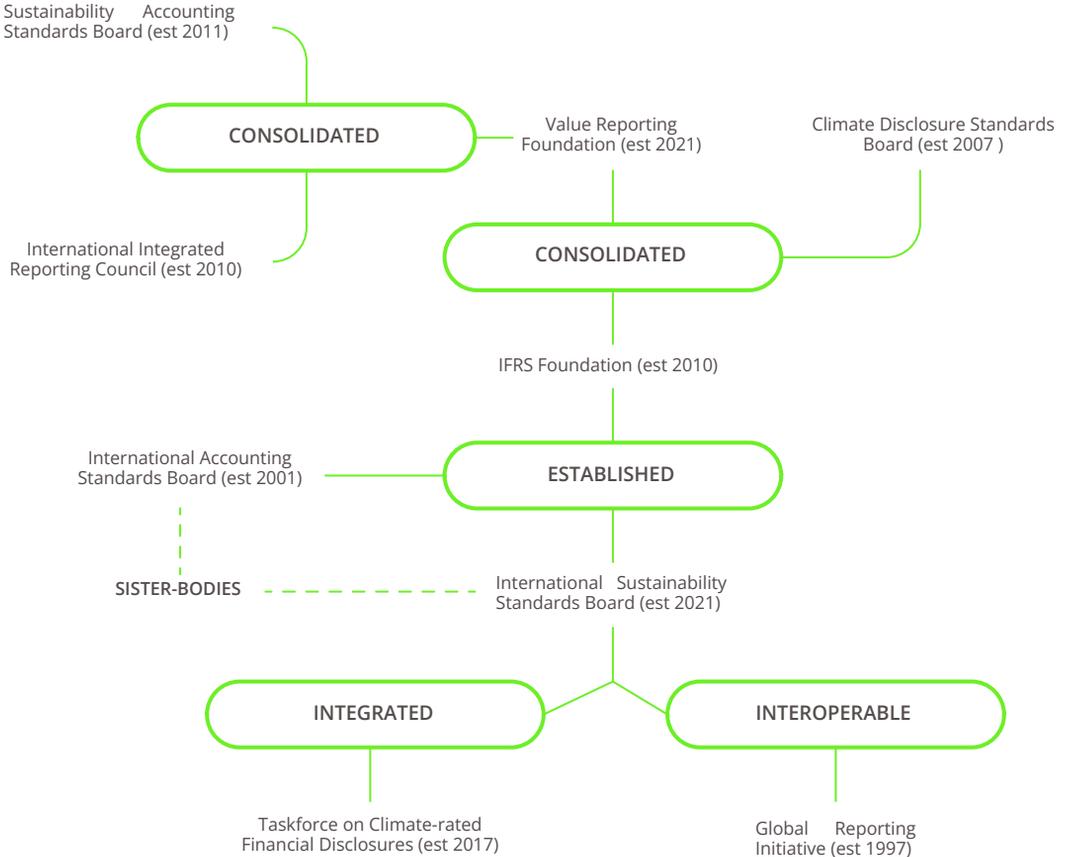
1.2 DISSECTING THE ISSB STANDARDS WHAT DO I NEED TO KNOW?

Both IFRS S1 and IFRS S2 are based on the four core pillars of the TCFD framework (see Figure 1) but provide a more detailed framework that better supports comparable disclosures. The issue of the ISSB Standards in June 2023 marked the culmination of the TCFD work and the transfer of TCFD monitoring responsibility to the ISSB from 2024.

FIGURE 1: ISSB Standards architecture builds on the TCFD structure



FIGURE 2: Harmonising the 'alphabet soup' of global climate and sustainability reporting frameworks CONTENT REMAIN SAME IN THE ORIGINAL INFOGRAPHIC



KEY ELEMENTS OF THE DISCLOSURES UNDER THE ISSB STANDARDS

IFRS S1 – General requirements

In Australia, the Australian Accounting Standards Board (AASB) has made the decision to create a focused Australian counterpart to IFRS S1. This Australian equivalent will concentrate solely on the general prerequisites for climate-related financial disclosures, rather than encompassing the broader spectrum of sustainability disclosures outlined in IFRS S1. This approach aligns with the specific needs and regulatory context of the Australian market.

- This foundational standard serves as the bedrock supporting not only IFRS S2 but also anticipated forthcoming topical standards, which may encompass areas such as nature and biodiversity, human capital, and human rights.
- This standard establishes and outlines key general reporting concepts, encompassing definitions for terms such as 'sustainability-related financial information,' the reporting entity, materiality, fair presentation, connectivity of information, judgments, comparative information, sources of estimation uncertainty, and the correction of errors. It provides a comprehensive framework for understanding and applying these fundamental reporting principles.
- Regarding the location and timing of disclosures, the standard mandates that these disclosures must be included within the Annual Financial Reports and released simultaneously with the publication of financial statements, covering the same reporting period as the financial statements. The IFRS Foundation has incorporated transitional relief measures, which can be found in Section 2.5 for further details. Additionally, Section 1.3 outlines the transitional relief proposed for application in Australia.
- The standard delineates the essential disclosures needed for each of the four core elements—governance, strategy, risk, and metrics & targets—of the TCFD recommendations. It provides a structured framework for comprehensive reporting in alignment with these critical aspects of climate-related financial disclosures.
- The standard guides preparers to seek additional sources of information in cases where specific IFRS Sustainability Disclosure Standards and guidance are lacking. These sources may include the Sustainability Accounting Standards Board (SASB), which entities are required to consider under IFRS S2. This aligns with the approach outlined by the Australian Treasury.
- The Australian Treasury, in line with the June 2023 Consultation, is not mandating the use of the Carbon Disclosure Standards Board (CDSB) application guidance or the European Sustainability Standards. Instead, the standard establishes the general disclosures needed for each of the four core elements (governance, strategy, risk, and metrics & targets) in accordance with the TCFD recommendations. This approach provides a comprehensive framework for climate-related financial disclosures without requiring the specific use of other guidance. Reporting Standards (ESRS)9 and the Global Reporting Initiative (GRI) standards.

IFRS S2 – Climate disclosures

Australian Government commitment to develop domestic requirements that are aligned, as far as is practicable, with IFRS S2.

- Requires disclosure of financial information relating to material, physical and transition climate-related risks and opportunities.
- Based on the TCFD pillars of governance, strategy, risk management, and metrics & targets, but requires more granular and prescriptive quantitative disclosure requirements. These include
- (but are not limited to): to develop domestic requirements that are aligned, as far as is practicable, with
 - disclosure of any transition plan
 - IFRS S2. – reporting on scope 1, 2 and 3 emissions (for definitions, Chapter 3)
 - climate resilience using scenario analysis (for definitions, Chapter 3)
 - internal carbon prices (See Fact Sheet 4)

AASB has signaled its intention to create a narrowly focused domestic equivalent to IFRS S1 to facilitate the implementation of a corresponding domestic equivalent to IFRS S2. Additionally, it is expected that the AASB will place emphasis on conducting consultations regarding a broader and more comprehensive general sustainability standard in the coming years.

This reflects a commitment to addressing sustainability reporting needs and aligning with international standards while considering domestic requirements.

1.2.1 What does IFRS S2 require of organisations in practice?

IFRS S2 mandates that organizations disclose material climate-related risks and opportunities in a manner that is decision-useful for the primary users of general-purpose financial reports. This standard offers a structured framework for reporting this information, encompassing the following elements:

Some of these obligations require organizations to provide forward-looking disclosures that involve uncertainties related to measurement and outcomes. We will explore the legal ramifications of issuing forward-looking statements. in Chapter 2.

1.2.2 We already report under the TCFD, how are the requirements under IFRS S2 different?

The ISSB has released a comparison between IFRS S2 and the TCFD recommendations. Below, we provide a summary of the key aspects. For a more extensive comparison, please refer to Fact Sheet 2.

The key differences will take three forms in that IFRS S2:

1. IFRS S2 employs distinct phrasing to convey comparable information to the TCFD recommendations, but its approach is generally aligned with the TCFD recommendations.
2. IFRS S2 mandates a higher level of detail and granularity compared to the TCFD recommendations. It necessitates industry-specific content and imposes more specific requirements for disclosing quantitative information
3. IFRS S2 provides additional elaboration and supplements the TCFD Guidance. It does so by introducing further disclosure requirements and application guidance while generally adhering to the core TCFD recommendations.

TABLE 1: Summary table of relevant differences between the TCFD & IFRS S2

Table 1 compares IFRS S2 requirements to the core TCFD recommendations made in June 2017 (as distinct from the 2017 and 2021 TCFD Implementation Guidance). We do so in recognition of the fact that many Australian corporates disclose on a 'TCFD-lite' basis.¹² We note that the TCFD has issued implementation guidance in 2017 and 2021 which recommends the making of more detailed and granular disclosures, some of which are now mandated by IFRS S2. The evolution of the TCFD framework is a useful illustration of the continuing development and maturity of climate reporting. For a more comprehensive comparison, see Fact Sheet 2.

Governance	
TCFD Core Recommendations	IFRS S2
<p>General recommendation to:</p> <ul style="list-style-type: none"> • Provide disclosure regarding the board's oversight of climate-related risk and opportunity. • Disclose management's role in evaluating climate-related risk and opportunity. 	<p>Specifically requires disclosure of:</p> <ul style="list-style-type: none"> • Specifics regarding board oversight, including the identification of the person or body responsible (along with confirmation of their competency) and how this responsibility is outlined in their role description, mandate, or terms of reference. • The established process for identifying and prioritizing climate-related risks and opportunities
Strategy	
TCFD Core Recommendations	IFRS S2
<p>General recommendation to:</p> <ul style="list-style-type: none"> • Provide a description of the climate-related risks and opportunities that the organisation has identified across short, medium, and long-term timeframes. • Describe how climate risks and opportunities impact the organisation's business operations, strategy, and financial planning. • Provide a description of the resilience of the organization's strategy, considering various climate-related scenarios, including scenarios with a two-degree or lower temperature increase. 	<p>Specifically requires disclosure of:</p> <ul style="list-style-type: none"> • Outline any transition plans, including the strategy the company intends to employ to achieve established climate-related targets. • Identify the areas within the organization's value chain where significant climate-related risks and opportunities are concentrated, which may include specific geographic regions or types of assets. • Provide quantitative details regarding the current and anticipated impact of climate-related risks and opportunities on cash flows, access to finance, cost of capital, resource allocation, carrying amounts of assets and liabilities, and the influence on existing and committed investment plans. • Qualitative information is acceptable in specific situations

¹² AASB and AUASB research (December 2022) found that of the ASX listed companies who provided any climate-related disclosures in the Annual Report (which represented less than 40 per cent of the total ASX listed population), only 25.9 per cent referenced the TCFD recommendations in 2021, and only nine per cent explicitly disclosed under all four sections of the TCFD framework

Risk Management

TCFD Core Recommendations



IFRS S2

General recommendation to:

- Provide an explanation of the procedure employed for identifying, evaluating, and mitigating climate-related risks.
- Clarify the integration of these processes into the organization's overarching risk management framework.

Specifically requires disclosure of:

- Describe the procedures employed to identify, evaluate, prioritize, and track climate-related risks and opportunities, including the input parameters utilized for risk identification. Additionally, indicate whether there have been any alterations to these processes compared to the previous reporting period.
- Explain the integration of climate risk management into the company's broader risk management process.

Metrics & Targets

TCFD Core Recommendations



IFRS S2

General recommendation to:

- Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process.
- Describe the targets used by the organisation to manage climate-related risk and opportunities.
- Disclose scope 1, 2 and if appropriate, scope 3 Greenhouse Gas (GHG) emissions

Specifically requires disclosure of:

- All the metrics from the TCFD 2021 guidance which includes:
 - The percentage of executive management remuneration linked to
 - climate-related considerations.
 - Internal carbon prices.
 - The amount and percentage of assets or business activities currently vulnerable.
 - to physical and transition risk and aligned with climate-related opportunities.
 - The amount of capital, financing or investment deployed towards climate related risks and opportunities.
- Any transition plans and climate-related targets (including details on the use of carbon offsets), processes in place to review transition plans, and quantitative information about progress of transition plans including disclosure of how the target compares against the latest international agreement on climate change.
- GHG emissions including:
 - Scope 3 emissions.
 - Separate disclosure of scope 1 and 2 GHG for each consolidated accounting group and for associates, joint venture and unconsolidated subsidiaries not included in the accounting group.
 - Financed emissions for those with asset management, management, commercial banking and insurance activities.

Location and Timing of Reports.

TCFD Core Recommendations

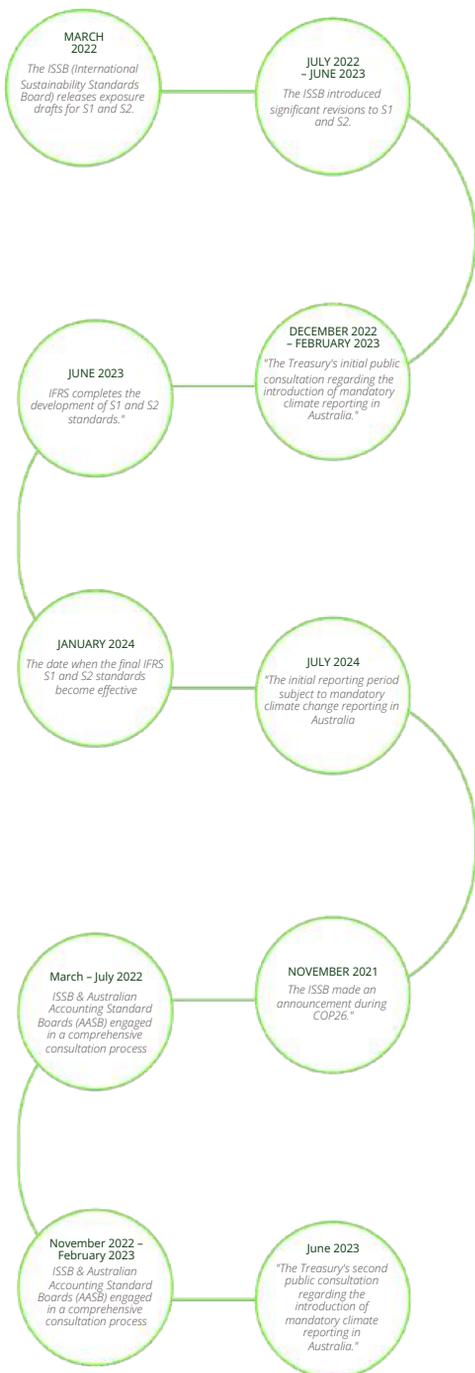


IFRS S2

While there is no obligatory directive, the TCFD Implementation Guidance advises that disclosures should be incorporated into the primary financial report in a 'timely' manner, typically on an annual basis, and should be promptly updated as necessary

Requires disclosure (subject to transitional relief):

- In the financial report.
- Issued at the same time as the publication of financial statements.
- Covering the same reporting period and the same reporting entity as the financial statements.



1.3 WHAT COULD AUSTRALIA'S MANDATORY REPORTING REGIME LOOK LIKE?

As part of its obligations under the Paris Agreement, in June 2023, the Australian Government introduced the Australian Government's Climate Change Act 2022 for public consultation. This act outlines the Australian Government's commitment to a mandatory climate reporting framework (Second Treasury Consultation). The proposed framework aims to reduce greenhouse gas emissions by 43 percent by 2030 and achieve net-zero emissions by 2050 (see Figure 3).

WHAT DO WE KNOW ABOUT MANDATORY REPORTING IN AUSTRALIA?

A summary of the key elements of the proposals outlined in the Second Treasury Consultation is provided in Figure 4. We will provide a more comprehensive explanation below.

FIGURE 4 Key elements of Government's proposal on mandatory climate reporting

WHO WILL BE REQUIRED TO REPORT?

The proposed approach consists of three tiers, which are determined by the size of the organization. The proposed cohorts and their respective timelines are as follows:

WHEN will it commence?

Cohort 1 (for 2024/2025 reporting periods):

- Reporting Entities, which encompass those obligated to report under Part 2M of the Corporations Act, including Disclosing Entities as defined under the Corporations Act, public companies, registered schemes, and large private companies. These Reporting Entities must meet at least two out of the following three thresholds

1. Have more than 500 employees.
2. Possess consolidated gross assets exceeding \$1 billion.
3. Generate consolidated annual revenue of \$500 million or more.

- Reporting Entities that additionally qualify as 'Controlling Corporations' under the National Greenhouse and Energy Reporting Scheme (NGERS) and meet the NGER publication threshold.

WHEN will it commence?

Cohort 2 (for 2026/2027 reporting periods):

•Reporting Entities that satisfy at least two of the following three thresholds:

1. Employ more than 250 individuals.
 2. Possess consolidated gross assets of \$500 million or more.
 3. Generate consolidated annual revenue of \$200 million or more.
- Reporting Entities that are also considered 'Controlling Corporations' under NGERs and meet the NGER publication threshold

Cohort 3 (for 2027/2028 reporting periods):

WHERE will disclosures be located?

Financial and Directors' Reports (OFR for listed entities).

WHAT disclosures will be required?

IFRS S2, as adapted to the Australian context by the AASB. IFRS S2 builds on the TCFD pillars of governance, strategy, risk management and metrics & targets. (IFRS S2 has fully replaced TCFD as the primary global standard for climate-related financial disclosures. The ISSB now oversees TCFD, and IFRS S2 integrates TCFD principles into its framework.)

WHAT assurance will be required?

Phased in, starting with limited assurance for scope 1 and 2 GHG emissions and reasonable assurance over governance disclosures, moving to reasonable assurance over all representations from the fourth reporting year onwards.

HOW will requirements be enforced?

Non-compliance is a civil penalty three-year fixed period of regulator only enforcement from 1 July 2024 for misleading or deceptive conduct claims for scope 3 and certain forward-looking representations.

WHO WILL BE REQUIRED TO REPORT?

A three-tiered approach is proposed, depending on organisational size. Proposed cohorts and timings are:

Cohort 1 (for 2024/2025 reporting periods):

- Those required to report under Part 2M of the Corporations Act being Disclosing Entities (as defined under the Corporations Act), public companies, registered schemes and large private companies (Reporting Entities) that fulfill two of the following three thresholds:
 1. Over 500 employees
 2. \$1 billion+ in consolidated gross assets
 3. \$500 million+ consolidated annual revenue
- Reporting Entities that are also National Greenhouse and Energy Reporting Scheme (NGERS) 'Controlling Corporations' which meet the NGER publication threshold.

Cohort 2 (for 2026/2027 reporting periods):

- Reporting Entities that fulfill two of the following three thresholds:
 1. Over 250 employees
 2. \$500 million+ in consolidated gross assets
 3. \$200 million+ consolidated annual revenue
- Reporting Entities that are also NGERS 'Controlling Corporations' which meet the NGER publication threshold.

Cohort 3 (for 2027/2028 reporting periods):

- Reporting Entities that fulfill two of the following three thresholds:
 1. Over 100 employees
 2. \$25 million+ in consolidated gross assets
 3. \$50 million+ consolidated annual revenue
- All Reporting Entities that are also NGERS 'Controlling Corporations' regardless of NGER publication threshold

BOX 1.2: ARE CHARITIES AND NOT-FOR-PROFIT (NFP) ENTITIES PROPOSED TO BE COVERED?

Charities that are registered with the Australian Charities and Not-for-Profits Commission (ACNC) are not obligated to furnish financial reports in accordance with Part 2M of the Corporations Act. Consequently, these organizations are not encompassed by the existing proposal for mandatory climate reporting.

However, at first glance, not-for-profits (NFPs) that are not registered with the ACNC and are obligated to provide disclosures in accordance with Part 2M of the Corporations Act could potentially fall under the scope of the proposed mandatory climate reporting framework. Additional details regarding the applicability of mandatory climate reporting to charities and not-for-profits (NFPs) will be furnished once the government finalizes its policy position.

•All Reporting Entities that are also NGRS 'Controlling Corporations' regardless of NGER publication threshold.

WHEN WILL COMPANIES NEED TO REPORT?

- Cohort 1 entities, commencing with reporting periods on or after **1 July 2024.(1st January 2025)**
- Cohort 2 entities, starting with reporting periods from 1 July 2026.
- Cohort 3 entities, commencing with reporting periods on 1 July 2027.

WHAT DO COMPANIES NEED TO REPORT?

The content of the disclosures will be derived from IFRS S2, customized to suit the Australian context by the AAS

The Government has outlined the disclosures they intend to include from the beginning of the regime, which encompass governance, qualitative scenario analysis, climate resilience assessments against two potential future states (one of which aligns with the global temperature goal established in the Climate Change Act 2022), transition plans, climate-related targets (if applicable), identification and management of climate-related risks and opportunities, as well as scope 1 and 2 emissions.

The proposal suggests that entities will be obligated to disclose material scope 3 emissions starting from their second reporting year onward.

WHERE WILL COMPANIES NEED TO REPORT?

The proposal outlines that climate disclosures should be presented in the Annual Reports, specifically within the Financial Report and Directors' Report. For listed entities, a significant portion of these disclosures will be found in the Operating and Financial Review (OFR) within the Directors' Report. Listed entities are also granted the choice of reporting "metrics & targets" in a separate report, provided that it is referenced within the Directors' Report. Entities are mandated to include an index table within their Annual Report, which outlines climate disclosure requirements along with the corresponding disclosure section and page number.

WHAT ASSURANCE WILL BE REQUIRED?

The proposed approach is phased in, as illustrated in Figure 5. It begins with limited assurance over scope 1 and 2 disclosures and reasonable assurance over governance disclosures in the first reporting year for each cohort. Importantly, assurance for transition plans, which are required in the first year for Cohort 1 entities, will not be mandatory.

The ultimate goal is to achieve reasonable assurance over all disclosures starting from the fourth reporting year, which implies reasonable assurance for all cohorts of disclosing entities from the reporting period beginning on 1 July 2030. For more details on key assurance and verification pathways, including the distinction between limited and reasonable assurance, please refer to the provided resources see Fact Sheet 6.

FIGURE 5 Timeline for the proposed phase-in of mandatory assurance



Second year reporting

Reasonable assurance over scope 1 and 2 emissions and other disclosures

Limited assurance over scope 3 emissions, scenario analysis, transition plans (full quantitative assurance)

Third year reporting

Reasonable assurance over scope 1 and 2 emissions and other disclosures

Limited assurance over scope 3 emissions, scenario analysis, transition plans (full quantitative assurance)

Fourth year reporting

Reasonable assurance over all climate disclosures

WHAT ARE THE LEGAL CONSEQUENCES OF NOT REPORTING OR INADEQUATELY REPORTING?

The Government is considering introducing civil penalty provisions into the Corporations Act. This means that a failure to disclose or inadequate disclosure could result in civil penalties. Additionally, enforcement for misleading or deceptive conduct or similar claims related to scope 3 emission disclosures and select forward-looking disclosures (such as scenario analysis and transition planning) will be limited to actions taken by regulators only for a fixed period of three years.

BOX 1.3: WHAT ABOUT COMPANIES NOT CAPTURED BY THE MANDATORY CLIMATE REPORTING REGIME?

Organizations that do not fall within Cohort 1 to 3 may opt for voluntary disclosure to attract capital, especially at a time when investors are increasingly concerned about climate risks in their investment portfolios. For a summary of the factors driving detailed climate disclosures and why entities not

covered by mandatory disclosure requirements should consider voluntary disclosure, please refer Fact Sheet 1.

1.4 WHAT ARE OTHER JURISDICTIONS DOING ON CLIMATE REPORTING?

In the context of the ISSB forming in November 2021 and releasing final standards in June 2023, it's worth noting that several jurisdictions that were early adopters of mandatory climate and sustainability reporting disclosures, such as New Zealand and the EU, have already developed and implemented their own sets of sustainability and climate disclosure standards. Some have also mandated TCFD-aligned disclosures, like the UK. This landscape reflects the rapid evolution of global sustainability reporting standards and the various approaches taken by different countries to address climate-related reporting requirements.

Indeed, the landscape of global sustainability reporting standards has rapidly evolved, especially with early adopters like New Zealand, the EU, and the UK developing and implementing their own sets of sustainability and climate disclosure standards. This evolution highlights the dynamic nature of climate-related reporting requirements, with different countries taking various approaches to address these challenges and align with international standards like the TCFD.

The Securities and Exchange Commission (SEC) in the US is in the process of introducing its own climate-related disclosure rule. For further information, see Fact Sheet 3.

The ISSB has pledged to release guidance on how to harmonize jurisdiction-specific requirements with the ISSB Standards to facilitate interoperability. In a significant development, in July 2023, the International Organization of Securities Commissions (IOSCO) announced their conditional support for the ISSB Standards. IOSCO, with its 130-member jurisdictions, representing regulators for over 95 percent of the global securities markets, urged its members to explore ways to integrate the ISSB Standards into their own regulatory frameworks.

BOX 1.4: WHAT DO COMPANIES NEED TO CONSIDER FOR OPERATIONS IN DIFFERENT JURISDICTIONS?

- Who constitutes our upstream and downstream value chain?
- How do we intend to collaborate with suppliers and our broader ecosystem, including data collection?
- What are the disclosure requirements and regulatory frameworks relevant to our operations in the jurisdictions we operate in?
- Do data collection requirements vary among different jurisdictions?
- When are we obligated to create climate or other sustainability disclosures? What are the main risk factors to address when making reports in different jurisdictions?

- Lack of adequate preparation and planning in advance.
- Assuming that a subsidiary or organization is exempt from disclosure requirements in other jurisdictions.
- Failure to establish relationships and data collection agreements with suppliers.

Do we have subsidiaries in the US or EU?

- Refer to Fact Sheet 3 for guidance on reporting in these jurisdictions.

QUESTIONS FOR DIRECTORS TO ASK

- 1.If, and when, will our organisation be covered by the proposed mandatory climate reporting regime in Australia?
- 2.How do the reporting requirements compare with our current practices? What is our plan to bridge any gap? What internal and external expertise is needed?
- 3.If our organisation is not captured, are there organisations within our value chain that are likely to be impacted by others' reporting requirements?
- 4.Are any of our overseas operations captured by climate reporting requirements overseas? (See Fact Sheet 3 for guidance for companies with EU or US issuance, operations or subsidiaries)

Chapter 2 | What are the duties and expectations of me as a director? KEY-POINTS

1. Directors at the board level typically provide ultimate sign-off for reports. It is crucial for them to exercise due care and diligence in overseeing the robustness of corporate reporting systems and processes and assessing the materiality of climate-related risks and opportunities to their organization.
2. Directors should have an understanding of the internal expertise and expert support needed to ensure clear and accurate climate reports..
3. The standard of care expected from directors is evolving and will require appropriate upskilling and education to demonstrate an active oversight role in managing climate-related risks and opportunities.
4. Regardless of whether a company is currently subject to mandatory reporting, directors should evaluate the extent to which climate change materially affects the company's financial position, performance, or prospects. They should also consider what disclosures might be necessary to provide a 'true and fair view' of financial reports.

2.1 THE LEGAL CONTEXT – DIRECTORS' DUTIES IN RELATION TO CLIMATE CHANGE

Directors bear a significant responsibility for financial reporting, including overseeing the preparation of the Annual Report in accordance with the Corporations Act. Their key obligations include ensuring that the financial statements, notes, and Directors' Report contain all relevant information that could materially affect the company's financial position, performance, and future outlook. This obligation extends to encompass material climate change and broader sustainability-related information. Directors must be diligent in fulfilling this responsibility to provide a comprehensive and accurate view of the company's financial health and its capacity to navigate climate-related challenges.

In the end, directors must ensure that the report accurately and impartially reflects the company's financial performance, position, and future prospects, without any form of misrepresentation or deception¹⁶

This implies that some entities obligated to disclose under the Corporations Act, even if not subject to mandatory climate reporting, might still need to disclose climate-related risks if they are significant. It's essential to note that liability can arise not only from misleading disclosure but also from a breach of the duty of due care and diligence. This breach occurs when a director fails to exercise sufficient diligence in overseeing the company's financial reporting systems.

In considering directors' duties for climate related financial reporting, it is important to understand legal obligations relevant to both:

- 1.The content of financial reports; and
- 2.The broader duty of due care and diligence

2.2 FINANCIAL REPORTING AND CLIMATE CHANGE

In Australia, financial reporting obligations are primarily established by the Corporations Act. The interpretation and content of these obligations may also be influenced by "soft law," including regulatory guidance, investor expectations, and evolving industry practices.

Generally, public and large proprietary companies in Australia are obligated to publish Annual Reports. These reports typically include financial statements, notes, a directors' declaration, and the Directors' Report. The reporting requirements and how they may necessitate disclosure of climate-related information are outlined in more detail in the document, is set out in Box 2.1.

Directors should be aware that if climate-related risks and impacts are deemed material to their organization, they must already be disclosed.

BOX 2.1: SUMMARY OF REPORTING OBLIGATIONS IN AUSTRALIA AND WHERE CLIMATE CHANGE FITS IN

Legal obligation

Financial statements and notes

- Must provide a true and fair view of the financial position and performance of the company. Presenting a true and fair view requires disclosure of all material information.
- Must comply with Australian Accounting Standards. Additional information may be required to ensure the presentation of a true and fair view.
- Directors must take all reasonable steps to comply with (and secure the company's compliance with) the financial reporting requirements.
- Information in the financial statements and notes must be externally audited.
- Prohibition on misleading or deceptive representations.

Where climate change fits in

Current legal obligations

•The impact of climate change should be disclosed where it is material to financial performance or position. Failure to do so may also render the financial statements and notes misleading or deceptive.

•Where company is subject to IFRS S2 ISSB 'materiality' is consistent with current Australian Accounting Standards (see discussion on materiality in Section 2.3 and Section 2.4 below).

•Directors must ensure that all information prescribed by the Corporations Act and other relevant laws and regulations (prescribed information) is duly included in the

- Annual Report.
- Tailored assurance requirements.

Directors' Report

•Must disclose (among other things) likely future developments in operations and expected results of those operations, and post-balance date matters or circumstances that may significantly affect future operations, state of affairs and results.

- Listed companies should disclose information that members would reasonably require to make an informed assessment of the business strategies and prospects for future years in an OFR. ASIC Regulatory Guide 247 notes that climate change may need to be disclosed in the OFR if it has a material impact on the future financial position, performance or prospects of an entity.

- May need to disclose performance in relation to significant environmental regulations.
- Prohibition on misleading or deceptive representations.

Current legal obligations

- Disclosure where climate change may impact an entity's future operations and expected future results, and where it may give rise to post-balance sheet date events that have, or may significantly impact on future operations, state of affairs or results.
- For listed entities, climate-related issues must be disclosed if they have a material impact on the future financial position, performance or prospects of the entity.

Where company is subject to IFRS S2

- Directors must ensure that all prescribed information is included in the Annual Report (and failure to comply may lead to civil penalties and misleading or deceptive conduct claims).
- Tailored assurance requirements.

Legal obligation

Continuous Disclosure obligations (listed companies only) Must immediately disclose to the ASX if it becomes aware of information concerning it where the information is not publicly available, and a reasonable person would expect that the information, if it were generally available, would have a material effect on the price or value of securities.

- Information is taken to have a 'material effect on the price or value of the entity's securities' if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell, the securities. A likely price impact of 10 percent or more will generally be considered material and will be referred to ASIC as a potential breach of Continuous Disclosure Obligations.

- Prohibition on misleading or deceptive representations where there is likely price impact of five to 10 percent may be material, depending on the circumstances.

Current legal obligations

- Obligations may arise where a company becomes aware of non-publicly available information which renders a prior climate representation (such as a transition plan or climate target) unviable. However, the relevant materiality is that of the ASX (financial materiality), rather than the ISSB concept of materiality.

Where company is subject to IFRS S2

- The Government has suggested that the ASX may wish to provide guidance as to the interaction between continuous disclosure obligations and mandatory climate disclosures.

Corporate Governance Statement (listed companies only)

- Must disclose the extent to which (on an if not why not basis) the company has followed the recommendations of the ASX Corporation Governance Council in the ASX Corporate Governance Principles and Recommendations 4th edition, including Recommendation 7.4 which states that "a listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks, and, if it does, how it manages or intends to manage those risks.

Current legal obligations

- The ASX Corporate Governance Principles and Recommendations states: "The Council would encourage entities that believe they do not have any material exposure to environmental or social risks to consider carefully their basis for that belief and to benchmark their disclosures in this regard against those made by their peers,"³¹ and suggests that entities with material climate change issues consider disclosing under the TCFD.

Where company is subject to IFRS S2

- The ASX Corporate Governance Principles and Recommendations will shortly be the subject of review, with consideration of sustainability matters likely to feature prominently

2.3 MATERIALITY UNDER AUSTRALIAN LAW

The AASB defines information as material "if its omission, misstatement, or concealment could reasonably be expected to impact the decisions" of the primary users. Material information must be disclosed to ensure that the financial statements and notes accurately represent the company's financial position and performance.

The test of 'materiality' is not a strict quantitative rule but involves considering qualitative factors, including external elements such as the industry in which the entity operates. Investor expectations may render specific risks, including climate-related ones, 'material,' necessitating disclosure. In April 2019, the AASB and the Australian Auditing Standards Board (AUASB) released guidance on evaluating the materiality of climate-related risk and other emerging risks (Materiality Guidance). This guidance emphasized that climate change could be material and might require disclosure in certain situations Box 2.2.

BOX 2.2: WHERE CLIMATE CHANGE MAY BE MATERIAL TO FINANCIAL STATEMENTS

Circumstances where climate-related Examples from AASB and AUASB in 2019 risks may be material

Investors now reasonably expect that climate-related risks, especially in high-risk sectors such as fossil fuels, transport, and electricity production and transmission, could significantly impact the entity and qualitatively influence their investment decisions. This demand for climate disclosures is extending beyond high-risk sectors, reflecting the recognition of emissions' impact throughout value chains.

Climate-related risks are likely to have a material impact in the entity's specific circumstances, especially when the entity's property, plant, or equipment are located in a flood or bushfire zone (physical climate risk), or when there's a potential impact on demand for the entity's product or service offering due to a decarbonizing economy, such as shifts in demand for fossil fuels or clean energy.

Climate-related risks can impact any of the amounts recognized or disclosed in financial statements when

their material impact has been quantified by the organization. This can occur when climate-related risks significantly affect the figures reported in the financial statements. This impact may manifest in various ways, including:

- asset impairment;

- changes in the useful life of assets;
- changes in the fair valuation of assets;
- increased costs and/or reduced demand for products and services;
- recognition of provisions for onerous contracts;
- provisions and contingent liabilities arising from fines and penalties; and
- changes in expected credit losses for loans and other financial assets

BOX 2.3: WHAT ARE SOME EXAMPLES OF CLIMATE RISK EFFECTS ON FINANCIAL STATEMENTS?

Various inputs and assumptions used in financial reporting, such as estimates of future cash flows, discount rates, and long-term growth rates, can be substantially affected by both physical and transition climate-related risks. These risks can influence the values and calculations used in financial statements in the following ways Some examples may include:

•**Impacts on Revenue:** Tourism company grappling with stranded assets due to rising sea levels, Agricultural business witnessing yield reductions in regions prone to extreme weather events. Manufacturers of single-use plastics facing declining demand due to evolving customer preferences and regulatory changes.

•**Implications on costs:** This could encompass scenarios like a carbon tax or a Carbon Border Adjustment Mechanism applied to exports in certain countries. It may also involve factors such as greenhouse gas emissions affecting projected cash outflows, government regulations imposing supply constraints, shifts in the utilization of natural resources, or heightened expenses to meet stricter energy efficiency standards for commercial properties

•**Altering the expected useful lifetimes or residual values:** This could involve markets for less energy-efficient machinery shrinking or facing earlier replacement due to the introduction of more efficient technology:

ASIC has expressed its expectation that publicly listed companies should include a discussion of environmental, social, and governance (ESG) risks in the Operating and Financial Review (OFR) section of the Directors' Report when these risks have the potential to impact the company's financial position or performance. This consideration should align with the entity's nature, business activities, and overall business strategy.

2.4 MATERIALITY UNDER THE ISSB STANDARDS

The ISSB Standards align with the definition of materiality found in both International and Australian Accounting Standards. Materiality is determined based on whether the omission, misstatement, or obscuring of information could reasonably be expected to impact the decisions made by primary users of general-purpose financial reports.

'Primary users,' as defined in IFRS S1, encompass existing and potential investors, lenders, and other creditors. The Application Guidance in IFRS S1 emphasizes that identifying material information necessitates taking into account both investor characteristics and the entity's specific circumstances. Numerous disclosures mandated by IFRS S2 necessitate an evaluation of the potential consequences of future events that are characterized by unknown or uncertain impacts.

In evaluating whether potential future events are likely to be material, the Application Guidance of IFRS S1 advises that an entity should take into account

1. The potential influence of the event on factors such as the timing, amount, and degree of uncertainty surrounding the entity's future cash flows in the short, medium, and long term. and

2. The probability or likelihood of the event occurring. IFRS S1 explains that in general, materiality is more likely when potential impacts are significant and the event is likely to occur. Significant impacts that are anticipated in the short term are more likely to be considered material compared to significant impacts that won't occur until many years into the future. However, IFRS S1 also acknowledges that a low-prob

ability event with high impact, either on its own or when combined with other low-probability high-impact events, can still be considered material.

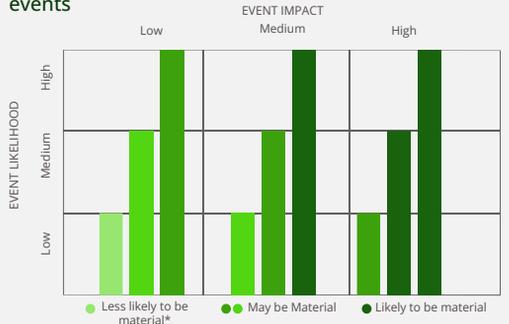
Notably, IFRS S1's Application Guidance states that in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular sustainability risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.

The risk matrix at Figure 6 may assist preparers in considering which possible future events may be material.

2.5 Forward-looking statements and liability risk

Chapter 1 illustrates that many of the disclosures required under the ISSB Standards involve forward-looking information across medium and long-term time horizons, and data relating to risks that occur outside the scope of a company's direct control (such as scope emissions data). This presents challenges relating to data availability and uncertainty, and prompts the question how should directors approach these issues to minimise the risk of misleading disclosure?

FIGURE 6 Materiality risk matrix - Future possible events



WHY ARE ISSB FORWARD-LOOKING STATEMENTS DIFFERENT?

Some companies include forward-looking statements in their financial reporting, which involve making estimates or projections regarding the company's financial position and performance.

These statements may encompass various aspects such as demand forecasts, assessments of asset impairments, estimates of the useful lives of assets, projections of rehabilitation costs, and earnings forecasts. Nonetheless, these representations are bound by well-established accounting principles that are typically applicable to all reporting entities. Moreover, they are generally subject to comprehensive external audits. The auditing process offers auditors the opportunity to examine and question the assumptions made by directors and management, thereby enhancing the overall reliability and accuracy of financial statements.

In contrast, climate disclosures are still in their early stages and lack the decades of established principles and conventions that govern traditional financial reporting. IFRS S2 introduces a need for highly specific company disclosures, which, as per the current Treasury proposals, may not yet be fully assured or may only be subject to limited assurance. This heightened level of uncertainty is a characteristic feature of climate-related reporting due to its relative novelty in the financial landscape.

Furthermore, numerous IFRS S2 disclosures involve making long-term predictions (spanning 5 to 10 years or more) that are highly susceptible to changing assumptions driven by evolving decarbonization trends, technological advancements, and shifting government regulations. For example, the anticipated demand and projected revenue of a product can be significantly impacted by ongoing technological developments. The International Energy Agency (IEA) has forecasted that by 2050, nearly half of emissions reductions will originate from technologies currently in the demonstration or prototype phase. In sectors like heavy industry and long-distance transportation, the proportion of emissions reductions from technologies still in development is even greater.

WHAT HAS THE ISSB SAID ABOUT ISSUES OF UNCERTAINTY?

The ISSB Standards make it clear that climate-related financial disclosures may involve elements of estimation and uncertainty. To address this, the ISSB Standards mandate that entities must identify the specific amounts that are affected by measurement uncertainty. Provide the rationale or source behind this uncertainty, clearly outline the assumptions, approximations, and judgments made during the process of measuring these amounts.

Under IFRS S2, disclosures influenced by measurement uncertainty would typically encompass:

- Anticipated Future Effects of Sustainability-Related Risks and Opportunities
- Assets or Business Activities Vulnerable to Physical and Transition Risks
- Climate Resilience Disclosures
- Transition Plans and Climate Targets
- Scope 3 GHG Emissions.

Another approach to offer reassurance to reporting entities involves the provision that certain disclosures within IFRS S2 can rely on "reasonable and supportable information available at the reporting date without imposing excessive costs or effort." This concept is referred to as the Proportionality Test.

PROPORTIONALITY AND APPLICATION IN AUSTRALIA

The ISSB Proportionality Test mandates that organizations, when making the necessary disclosures, must take into account information that is reasonably accessible, and must:

- Disclose information that is known and/or held by the organization as of the reporting date, encompassing data about past events, existing circumstances, and forecasts of future economic conditions, provided that this information can be accessed without imposing excessive costs or effort.
- Take into account the organization's available resources, including personnel, time, and financial means, when preparing disclosures. For instance, the ISSB has indicated that an entity facing significant resource constraints, where the costs of obtaining specific information are proportionally higher compared to entities with more resources, is permitted to conduct a less extensive search for information in proportion to its limitations and

- Ensure that there is a reasonable foundation for utilizing the information, meaning that the disclosure must be justifiable. While the ISSB doesn't provide explicit criteria for what qualifies as 'supportable,' it is commonly interpreted as information that can be substantiated as having a reasonable basis when it was reported. In accordance with Australian law, forward-looking statements (many of which are mandated by IFRS S2) should adhere to this principle of being justifiable and based on reasonable grounds. see Section 2.5, and Box 2.4) must be made on reasonable grounds.

HOW WILL IT APPLY IN AUSTRALIA?

The Proportionality Test in the ISSB Standards is essentially similar to the one found in specific Australian Accounting Standards concerning uncertain future matters. However, it is not widely utilized by the Australian Accounting Standards Board (AASB) or IFRS Accounting Standards, and it is not a formal test established under Australian law. Furthermore, the precise extent of interaction between the respective concepts of 'reasonable grounds' under Australian law and 'reasonable and supportable information' under the ISSB Standards remains uncertain.

The reconciliation of the tension between the acceptable level of uncertainty stipulated by the ISSB Standards and the requisite level of reliability for financial statements in Australia remains to be determined. As data, tools, and methodologies in this area continue to advance and become more widespread, justifying non-disclosure based solely on the principle of proportionality is expected to become progressively challenging. Consequently, companies should not presume that the ISSB Proportionality Test will automatically excuse any lack of disclosure. It is advisable for companies to periodically review their approach at the commencement of each reporting period to ensure compliance with evolving standards and expectations.

FORWARD-LOOKING STATEMENTS AND 'REASONABLE GROUNDS'

Directors are cognizant of the fact that specific regulations govern misleading disclosures pertaining to forward-looking statements. Box 2.4 delineates the primary types of forward-looking statements mandated by IFRS S2

BOX 2.4: WHAT ARE THE FORWARD-LOOKING STATEMENTS REQUIRED UNDER IFRS S2?

Statements concerning future matters will be considered misleading or deceptive if, at the time they were made, there were no reasonable grounds or justifiable basis for making such statements. It's important to note that hindsight should not be applied in determining whether statements about future matters were misleading or deceptive. In other words, if statements about future matters turn out to be incorrect at a later date, they should not be automatically considered misleading or deceptive solely because of this subsequent outcome.

Directors should ensure that there are demonstrable and clearly supported reasonable grounds for making forward-looking statements at the time they are issued. This involves documenting the basis for such statements and having transparent internal processes in place to substantiate the justifiability of these statements.

In situations where there is a significant change in circumstances or underlying assumptions that materially affect the reasonable grounds for previously made statements, it is crucial to assess whether updates to the market are necessary. This becomes particularly important for publicly listed companies subject to continuous disclosure obligations, as they are required to promptly update climate-related disclosures when such information is material to the market valuation of their listed securities

Currently, there is no specific legislative formula outlining the precise definition of 'reasonable grounds' in the context of climate-related disclosures. In light of this uncertainty, directors should contemplate factors such as:

- The robustness of the internal processes and assumptions on which the conclusion of reasonableness is based;
- Directors should also consider the input from relevant experts and assess the reasonableness of relying on these experts. This involves:

2.6 WHAT SHOULD DIRECTORS DO TO MANAGE LIABILITY RISKS?

Directors can take steps to mitigate liability risk in relation to climate-related disclosures. To achieve this, they should request that management implements a well-structured and well-documented due diligence process when collecting, analyzing, and communicating climate-related information. Practical steps to consider include:

- The level of effort in gathering information for disclosure should match the organization's size and experience as climate reporters. Larger and more experienced organizations may be expected to conduct a more thorough search, while smaller or less experienced ones may focus on foundational efforts in their climate reporting journey.
- When assessing information for relevance and materiality in climate-related disclosures, it is crucial to have a clear and well-documented process. Management should explain how they have established criteria for making these assessments, taking into consideration the guidance on materiality provided in Sections 2.3 and 2.4. Organizations should be capable of explaining their decisions regarding whether or how to disclose specific metrics. For instance, they should articulate why they chose a particular climate scenario or why a specific climate-related risk was deemed material. This explanation should include the criteria used to assess materiality, ensuring transparency and accountability in the disclosure process.?
- External assurance: Directors should inquire with management about the potential for obtaining external assurance on their climate-related disclosures, taking into account the proposed mandatory timelines for assurance outlined in Chapter 1. While directors must always independently exercise diligence in reviewing their company's reports, external assurance can enhance their confidence in endorsing disclosures and provide additional assurance to the market regarding reporting accuracy. In parallel, establishing robust internal verification processes is crucial to support the reliability of climate-related disclosures.
- In the process of disclosing information, disclosures impacted by significant outcome or measurement uncertainty should be explicitly

- marked as such and must include detailed information about key assumptions, judgments, and methodologies, as required by the ISSB. To ensure best practices, matters determined to be non-material (and thus not disclosed) should be meticulously documented in management documents, with a transparent exposition of the decision-making process. Additionally, directors should consider the possibility of including relevant disclosures in the notes to the financial statements to provide context or explanations when necessary. This approach enhances transparency and clarity in climate-related reporting, especially when dealing with uncertainty or non-material issues to the financial statements
- Directors must provide precise explanations for uncertainties in critical variables, significant management judgments, and the exact financial impacts, ensuring transparency in the organization's financial outlook.

In response to ASIC's scrutiny of greenwashing, some companies may be tempted to cease all voluntary disclosure, chasing greenwashing with a little 'greenhushing'...this kind of response is just another form of greenwashing; an attempt to garner a 'green halo' effect without having to do the work.

— Joe Longo ASIC Chair, AFR ESG Summit, June 2023

BOX 2.5: GREENWASHING AND GREENHUSHING

'Greenwashing' is a term used to describe the deceptive presentation of a company's environmental practices and sustainability efforts. In the realm of climate-related financial reporting, it often occurs when companies downplay the risks posed by climate change to their corporate strategy or financial outlook or exaggerate their business's ability to withstand such risks. This misrepresentation ultimately distorts the true influence of climate-related factors on their financial position or prospects

'Greenwashing' has come under heightened scrutiny from environmental activists, shareholders, and corporate regulators. This increased focus, coupled with concerns related to uncertainty in forward-looking information and incomplete data, has given rise to a phenomenon known as 'greenhushing.'

'Greenhushing' describes the practice whereby companies attempt to downplay the risks associated with climate-related financial disclosures by providing minimal or no information regarding key risks, emissions reduction targets, or transition plans.

Greenhushing can have detrimental consequences, both commercially and legally. From a commercial perspective, investors, customers, and other market stakeholders increasingly expect companies to have a well-founded and evidence-based transition strategy to address climate-related risks. Failing to provide such a strategy can result in reputational damage and loss of trust. Legally, there can be implications for not making required disclosures, particularly when climate-related risks are deemed material, or when disclosures are mandated by standards like the ISSB. ASIC Chair Joe Longo highlighted this concern, emphasizing that abandoning voluntary disclosure in favor of greenhushing is akin to another form of greenwashing, ultimately seeking to gain a 'green halo' effect without undertaking the necessary work to address climate risks transparently and responsibly.

2.7 WHAT HAPPENS IF DIRECTORS GET IT WRONG? PENALTIES FOR MISLEADING DISCLOSURE

In financial reporting, there is a fundamental prohibition against making misleading statements. Directors can be directly engaged in the misleading conduct, where they are actively involved in it. Alternatively, they can be accessorially involved in their corporation's misrepresentation by aiding, abetting, counseling, procuring the contravention, or knowingly being concerned in it, even if they are not the primary actors.

The Government intends to make a failure to comply with mandatory climate reporting a civil penalty breach under the Corporations Act. However, it has proposed that certain disclosures (including scope 3 emissions, scenario analysis and transition planning

disclosures) are subject to a three-year period of regulator-only enforcement from the reporting period commencing 1 July 2024.

Directors should bear in mind that, under Australian law, the threshold for liability is not particularly high. It is determined by whether the information presented in the reports is likely to mislead or deceive a reasonable user. Intent to mislead is not a relevant factor. Even if a director acted honestly and reasonably when making a statement or omission, they can still be exposed to liability if the information is found to be misleading or deceptive to a reasonable user.

Shareholders have the option to pursue compensation for losses or damages resulting from misleading disclosures, often related to a decrease in the valuation of shares. Additionally, they can seek declarations or injunctions, and there's no requirement to prove that the misrepresentation directly caused loss or damage. Consequently, activist groups and shareholders occasionally bring claims seeking only declaratory or injunctive relief, aiming to address the misrepresentation itself without necessarily demonstrating financial harm.

2.8 DUTIES BEYOND MISLEADING DISCLOSURE

The consideration of climate change is widely accepted as being relevant to a director's duty to act in the best interests of the company and their duty of care and diligence. This applicability extends across various aspects of directors' corporate governance responsibilities, encompassing strategy development, risk management, and reporting obligations. Directors are increasingly expected to take climate-related factors into account when fulfilling their duties in these areas.

2.8.1 Best interests' duty

In 2022, the AICD sought legal advice indicating that the 'best interest' duty for directors, as per section 181(1)(a) of the Corporations Act, doesn't assume that prioritizing shareholder interests should overshadow other stakeholders. Directors are encouraged to consider the well-being of employees, customers, suppliers, creditors, Traditional Owners, and the environment, as these concerns are tied to the company's long-term interests, including its reputation.

Directors are not prohibited from considering the impacts of climate change under their best interest duty. In fact, such consideration may be essential for building and sustaining long-term value for the company.

2.8.2 Duty of due care and diligence

In addition to liability for misleading disclosure, directors can be liable for a breach of duty of due care and diligence⁵⁶ if the misleading statement is a product of their failure to adequately oversee the contents of the report, or the robustness of the systems by which the information is produced.

The duty of due care and diligence holds directors to a standard of competence that could be expected from a reasonable director acting in similar circumstances. 'Due care and diligence' requires much more than a passive reading and approval of the financial reports. Rather, active oversight and engagement with management is typically required for the board to sign off on major corporate reports.

BOX 2.6: SOME SUGGESTED STEPS PRIOR TO REPORT APPROVAL⁵⁷

Directors have a responsibility to ensure the accuracy of the Annual Report. To fulfill this duty, directors should conduct a thorough review of the financial statements and the Directors' Report. They must confirm that the information aligns with the board's understanding of the company's financial position and operations. Additionally, directors should ensure that material matters, whether known to the board or reasonably expected to be known, are appropriately included in the report. To enhance their ability to fulfill these responsibilities, directors should:

- Directors should apply a contemporary understanding of climate-related issues and stay informed about the evolving reporting landscape. While not every director needs to be a climate expert, all directors should attain a functional literacy level in climate change matters. This literacy enables them to thoroughly and critically assess the potential impact of climate-related issues on the company and its reports. Building this capacity is crucial for effective governance in today's climate-conscious business environment.

- Directors should examine how climate-related issues are included in financial reports, including material disclosures and omissions. They should assess the basis for each disclosure and areas requiring significant management judgment. This review ensures alignment with the company's strategy and regulatory obligations.

- Directors should evaluate if additional disclosures are needed to ensure a complete and accurate depiction of the company's financial status..

- Directors should delve deeper into any issues uncovered by the financial report, seeking clarifications and insights from both management and external auditors when necessary..

- Directors should explore the possibility of obtaining external assurance for proposed disclosures to aid in making necessary declarations and demonstrating reasonable grounds, especially for inherently uncertain forward-looking disclosures. Additionally, they should emphasize the implementation of rigorous internal verification processes.

- Directors should evaluate the adequacy and effectiveness of the information gathering frameworks, internal controls, and governance processes in place to ensure they are robust and well-suited for the company's needs.

BOX 2.7: FURTHER GUIDANCE ON DIRECTORS' DUTIES AND CLIMATE CHANGE

QUESTIONS FOR DIRECTORS TO ASK

- 1.How did we decide that the identified risks and opportunities were material? Did we document that process?

- 2.How comfortable are we as to the robustness of our materiality assessment?

- 3.Have we clearly set out the assumptions, judgements and methodologies applied in respect of any disclosures subject to a high degree of uncertainty?

- 4.How comfortable are we as to the robustness of our due diligence process to ensure that forward-looking representations are made on 'reasonable grounds'? What external assurance should we seek to obtain?

- 5.Are climate-related disclosures consistent across the financial statements, Directors' Report/OFR and Remuneration Report? Are any amendments required to ensure consistency?

Chapter 3 | Practical steps to support mandatory climate reporting

KEY POINTS

1. Take stock of what the organisation is already doing to manage climate-related risks and opportunities. This includes:

- a. How climate-related risks and opportunities are identified and managed within the organization.
- b. The ongoing mitigation and adaptation activities being implemented.
- c. The current climate-related disclosures and representations being made by the company

2. Assess the disparity between the company's current status and the necessary conditions stipulated by IFRS S2, and consider:

- a. What additional resources are necessary to meet the requirements.
- b. Whether the current governance structures are suitable.
- c. What insights can be gleaned from industry-leading organizations.
- d. How climate reporting aligns with other organizational priorities.

3. Directors should not allow the pursuit of perfection to hinder progress. Initiating action is of utmost importance, followed by open communication with relevant stakeholders about the organization's methods, approaches, constraints, and advancements. Disclosures will enhance as gaps in data and capacity constraints are addressed over time.

3.1 SUMMARY: WHAT SHOULD DIRECTORS BE DOING TO GET READY NOW?

In preparation for mandatory climate reporting, directors should concentrate their efforts on the following key areas





3.2 GOVERNANCE

While the responsibility for implementing climate-related strategies and managing associated risks primarily falls on management, the final approval of these strategies and risk management positions rests with the board. Consequently, it is the board's duty to mandate that management effectively addresses climate-related risks and opportunities, all while maintaining an active oversight role to ensure alignment with the organization's overall goals and objectives.

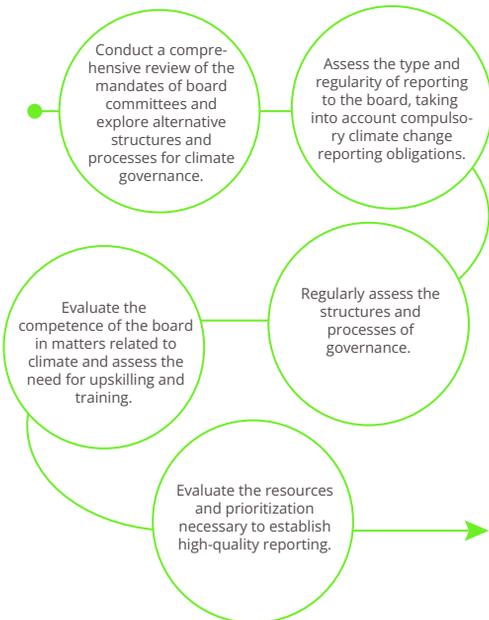
BOX 3.1: GOVERNANCE DISCLOSURES REQUIRED UNDER IFRS S2

IFRS S2 requires entities to make the following governance disclosures:

- Directors should clearly define which body or individual bears primary responsibility for overseeing climate-related risks and opportunities within the organization. This may involve delegating this responsibility to a specific management-level position or committee. Directors should also establish mechanisms for effectively exercising oversight over this designated position or committee, ensuring that climate-related matters are addressed comprehensively and align with the company's strategic objectives.
- Details about how the body/individual oversees climate-related risks and opportunities, including:
 - Explain how this duty is articulated in pertinent constituent documents, like committee mandates or position descriptions,;
 - should brief how the designated body or individual assesses the availability of suitable skills and competencies, and how they plan to develop these skills to effectively oversee strategies for addressing climate-related risks and opportunities. This should encompass mechanisms for identifying skill gaps, strategies for skill development, and any ongoing efforts to ensure the necessary expertise is in place;
 - Describe the methods and frequency by which the designated body or individual receives updates on climate-related risks and opportunities.

- Describe how the designated entity incorporates climate-related risks and opportunities into strategy, major decisions, and risk management, including trade-off considerations;
- how the body/individual oversees the setting of targets and how they monitors progress against the targets;
- Describe if and how climate-related performance metrics are included in the remuneration policies for the designated individual or body.; and
- whether management employs controls and procedures to assist the designated individual or body in fulfilling its oversight role and how these controls and procedures are integrated with other internal functions within the organization. This includes detailing the specific controls, coordination mechanisms, and the alignment of these oversight processes with broader internal function.

FIGURE 7: Suggested actions - governance disclosures under IFRS S2



As highlighted in the CGI Resource 'Bringing together ESG,' analysis showed that as of June 30, 2021, 50% of ASX50 companies made reference to 'environmental impact' or consideration of the environment in their board charters. Additionally, 13% of ASX200 companies mentioned 'climate change' in their board Risk Committee charters, and 11% in their Audit Committee charters. Boards may want to assess whether it is necessary to revise pertinent charters or terms of

reference to enhance effective oversight and explicitly clarify the relevance of climate-related matters to existing committee structures

After conducting this analysis, directors should deliberate on which board committee is most suitable for closely overseeing climate-related risks and opportunities. This might involve assigning responsibility to an existing committee such as a Sustainability Committee, if one is in place and well-suited to this role. While a Sustainability Committee can aid the board in recognizing, prioritizing, and addressing climate-related concerns, the ultimate responsibility for these issues should continue to reside at the comprehensive board level. A Sustainability Committee can support the board in identifying, prioritizing, and managing climate-related matters, but the ultimate responsibility for these issues should remain with the full board.

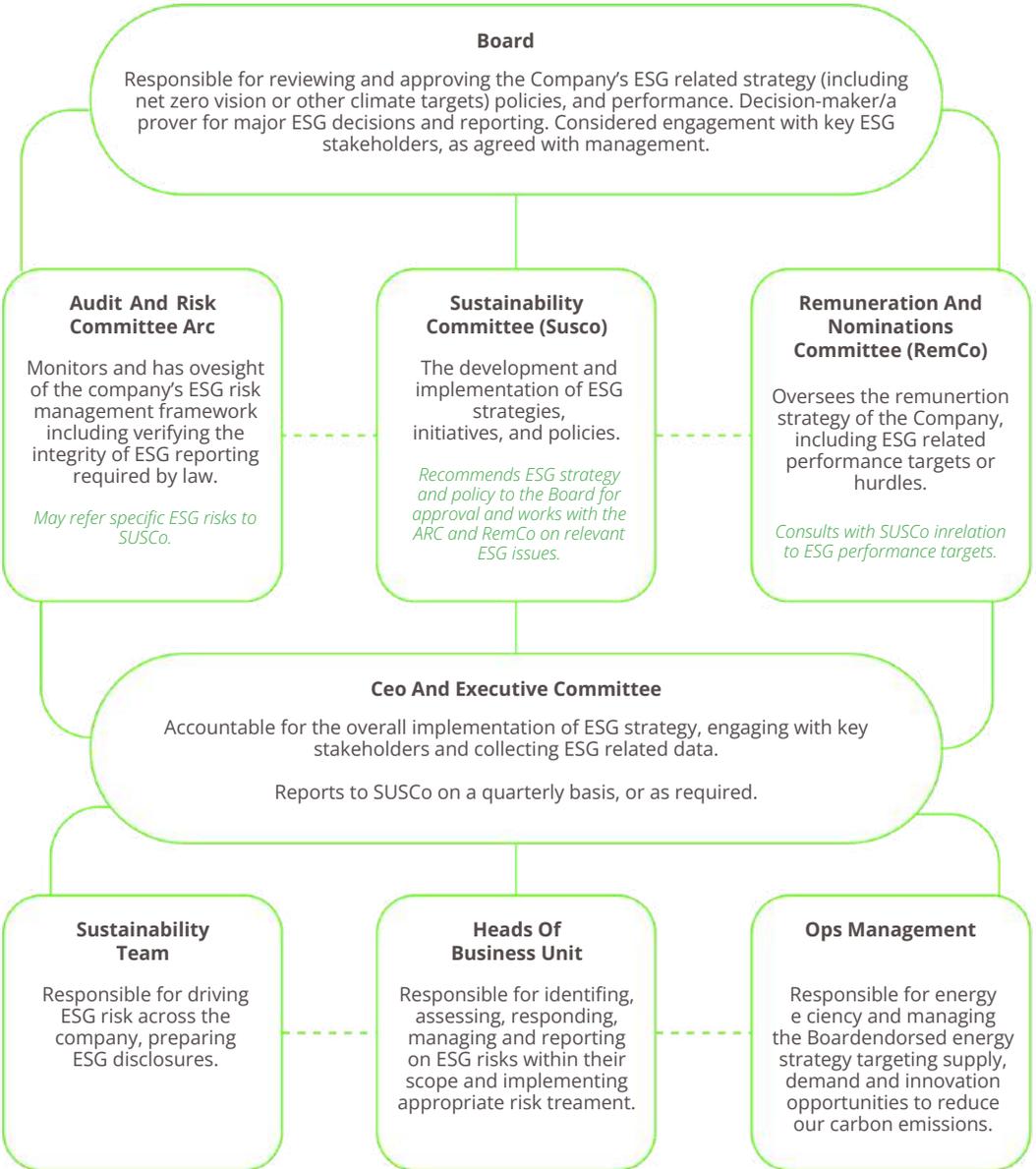
BOX 3.2: HOW COMMON ARE SUSTAINABILITY COMMITTEES? WHAT DO I NEED TO SET ONE UP?

According to HSF analysis as of mid-2021, around 31% of ASX200 companies had established ESG or sustainability-focused board committees. For further guidance on sustainability governance structures, including a sample committee charter, refer to the CGI Resource titled 'Bringing together ESG (2022).'

If there is no stand-alone Sustainability Committee, climate-related responsibilities are most commonly allocated to the Risk Committee, followed by the Audit Committee (often these two committees are fused as a single 'Audit and Risk Committee'). It is important to recognise that, because of the reach and impact of climate change, it may be relevant to various committees in some shape or form. We set this out in Box 3.3 and Figure 8. Whilst the board has oversight of the organisation's overall approach to climate-related risk and opportunities, management will have to day-to-day responsibility for execution. Directors should be clear on who within the organisation has overall responsibility for climate, and/or whether specific aspects are allocated between relevant executives (for example, the CFO would typically have accountability for the preparation of financial reports, while the Chief Risk Officer may have responsibility for incorporation of climate into broader organisational risk management frameworks).

Directors should also satisfy themselves that performance and remuneration structures are aligned with agreed climate-related responsibilities objectives. IFRS S2 specifically requires that organisations provide a description of whether and how climate related considerations are factored into executive remuneration, and that organisations disclose the percentage of executive remuneration, recognised in the current period, that is linked to climate-related considerations.

FIGURE 8 Potential flow of ESG Governance structures



BOX 3.3: APART FROM THE SUSTAINABILITY COMMITTEE, WHAT OTHER COMMITTEES MAY NEED TO CONSIDER CLIMATE CHANGE?

Committee	Relevant IFRS S2 topics
Remuneration	<ul style="list-style-type: none">•The inclusion of climate-related performance metrics in remuneration policies.•The percentage of executive remuneration tied to climate-related factors in the current period.
Nominations	<ul style="list-style-type: none">•Ensuring that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities
Audit	<ul style="list-style-type: none">•Oversee climate reporting, ensuring accuracy and transparent disclosure of assumptions, judgments, and uncertainties
Risk	<ul style="list-style-type: none">•The process for identifying climate-related risks and opportunities for risk management.•The process for identifying, assessing, and prioritizing climate-related opportunities.•How the climate-related risk identification, assessment, and management processes are integrated into the organization's broader risk management procedures.

2 – CONSIDER BOARD CLIMATE COMPETENCY AND UPSKILLING REQUIREMENTS

Directors should possess a fundamental understanding of climate-related matters, even if they are not climate experts. A review of the board's composition and skills matrix may be needed to address any gaps in climate competency. Upskilling may be necessary through methods like boardroom briefings, formal educational programs, and diversifying board composition. Some boards may also need to incorporate climate change discussions into their strategy sessions and annual calendars for board and committee activities.

3 – CONSIDER THE NATURE AND FREQUENCY OF REPORTING TO THE BOARD IN LIGHT OF MANDATORY CLIMATE REPORTING REQUIREMENTS

Directors should also deliberate on how and how often climate-related matters are addressed in their board agenda. They should consider whether climate change should be a regular item on the board or board committee agenda or if it should be addressed on an ad-hoc basis as needed.

Additional issues for consideration encompass:

- The process for monitoring progress toward transition plans and climate metrics.
- The frequency of this monitoring and how it is disclosed.
- Whether these practices align with stakeholder expectations regarding climate-related performance and reporting.¹

4 – ASSESS RESOURCING AND PRIORITISATION REQUIRED TO IMPLEMENT QUALITY REPORTING

It is important to ensure that organisations have sufficient human and financial resources to address this significant change in corporate reporting.

As stated above, directors also need to prioritise climate on the board and board committee agenda and insist on a coordinated approach to climate across the organisation which brings in various

departments, such as finance, risk, legal, sustainability and marketing/communications. Such an approach ensures that disclosures and climate representations are consistent, which can assist in reducing greenwashing risk.

5 – PERIODICALLY REVIEW GOVERNANCE STRUCTURES AND PROCESSES

Given the fluid nature of climate-related developments and expectations, boards should periodically review their ongoing appropriateness.

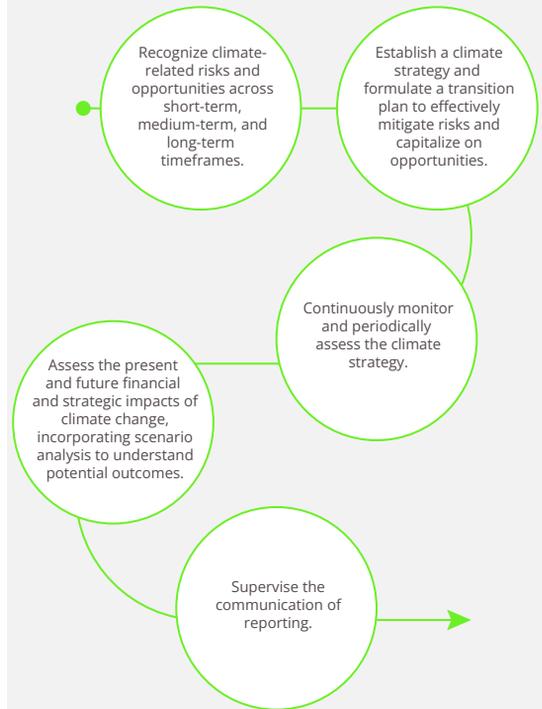
QUESTIONS FOR DIRECTORS TO ASK

1. Do any of the existing board committees' mandates incorporate consideration of climate-related matters? Should they be updated to include this?
2. Which other existing board committees are most appropriate for supporting board oversight of climate-related issues?
3. Is there a need or benefit to establishing a separate board sustainability committee? And if so, how will it work with other relevant committees, such as to the Audit, Risk and Remuneration Committees?
Who, within management, has responsibility for climate-related issues? How, and how often, do they report to the board? What performance metrics are they judged against and how is this linked to remuneration?
By whom are we being advised, and what is their expertise and experience in this area?
4. What is the level of climate competency at board and management level? What is the plan to upskill, where necessary, and maintain competence?
How should, climate-related issues be addressed at board and board committee meetings – should there be standing-items on the board/board committee agenda, or should it be left to ad-hoc discussion based on developments?
- 5.
- 6.
- 7.

3.3 STRATEGY AND RISK

Here are suggested actions that directors can take when preparing for strategy and risk disclosures under IFRS S2

Figure 9 Suggested actions – strategy and risk disclosures under IFRS S2



BOX 3.4: KEY CLIMATE-RELATED RISKS

Climate-related risks are often categorized into two main categories: physical risks and transition risks. It's important to note that these categories are interconnected, and one can influence the other.

•Physical risks result from the effects of both chronic and acute weather events. They can have a substantial impact on various aspects of businesses, including supply chains, property, equipment, plant assets, and products and services.

•Transition risks are associated with the shift towards a low-carbon economy, involving changes in regulatory policies, laws, technology, and customer preferences. This transition away from fossil fuels can have significant implications for businesses and industries. Mitigating physical impacts requires accelerated decarbonisation which results in higher exposure to transition risks.

BOX 3.5: CLIMATE-RELATED OPPORTUNITIES

Companies should do this not because they're forced to – but choose to – because it's a great way to communicate to the market and attract capital. A company that is thoughtful on how it is managing sustainability risk and has a great transition plan should be able to attract capital

— Sue Lloyd

Vice-Chairperson of the ISSB

Climate-related opportunities can arise from:

- Resource efficiency opportunities can emerge from efforts to reduce operating costs by enhancing efficiency throughout various processes, with a particular focus on leveraging technological innovations.
- Entities that transition their energy usage toward low-emission energy sources have the potential to realize cost savings on their annual energy expenses.
- Entities that actively pursue opportunities in new markets or different types of assets have the potential to diversify their activities, creating new market opportunities for growth and expansion.
- Resilience can be built by entities as they develop adaptive capacities to respond to climate change. This improved resilience helps them effectively manage risks and capitalize on opportunities that may arise.

For more information on climate-related opportunities, see the CGI Australia 'Climate Change and Organizational Strategy, 2023' report.

BOX 3.6: DEFINITIONS OF SHORT, MEDIUM AND LONG TERM UNDER ISSB STANDARDS

The ISSB Standards do not define short, medium and long term. Instead, they state that it is entity and

industry-specific depending on factors such as cash flow, investment and business cycles and planning horizons. Preparers may wish to have regard to TCFD's guidance on short, medium and long-term targets (see Box 3.12).

To comply with IFRS S2 disclosure requirements, organisations need to disclose the following in respect of the identification of climate-related risks and opportunities:

- the identification of the climate-related risks and opportunities within its value chain which could reasonably affect the entity's prospects. To do so, management needs to identify the scope and boundaries of its value chain;
- identify the amount and percentage of assets or business activities vulnerable to physical and transition climate-related risks, and aligned to climate-related opportunities; and
- identify the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.

QUESTIONS FOR DIRECTORS TO ASK

1. What is our process/ methodology for identifying climate-related risks and opportunities? How do we document this?
2. What are the key assumptions, uncertainties or judgements made in identifying climate-related risks and opportunities? Have we documented these? How are we reporting these?
3. Is there a potential impact of these uncertainties on our assessment of the current and future financial impact of the identified climate-related risks and opportunities?



BOX 3.7: CONSIDERING FIRST NATIONS EXPERIENCES WHEN IDENTIFYING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Australia's First Nations people have an unparalleled and profound connection to their ancestral lands and waters, enriched by an ancestral wisdom passed down through countless generations. This profound knowledge is encapsulated in their lore, songs, cultural traditions, and sustainable land and sea management practices. This indigenous wisdom encompasses crucial climate mitigation and adaptation strategies that hold significant value.

At the same time, First Nations communities bear a disproportionate burden of the adverse consequences of climate change. For instance, during the 2022 floods in regional areas outside Sydney, 6.2 percent of those affected were Aboriginal and Torres Strait Islander people, despite constituting only 3.3 percent of the general population. These chronic and acute climate events also disrupt the traditional lifestyles of First Nations communities, putting their connection with Country at risk

We urge organizations to explore ways of incorporating First Nations perspectives into their assessment of climate-related risks and opportunities, as well as when making decisions about which climate mitigation and adaptation measures to embrace as part of their climate strategy. This inclusive approach can enhance the depth and breadth of insights while respecting and valuing the rich knowledge and heritage of First Nations communities.

Authentic and considerate engagement with First Nations stakeholders will be essential. For further insights on managing stakeholder relationships, please refer to the AICD Stakeholder Guide, which can provide valuable guidance in this regard.

2 – ASSESS CURRENT AND FUTURE FINANCIAL AND STRATEGIC EFFECTS OF CLIMATE CHANGE, INCLUDING THROUGH SCENARIO ANALYSIS

Current financial impacts

Management is required to provide a comprehensive report on the qualitative and quantitative impacts of climate change on the entity's business model, value chain, financial position, financial performance, and cash flows for the current reporting period. While Section 2.3 and Box 2.3 offer detailed information on potential financial impacts, some examples may include:

- Revenue impacts – such as reduced agricultural yields due to extreme weather events.
- Cost implications – including the effects of policy measures like a carbon tax or export levies.

Anticipated financial impacts

Management must furnish the following pertinent information:

•**Qualitative and quantitative impacts** on the financial position, financial performance, and cash flows across short, medium, and long-term horizons (as illustrated by the financial impacts mentioned earlier)

•**The resilience of the entity's climate strategy and business model** to climate-related changes, developments, and uncertainties through scenario analysis. It's important to note that the government plans to initially require qualitative disclosure of scenario analysis, with a transition to quantitative disclosure for reporting periods starting from 1 July 2027

BOX 3.8: WHAT IS CLIMATE SCENARIO ANALYSIS?

Scenario analysis, in the context of climate change, is a method for examining and evaluating a spectrum of potential future outcomes in uncertain conditions. Specifically, for climate-related scenario analysis, organizations use this approach to investigate and gain insights into how climate change's physical and transition risks could impact their operations, strategies, and financial performance across various timeframes.

Organizations commonly rely on established and scientifically validated data obtained from recognized industry sources when constructing scenarios related to significant physical and transition risks and opportunities associated with climate change.

At a macro level, organizations often face a trade-off between transition risks and physical risks related to climate change. Pursuing a rapid transition to achieve net-zero emissions can reduce physical risks over the long term, but it may lead to increased transition risks in the short and medium term as industries adapt. Conversely, delaying the transition to net zero emissions can heighten the impacts of physical risks, even though it may temporarily mitigate some transition risks associated with decarbonization efforts.

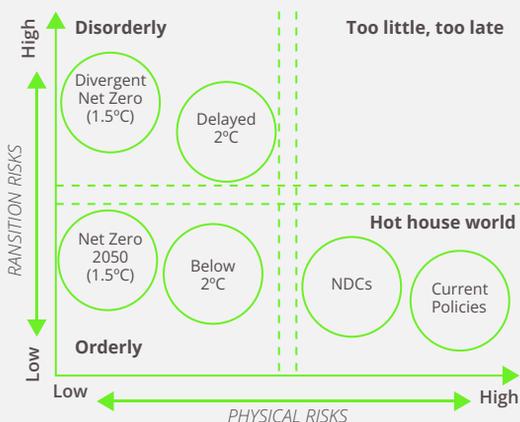
Where do you get the data to perform scenario analysis?

- Organizations have a selection of scenarios at their disposal for climate-related analysis. These encompass scenarios created by the Intergovernmental Panel on Climate Change (IPCC), such as the Shared Socio-economic Pathways (SSPs) and the Representative Concentration Pathways (RCPs), as well as scenarios provided by the International Energy Agency (IEA) and the Network for Greening the Financial System (NGFS) framework. Figure 10 illustrates a subset of scenarios available within the NGFS framework.
- Many larger organizations opt to collaborate with climate modelers to create customized climate models that align with their specific business needs, serving as a basis for their disclosures. The Government's proposal mandates entities to initiate qualitative scenario analysis, with a progression towards quantitative scenario analysis. This analysis must encompass at least two conceivable future states, one of which aligns with the global temperature goal outlined in the Climate Change Act 2022, aiming to limit temperature increases to "well-below 2°C above pre-industrial levels" and striving to hold the increase to "1.5°C above pre-industrial levels" as articulated in the Paris Agreement.

Challenges faced by entities undertaking scenario analysis

- Data Availability and Certainty:** Gathering accurate and reliable data related to climate variables, physical risks, market trends, and regulatory changes can be a daunting task. Ensuring the quality and availability of such data is crucial for meaningful scenario analysis.
 - Uncertainty and Complexity:** Climate scenarios inherently involve a high level of uncertainty due to the intricate and interconnected nature of climate systems. Predicting future climate patterns, policy shifts, and technological advancements with precision is challenging. Companies must grapple with this uncertainty by developing scenarios that encompass a spectrum of possibilities.
 - Market Skills Shortages:** There is a shortage of professionals with the requisite expertise to support advanced scenario analysis. Companies may struggle to find individuals who can effectively navigate the complexities of climate modeling and analysis.
- Addressing these challenges will be essential for organizations to conduct robust and credible scenario analyses that inform their climate-related disclosures effectively.

FIGURE 10: NGFS (2022) Scenarios



BOX 3.9: IFRS S2 REPORTING RELIEF FROM QUANTITATIVE DISCLOSURE

IFRS S2 provides the following relief for organisations that are unable to make quantitative disclosures:

1. IFRS S2 permits flexibility in climate resilience disclosures, particularly in scenario analysis, considering the organization's skills, capabilities, and resources. The ISSB recommends that greater exposure to climate risks or opportunities may necessitate more advanced scenario analysis techniques.

2. For disclosures as to the current or anticipated financial effects of climate-related risk and opportunities, an organisation does not need to provide quantitative information.

- Such effects cannot be distinguished individually.
- The degree of uncertainty in measuring these effects is exceptionally high, rendering the quantitative information unhelpful.
- Provide a rationale for the omission of quantitative data.
- Offer qualitative insights into the particular financial impacts that cannot be quantified.
- If the financial effects are not individually distinguishable, furnish quantitative data on their collective financial effects, unless such information is deemed unhelpful by the entity.

The relief mechanisms mentioned above are outlined in IFRS S2 and are subject to further evaluation by the domestic government.

QUESTIONS FOR DIRECTORS TO ASK

1. Do climate-related financial impact disclosures align with financial statements and other disclosures?
2. Is the documentation of inputs, assumptions, limitations, and methodologies for scenario analysis adequate, and has it been transparently disclosed?

3. Do the conclusions about climate resilience align with the results of the scenario analysis and appear reasonable?

4. Could there be a risk of overestimating the organization's ability to withstand climate-related risks?

BOX 3.10: WHAT IFRS S2 DISCLOSURES MAY RESULT IN ADJUSTMENT TO THE FINANCIAL STATEMENTS, NOTES OR NARRATIVE REPORT?

In ensuring connectivity between financial and sustainability reporting, the following areas of climate disclosures may have relevance to financial statement disclosures (the list below is not exhaustive):

- The present impacts of climate-related risks and opportunities on the company's financial standing, financial performance, and cash flows for the reporting period.
- The expected consequences of substantial climate-related risks and opportunities on the company's financial standing, financial performance, and cash flows over the short, medium, and long term, including the integration of climate-related risks and opportunities into the company's financial planning;
- The extent and proportion of assets or business operations susceptible to physical and transition risks.
- The extent and proportion of assets or business operations aligned with climate-related opportunities.
- The price applied to each metric tonne of greenhouse gas (GHG) emissions that the organization utilizes to evaluate the costs related to its emissions (refer to Fact Sheet 4).
- The amount of capital spending, financing, or investment allocated to climate-related risks and opportunities.
- The percentage of overall exposure to asset classes involved in the calculation of financed emissions (applicable to asset managers, commercial banks, and insurers).

•Directors should actively engage in questioning management's process and findings when reporting on the current and expected future financial impacts of climate-related risks and.

To ensure effective corporate reporting, it's crucial for finance, legal, risk, marketing, and sustainability teams to collaborate and avoid working in silos.

3 – SET A CLIMATE STRATEGY AND DEVELOP A TRANSITION PLAN TO MANAGE RISKS AND SEIZE OPPORTUNITIES

Collaborate with management to develop a climate strategy or integrate climate-related risks and opportunities into the overall business strategy.

While not obligatory under the ISSB Standards, stakeholders may anticipate the presence of a transition plan with short, medium, and long-term objectives, along with the identification of actions for mitigating and adapting to climate-related challenges

IFRS S2 does not mandate the establishment of a climate target or transition plan. However, it does necessitate the disclosure of climate target details if such a target is established, considering its potential impact on future prospects.

An organization's climate strategy and transition plan should undergo regular revisions to incorporate material developments and align with evolving market expectations

A crucial aspect of the board's responsibility is to scrutinize management, ensuring that climate transition plans and targets are based on accurate information and reasonable grounds. This involves questioning management about the assumptions, inputs, and data used in the development of these plans and targets



BOX 3.11: SPOTLIGHT ON TRANSITION PLANS

Transition plans, as defined by the ISSB, encompass a component of an organization's overarching strategy that outlines the entity's objectives and measures for moving towards a more environmentally sustainable economy. This includes initiatives like decreasing greenhouse gas emissions.⁷¹

Directors should rigorously scrutinize any transition plans presented by management to ensure they align with expectations, taking into account factors such as:

- **Under IFRS S2 requirements**, entities are obligated to disclose information that provides users with a comprehensive understanding of the impacts of significant climate-related risks and opportunities on their business model and strategy, including any transition plans. This entails disclosing

-The entity's response to significant climate-related risks and opportunities, along with its strategies for achieving climate targets.

-Details about climate targets, specifying if these targets aim to reduce emissions or involve the utilization of carbon offsets.

-Quantitative and qualitative updates on the progress of previously disclosed climate plans.

Utilization of carbon offsets: The degree to which climate targets are dependent on carbon offsets.

It is essential to prioritize emissions reduction efforts, considering high-quality offsets only when reduction is unattainable, such as for challenging-to-abate operations or processes.⁷¹

Investor expectations: Investors have stressed the importance of transition plan disclosures specifying precise actions and activities the entity is currently implementing or intends to undertake in support of its transition. This should include details on the required capital or operating expenditures.

- There is a growing expectation that companies independently assess their climate transition efforts to ensure they align with stated goals and targets. This assessment involves reviewing and analyzing emissions reduction strategies, implementation plans, and progress towards achieving targets. The Science Based Targets Initiative (SBTi) is one example that provides a rigorous verification process for this purpose. (see Box 3.14).

BOX 3.12: TARGETS AND TIME HORIZONS – WHAT'S REQUIRED?

IFRS S2 mandates companies to disclose their definitions of short, medium, and long-term targets, even though the standard itself does not provide specific definitions for these terms.

- The definitions of short, medium, and long term in the context of climate-related reporting are not rigidly specified by IFRS S2 or the TCFD. Instead, these definitions are recommended to be determined based on factors such as the life of assets, the nature of climate-related risks, and the specific industry and geographic context of the organization. For instance, a superannuation or resources company may adopt a multi-decade time horizon when defining these terms for their climate-related reporting.
 - When directors are deciding on the timeframes for climate targets, they should take into account various factors. These factors include the industry in which the company operates, the specific nature of its operations, the timelines required to implement sustainable practices, and the expected timing of climate-related risks and opportunities. Additionally, directors should assess whether their organization aims to be a frontrunner in the industry's transition to sustainability or is comfortable following industry peers. Lastly, they should consider the importance of flexibility in adapting targets as new information and technologies become available.
-

-
- Companies are expected to provide comprehensive reporting regarding their chosen timeframes for climate targets. This reporting should include an explanation of the reasons behind selecting specific timeframes, taking into account factors like the company's business and investment cycles, as well as advancements in technology. Directors should also disclose the progress made toward meeting these targets and any adaptations made to stay in line with changing climate-related risks and opportunities.

- Climate adaptation encompasses identifying risks tied to changing climate conditions and implementing strategies to enhance resilience and address vulnerabilities. These strategies involve various measures such as modifying infrastructure, planning land use, adopting early warning systems, bolstering natural ecosystems, and supporting community resilience.
- The goal of climate adaptation is to minimize the vulnerability of societies, economies, and ecosystems to climate change impacts, ensuring they can effectively cope with and recover from these challenges.

BOX 3.13: CLIMATE STRATEGY – ROLE OF MITIGATION AND ADAPTATION

A climate strategy can incorporate both climate mitigation and climate adaptation activities.

Climate mitigation reduces GHG emissions and addresses causes of climate change, while adaptation builds resilience to cope with its impacts.

Climate mitigation

- Involves efforts to reduce or prevent GHG emissions, curbing climate change's extent and impact.
- Includes transitioning to a low-carbon economy through renewable energy, efficiency, and sustainability.
- Seeks to limit global temperature rise and mitigate climate change's adverse effects.

Climate adaptation

- Climate adaptation entails preparing for unavoidable climate change impacts by implementing long-term strategies that consider uncertainties. It focuses on building resilience to cope with effects like extreme weather events and shifting climate patterns.

BOX 3.14: 'SCIENCE-BASED' TARGETS

Without a current Australian sustainability taxonomy that defines "science-based" targets in the context of Australian law, there is a risk of greenwashing if the term is used in a misleading or deceptive manner.

Directors should engage in constructive scrutiny of management to ensure they have valid justifications for labeling their target as science-based. One way to achieve this is by adhering to an accreditation framework like the Science-Based Targets Initiative (SBTi)

The Science-Based Targets Initiative (SBTi) is a component of the Climate Program and the World Resource Institute's (WRI) efforts to establish and advocate for the best practices in reducing emissions and establishing net-zero targets in accordance with climate science.

As per the Science-Based Targets Initiative (SBTi), targets are considered 'science-based' if they align with the most up-to-date climate science and are expected to achieve the objectives outlined in the Paris Agreement. This includes limiting global warming to well below 2°C above preindustrial levels and striving to restrict it to 1.5°C.

QUESTIONS FOR DIRECTORS TO ASK

1. Is our climate transition plan grounded in reality and supported by credible evidence? Have we established short and medium-term targets to support our long-term goals??
-

2. How do we ensure that our climate transition plan is based on sound and justifiable foundations? Is this process documented, and do we seek external verification or assurance?

3. Do we have a clear understanding of how we will adapt to climate change, and have we assessed the resilience of our physical assets to potential climate-related risks?

4. To what extent do we rely on future technological advancements to achieve our climate targets? How have we incorporated carbon offsets into our climate plan, and what measures do we have in place to verify the quality of these offsets? Are our current disclosures susceptible to greenwashing accusations?

5. Have our climate targets, if established, taken into consideration the latest international agreements on climate change, including the commitments made by Australia?

6. What are the main uncertainties, assumptions, and judgments that form the basis of our climate strategy and transition plan, including our climate targets? Have we taken steps to ensure that these are transparently communicated in our reporting?

7. What is our process for periodically reviewing our climate transition plans? For publicly listed companies, at what point will we trigger continuous disclosure obligations related to changes in our plans? How do we intend to manage and communicate revisions to our climate transition plans?

4 – OVERSEE COMMUNICATION OF REPORTING

Reporting should prioritize clarity and simplicity, avoiding overly technical language that might hinder understanding.

Management should be instructed to ensure that all public representations, including investor communications, website content, social media posts, and advertisements, align with the organization's climate reports and legal obligations to prevent greenwashing risks. Some companies choose to conduct audits of all climate-related communications, including their social media accounts, to ensure ongoing accuracy. This audit process might be worth considering, especially for well-resourced companies.

Seeking feedback from investors and other stakeholders can aid the company in its ongoing improvement process and may identify additional areas for development.

QUESTIONS FOR DIRECTORS TO ASK

1. Do the climate-related disclosures align with other climate-related statements made by our organization, such as those on the website, social media, investor briefings, and public speeches??
2. Is the language and format of our disclosures clear and accessible to stakeholders, and have we been transparent about areas where expected disclosures were not made?
3. Do we routinely compare our reporting to industry-leading peers and evolving investor expectations both in the Australian market and on a global scale?

5 – MONITOR AND PERIODICALLY REVIEW THE CLIMATE STRATEGY

To maintain effective oversight and accountability, it is essential for the board to regularly communicate with management regarding the progress of climate targets. This involves evaluating whether the organization is making strides toward achieving its targets, assessing the efficacy of the strategies in place, and pinpointing any obstacles or challenges that could impede advancement..

Effective governance structures must be established to enable management to provide regular progress updates to the board. These structures should ensure that reporting processes are robust and capable of capturing pertinent data, metrics, and key performance indicators. This approach enables the board to gain a comprehensive understanding of the organization's climate-related initiatives and make well-informed decisions..

Directors should include regular reviews of progress on transition plans and climate targets on their agenda. These reviews may involve updates from management during board or committee meetings. Additionally, scheduling climate change discussions during board strategy sessions can be beneficial. Ad hoc reviews should also occur when significant developments materially impact the transition plan, its assumptions, inputs, and judgements. This proactive approach helps ensure ongoing alignment with climate-related goals and commitments.

Management should be instructed to maintain vigilant monitoring of climate change developments. This proactive approach ensures that any significant changes in climate-related factors are promptly identified, allowing the organization to take timely and appropriate actions to address these developments..

Listed companies must remain aware of their continuous disclosure obligations. (See Box 2.1).

QUESTIONS FOR DIRECTORS TO ASK

1. Who is tasked with overseeing the execution and ongoing relevance of the climate strategy?
2. How frequently will the responsible management individuals provide updates to the board or the relevant board committee regarding the climate strategy's advancement, including progress on climate targets.?
3. Is climate change incorporated into the planned board strategy day? s?
4. Is there a process in place to respond to material developments requiring amendment of the climate strategy and/or developments which may trigger Continuous Disclosure obligations?

3.4 METRICS AND TARGETS

IFRS S2 expands upon the TCFD by requiring more detailed disclosures, including some additional metrics not covered by the core TCFD recommendations (as opposed to the TCFD 2017 and 2021 Implementation Guidance). Table 3 offers a summary of these additional requirements.

TABLE 3: Overview of additional key metrics required in IFRS S2 that are a step-up from TCFD recommendations

TCFD

Universal Advice:

- Reveal the Organization's Metrics for Evaluating Climate-Related Risks and Opportunities Aligned with Its Strategic and Risk Management Procedures.
- Outline the Targets Employed by the Organization for Mitigating Climate-Related Risks and Exploiting Opportunities.
- Publicize Scope 1, 2, and, if applicable, Scope 3 Emissions.

IFRS S2

Specifically Mandates Disclosure Of:

- Industry-specific metrics pertinent to an entity.
 - All metrics outlined in the TCFD 2021 guidance, encompassing:
 - The percentage of executive management remuneration tied to climate-related considerations.
 - Internal carbon prices (refer to Fact Sheet 4).
 - The quantity and proportion of assets or business operations currently susceptible to physical and transition risks and aligned with climate-related opportunities.
 - The amount of capital, financing, or investment directed towards climate-related risks and opportunities.
 - Comprehensive disclosure of transition plans and climate targets (including offset utilization), along with processes for reviewing transition plans and quantitative data on progress. This includes a comparison of the target with those established in the latest international agreement on climate change, validation by a third party, and confirmation of whether the target was derived using a sectoral decarbonization approach.
 - Absolute scope 3 emissions, encompassing upstream, downstream, and financed emissions (applicable to those involved in asset management, commercial banking, or insurance activities).
-

FIGURE 11: Suggested actions - metrics and targets disclosures under IFRS S2



1 – UNDERSTAND YOUR ORGANISATION'S CURRENT CARBON FOOTPRINT

Directors indeed have a crucial role in overseeing the measurement of greenhouse gas (GHG) emissions within their organizations and ensuring the robustness of the process. Here are some key considerations for directors in this regard:

As a first step, directors may wish to take stock of the organisation's current carbon footprint and what is necessary to comply with IFRS S2 disclosure requirements for the measurement of scope 1, 2 and 3 emissions. Directors should also ask management how and why relevant inputs, assumptions and estimates have been used and whether they have changed from previous years (and if so, why).



BOX 3.15: WHAT ARE SCOPE 1, 2 AND 3 EMISSIONS?

IFRS S2 requires disclosure of scope 1, 2 and 3 emissions, which are defined below.

Scope 1 emissions are direct GHG emissions emitted from sources that are owned or controlled by the disclosing company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, or emissions from chemical production in owned or controlled process equipment.

Scope 2 emissions are GHG emissions from the generation of purchased electricity consumed by the company.

Scope 3 emissions are all indirect emissions that occur in the value chain of the reporting company, including both upstream and downstream emissions. The value chain encompasses the full range of interactions, resources and relationships within an entity's business model and the external environment in which it operates. This includes everything from product or service conception to delivery, consumption and end of life. The GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) sets out 15 categories of sources of scope 3 emissions – see Figure 12. IFRS S2 requires that entities disclose which of these 15 categories it has included within its scope 3 calculation.

FIGURE 12: Overview of GHG Protocol scopes and emissions across the value chain.

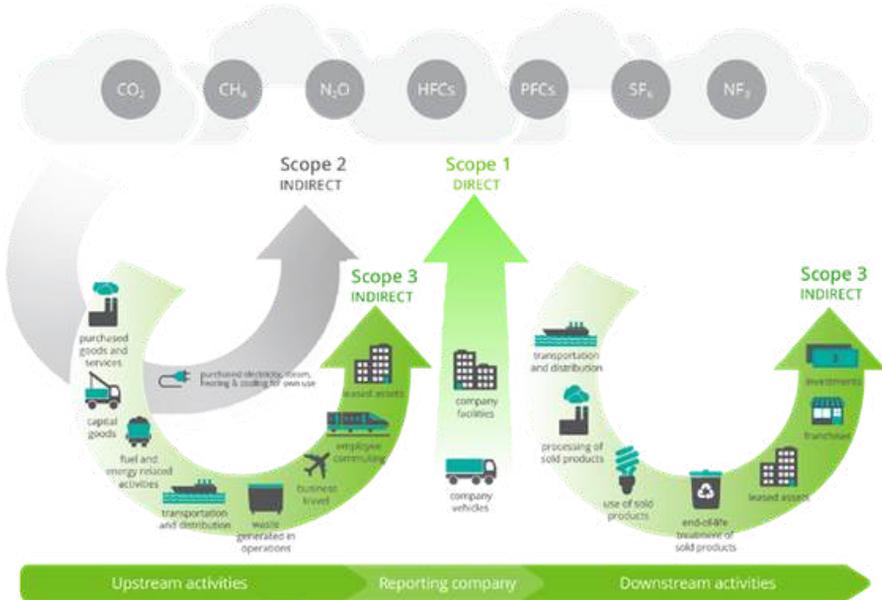
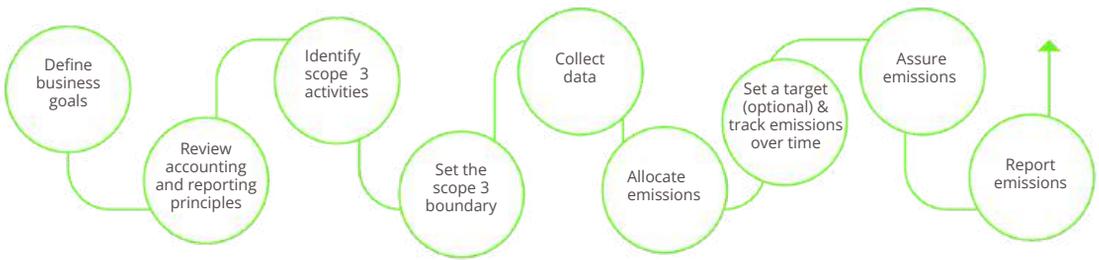


FIGURE 13: An overview of the scope 3 calculation process under the Scope 3 GHG Protocol



Larger organizations in the ASX100 and those under NGERs likely have data on Scope 1 and 2 emissions. Smaller organizations, including Not-for-Profits (NFPs), can refer to resources like "Climate Governance for NFP Directors" to start measuring their carbon footprint

carbon footprint. When reporting scope 3 emissions, it is advisable to offer as comprehensive a disclosure of uncertainty information as possible to assist users. This can involve qualitative explanations of uncertainty sources or quantitative presentations using tools like error bars, histograms, or probability density functions. Providing transparency about the uncertainties associated with scope 3 emissions calculations enhances the credibility of the reported data .

IFRS S2 includes precise disclosure requirements that detail the judgments and choices made when applying the GHG Protocol, including the chosen methods and measurement approaches, as well as the emission factors used. Additionally, it emphasizes prioritizing data obtained through direct measurement over estimated data. This enhances transparency and accountability in reporting greenhouse gas emissions.

When estimated data is utilized, IFRS S2 recommends giving priority to primary activity data and emission factors, which are data obtained directly from activities within the entity's value chain. This takes precedence over secondary data, which includes information not directly obtained from the entity's activities within the value chain, such as industry average data. The use of primary data enhances the accuracy and reliability of emissions estimates in reporting.

For further information on scope 3 emissions refer to Fact Sheet 5.

How to collect data from your value chain

For organizations aiming to access good quality and reliable data on scope 3 emissions from smaller non-reporting entities within their supply chains, a structured approach may involve introducing contractual requirements to mandate the provision of emissions data. By incorporating such requirements into contracts and agreements, larger organizations can incentivize and ensure that their suppliers and partners provide the necessary data for comprehensive climate reporting. This can help create a more standardized and reliable data ecosystem, facilitating accurate scope 3 emissions disclosure across the supply chain.

Scope 3 emissions are significantly more difficult to measure than scope 1 and 2 emissions because they require access to information outside of an organization's direct control. There are also limitations and uncertainties associated with the calculation methodologies. The Scope 3 Standard refers to three categories of uncertainty in the calculation and disclosure of scope 3 emissions, being parameter uncertainty, scenario uncertainty, and model uncertainty:

- Parameter uncertainty occurs as a result of data availability and quality issues associated with obtaining information from sources outside of your direct control. There are also issues associated with how organisations define their scope 3 activities and how they set the scope 3 inventory boundary. Uncertainty arising from data quality can be minimised through having a robust Data Management Plan in place to document the GHG inventory process and the internal quality assurance and quality control procedures.
- Scenario uncertainty occurs as a result of variations in calculations as a result of methodological choices made, which include allocation methods, product use assumptions and end-of-life assumptions.
- Model uncertainty arises when the models used do not accurately reflect the real world.

The Scope 3 GHG Protocol suggests that in reporting scope 3 emissions, reporters should "provide as complete a disclosure of uncertainty information as possible" to assist users.⁷⁵ Suggestions include qualitative descriptions of uncertainty sources, or quantitative representations or visualisation tools, such as using error bars, histograms, probability density functions.

IFRS S2 also includes specific disclosure requirements outlining judgements and choices made in applying the GHG protocol such as method and measurement approaches taken, and emission factors used. It also specifies how data based on direct measurement should be prioritised above estimated data.

Where estimated data is used, primary activity data and emission factors (i.e. data obtained directly from activities within the entity's value chain) when available should be used ahead of secondary data (i.e. data not obtained directly from activities within the entity's value chain, such as industry average information)

How to collect data from your value chain

While many organisations will eventually be subject to mandatory climate reporting, disclosure of scope 3 emissions by these entities will be predicated on access to good quality and reliable data by smaller non-reporting organisations within their supply chains. Organisations which want to take a more structured approach to access of this data may need to consider introducing a contractual requirement to provide emissions data.

QUESTIONS FOR DIRECTORS TO ASK

1. How do we guarantee the accuracy and reliability of the data used in our emissions calculations? Have we established a comprehensive Data Management Plan that addresses potential uncertainties and quality concerns within our emissions calculation procedures??
2. What significant judgments and assumptions were employed in the calculation of emissions, especially concerning scope 3 emissions?? Are our emissions data subject to any form of assurance? If so, what level of assurance is applied? If not, what verification process do we have in place to validate our emissions data?

2 – IDENTIFY GAPS IN DATA, PROCESSES AND CAPABILITIES

Transitioning to mandatory climate reporting should involve a thorough assessment of our company's data collection processes, considering aspects such as data quality, security, governance, and digitization. It's important to acknowledge that disclosing metrics and targets can be challenging, especially in cases where there is uncertainty in measurement or outcomes, or when data gaps exist.

Some of the disclosures in IFRS S2 that can be particularly challenging due to data collection difficulties, measurement uncertainty, or data gaps may include

- Anticipated future effects of sustainability-related risks and opportunities.
- Amount and percentage of assets or business activities vulnerable to physical and transition risk, and those aligned with climate-related opportunities.
- Climate resilience disclosures, including scenario analysis and interpretation.
- Transition plans and climate targets.
- Scope 3 emissions.

QUESTIONS FOR DIRECTORS TO ASK

1. Are our management accounting systems and other technology solutions suitable for meeting the reporting requirements of IFRS S2?
2. Do we possess the necessary data and technology capabilities to conduct a comprehensive assessment of scope 3 emissions?
3. Do we have the necessary data and technological resources to conduct scenario analysis effectively??
What kind of expert support do we require to fulfill our climate reporting obligations effectively?
4. fulfill our climate reporting obligations effectively?

3 – UNDERSTAND, AND GET COMFORTABLE WITH ASSUMPTIONS, CONTINGENCIES, UNCERTAINTIES AND JUDGEMENTS

measure them directly, resulting in measurement uncertainty. Additionally, these outcomes are influenced by assumptions and scenarios, leading to outcome uncertainty. IFRS S1 mandates entities to provide information that helps users comprehend the most significant uncertainties impacting the disclosed amounts. This includes detailing the origins of measurement uncertainties and the assumptions, approximations, and judgments made during the measurement process..

Directors should play a critical role in scrutinizing the assumptions, uncertainties, and judgments within climate reports. They should also ensure that these factors are based on reasonable grounds by seeking confirmation from management.

Directors should collaborate with management to establish processes that help minimize data and capability gaps, even though the ISSB Standards and proposed mechanisms aim to reduce the impact on organizations. This proactive approach can enhance preparedness and risk management.

Maintain momentum by setting targets and taking action with the information at hand. Prioritize transparency regarding methodologies, approaches, and limitations. Continuously update your climate transition strategy as the organization evolves, and as data availability and quality improve. Progress matters more than perfection in addressing climate-related challenges.

Listed companies must remain aware of their continuous disclosure obligations. (See Box 2.1).

QUESTIONS FOR DIRECTORS TO ASK

1. What key uncertainties exist when calculating and reporting on IFRS S2 metrics?
2. Do we have a strategy to reduce these uncertainties?
3. Do we clearly disclose the judgements, uncertainties and assumptions underpinning our disclosures?
4. Are our assumptions made on reasonable grounds? Have we documented them?

4 – ASSESS ASSURANCE AND/OR VERIFICATION OPTIONS

The government plans a phased approach for mandatory assurance of climate disclosures. It begins with limited assurance for scope 1 and 2 emissions and reasonable assurance for governance disclosures in the first reporting year for each cohort. It then progresses to reasonable assurance for all disclosures for Cohort 1 entities, starting from July 1, 2027. Full assurance for all disclosures becomes mandatory in the fourth year of reporting for each cohort, with a staggered rollout.

Assurance can offer directors added confidence that their disclosures undergo further scrutiny. Treasury has suggested that assurance should be carried out or overseen by the financial auditor.

FIGURE 14 Timeline for the phase-in of mandatory assurance



QUESTIONS FOR DIRECTORS TO ASK

1. What internal verification processes do we need in place? How robust are these processes?
2. Has the organization met the prerequisites for assurance?
3. What are the advantages and disadvantages of obtaining external assurance?

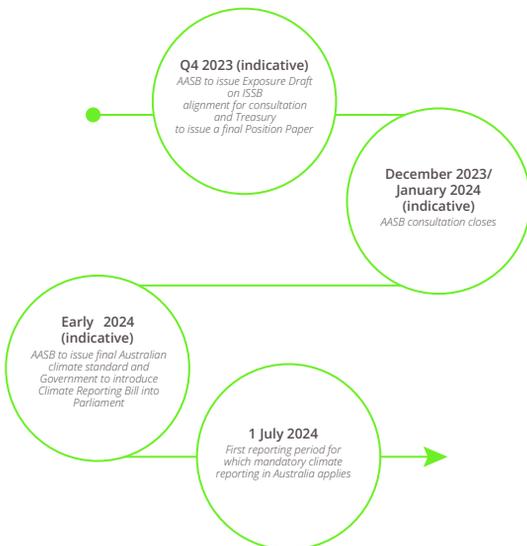
5 – MONITOR ONGOING ACCURACY OF METRICS AND TARGETS AND WHETHER THEY NEED REVISION

Boards should routinely inquire about the status of climate metrics and targets, ensuring they are being met as planned. If progress is lagging or has stalled, boards should evaluate whether climate targets need revision and establish a communication strategy for informing the market about any changes..

QUESTIONS FOR DIRECTORS TO ASK

1. How often does management assess progress against climate targets, and what methods are used for these evaluations? How frequently does management provide progress reports to the board regarding climate target?
2. How does management come to the view that metrics and targets cannot be achieved and/or are no longer relevant? Do we have a procedure for revising climate targets when they cannot be achieved or are no longer relevant??
3. How will we communicate revisions to metrics and targets to stakeholders if necessary?

FIGURE 15: Summary of what's next for mandatory climate reporting in Australia



- **Guide co-authors**
- **Appendix A: Consolidated list of questions for directors**
- **IS MY ORGANISATION COVERED BY MANDATORY CLIMATE REPORTING?**

BOX 3.16: RELEASE OF THE DRAFT INTERNATIONAL STANDARD ON SUSTAINABILITY ASSURANCE

There have been ongoing efforts to standardize the methodology and processes for climate and sustainability assurance. On August 2, 2023, the International Auditing and Assurance Standards Board (IAASB) released a global sustainability assurance standard (ISSA 5000) for public consultation. This standard aims to serve as the worldwide foundation for providing limited and reasonable assurance over climate and sustainability disclosures, including those under IFRS S2.

For further information on this standard, and on assurance over climate disclosures more broadly, see Fact Sheet 6.

3.5 WHAT'S NEXT FOR MANDATORY CLIMATE REPORTING IN AUSTRALIA?

The path to Australian mandatory climate reporting involves the Government finalizing its policy stance and the AASB conducting a consultation on adapting ISSB Standards to the Australian context. Subsequently, the Government will work on legislating the new reporting framework, aiming for mandatory reporting to begin for Cohort 1 entities on or after July 1, 2024, with initial disclosures integrated into Annual Reports starting in August 2025.

3.6 CONCLUSION

We recommend that directors utilize the recommendations and practical steps provided in this guide to start preparing for climate reporting promptly.

We also urge organizations to view climate reporting not solely as a compliance task but as a chance to incorporate climate factors into strategic decision-making, enhance organizational resilience, and promote sustainable business practices.

Appendix A: Consolidated list of questions for directors

IS MY ORGANISATION COVERED BY MANDATORY CLIMATE REPORTING?

- When will our organization fall under the proposed mandatory climate reporting framework in Australia?
- How do the new reporting requirements align with our current practices, and how will we address any disparities? What kind of internal and external expertise will be required?
- Even if our organization is not directly affected, are there entities within our value chain that may be impacted by the reporting requirements of others?
Do any of our international operations fall under climate reporting obligations in foreign jurisdictions? (Refer to Fact Sheet 3 for advice regarding businesses with EU or US links, operations, or subsidiaries)

WHAT ARE THE DUTIES AND EXPECTATIONS OF ME AS A DIRECTOR?

- How was the determination made that the identified risks and opportunities were material, and is this process documented?
- How confident are we in the reliability of our materiality assessment?
- Have we clearly outlined the assumptions, judgments, and methodologies used for disclosures with a high degree of uncertainty?
- How confident are we in the thoroughness of our due diligence process to ensure that forward-looking statements are made with reasonable grounds? What external assurance might be necessary?
Are climate-related disclosures consistent across the financial statements, Directors' Report/OFR, and Remuneration Report? Are adjustments needed to ensure consistency?

WHAT SHOULD DIRECTORS BE DOING TO GET READY NOW?

Governance

- Do any of the current board committees have mandates that encompass climate-related matters, and should these mandates be revised to include such considerations?
- Which other existing board committees are best suited to support board oversight of climate-related issues?
- Is there a need or advantage in establishing a distinct board sustainability committee, and if so, how will it collaborate with other relevant committees like the Audit, Risk, and Remuneration Committees?
- Who in the management team is responsible for climate-related matters? How frequently and in what manner do they report to the board? What performance metrics are used to assess their performance, and how is this connected to compensation?
- Who provides us with advice, and what is their level of expertise and experience in this field?
- What is the current level of climate competency among board members and within the management team? What is the strategy for enhancing expertise, if needed, and ensuring ongoing competence?
- How should climate-related issues, including the assessment of current and anticipated financial and strategic impacts of climate change, be addressed during board and board committee meetings? Should these issues be designated as standing agenda items, and should scenario analysis be integrated into discussions?

Strategy and risk management notes or narrative disclosures?

1 - IDENTIFY CLIMATE- RELATED RISKS AND OPPORTUNITIES OVER THE SHORT, MEDIUM AND LONG TERM

- What is our process/methodology for identifying climate-related risks and opportunities? How do we document this?
 - What are the key assumptions, uncertainties or judgements made in identifying climate-related risks and opportunities? Have we documented these? How are we reporting these?
-

- Is there a potential impact of these uncertainties on our assessment of the current and future financial impact of the identified climate-related risks and opportunities?

2 - ASSESS CURRENT AND ANTICIPATED FINANCIAL AND STRATEGIC EFFECTS CLIMATE CHANGE, INCLUDING THROUGH SCENARIO ANALYSIS

- Are disclosures on the current and future anticipated financial effects of climate-related risks and opportunities consistent with the financial statements, notes or narrative disclosures?
- Has management appropriately documented the inputs, assumptions, limitations and methodologies underpinning scenario analysis? Has that process been clearly disclosed?
- Are the conclusions on climate resilience reasonable, having regard to the scenario analysis results?
- Are we at risk of overstating the resilience of the organisation to climate-related risk?

3 - SET A CLIMATE STRATEGY AND DEVELOP A TRANSITION PLAN TO MANAGE RISKS AND SEIZE OPPORTUNITIES

- Do we have a well-grounded and evidence-based climate transition plan, complete with short and medium-term targets supporting our long-term objectives?
- What steps did we take to ensure the credibility of our climate transition plan? Is there documentation of this process, and have we sought external validation or assurance?
- Have we assessed our readiness to cope with climate change and the resilience of our physical assets?
- To what extent do we depend on future technological advancements? How do carbon offsets factor into our strategy, and how do we ensure their quality to avoid greenwashing risks? Are our current disclosures robust?
- If we have established climate targets, were they influenced by the latest international climate agreements, including Australia's commitments? What are the key uncertainties, assumptions, and judgments that underlie our climate strategy and transition plan, including our climate targets? Have we been transparent in communicating these factors in our reporting?

- How will we go about reviewing our transition plans? For publicly listed companies, when will we trigger continuous disclosure obligations, and how will we manage reporting updates to our plans?

4 - OVERSEE COMMUNICATION OF REPORTING

- Do our climate-related disclosures align with other climate-related statements made by our organization (e.g., website content, social media posts, investor presentations, public speeches)?
- Are our disclosures clear and easy to navigate? Have we been transparent about any omissions in our disclosures?
- Do we routinely compare our reporting to the practices of industry leaders and evolving investor standards, both in Australia and globally?

5 - MONITOR AND PERIODICALLY REVIEW THE CLIMATE STRATEGY

- Who is tasked with overseeing the execution and ongoing applicability of the climate strategy?
- How frequently will the accountable management individuals provide updates to the board or the pertinent board committee concerning the advancement of the climate strategy, encompassing advancements in climate targets?
- Has climate change been incorporated into the scheduled board strategy day(s)?
- Is there an established procedure for responding to substantial developments that necessitate alterations to the climate strategy or events that could activate Continuous Disclosure responsibilities?

Metrics and targets

1 - UNDERSTAND YOUR ORGANISATION'S CURRENT CARBON FOOTPRINT

- What measures do we employ to guarantee the accuracy of the inputs for our emissions calculations? Have we established a Data Management Plan, and does it encompass strategies for reducing uncertainties and maintaining data quality in relation to our emissions calculations process?

-
- What significant judgments and assumptions have been utilized in the calculation of emissions, specifically in relation to scope 3 emissions?
 - Have our emissions undergone any form of assurance? If so, what level of assurance has been applied? If not, what kind of verification process do we have in place?

2 – IDENTIFY GAPS IN DATA, PROCESSES AND CAPABILITIES

- Are our management accounting systems and other technology solutions suitable for meeting the requirements of IFRS S2 reporting??
- Do we possess the necessary data and technology to conduct a comprehensive scope 3 emissions assessment?
- Do we have the required data and technology for conducting scenario analysis?
- What kind of expert support is required??

3 - UNDERSTAND, AND GET COMFORTABLE WITH ASSUMPTIONS, CONTINGENCIES, UNCERTAINTIES AND JUDGMENTS

- What are the primary uncertainties involved in calculating and reporting IFRS S2 metric?
- Do we have a strategy in place to mitigate these uncertainties??
- Do we provide clear disclosure of the assumptions, uncertainties, and judgments that support our disclosures?
- Are our assumptions made on reasonable grounds? Have we documented them?

4 - ASSESS ASSURANCE AND/OR VERIFICATION OPTIONS

- What internal verification processes should be implemented, and how robust are these processes?
- Has the organisation satisfied the pre-conditions for assurance?
- What are the costs and benefits of seeking external assurance?

5 - MONITOR ONGOING ACCURACY OF METRICS AND TARGETS AND WHETHER THEY NEED REVISION

- How does management review progress against targets and how frequently? Additionally, how and how often is this progress reported to the board?
- What process does management follow to determine that metrics and targets cannot be achieved or are no longer relevant?
- Do we have a process in place to revise targets when they cannot be achieved or are no longer relevant??
- If metrics and/or targets need to be revised, how will this information be communicated to stakeholders?



Appendix B: Glossary

Term	Defination
Australian Institute of Company Directors (AICD)	The AICD is a professional association based in Australia that provides education, training, resources, policy leadership and advocacy for company directors and governance professionals. The AICD aims to enhance the professionalism and effectiveness of directors and promote leading governance practices.
Biodiversity	Biodiversity Variability among living organisms, including diversity within and between species and ecosystems.
Carbon offsetting and carbon credits	Carbon offsets occur when a polluting entity purchases a carbon credit to compensate for a portion of greenhouse gas it has emitted, thereby decreasing its net emissions. Carbon credits are generated by projects that reduce, remove or capture emissions from the atmosphere, such as reforestation and renewable energy. To achieve net zero emissions, SBTi guidance recommends that offsets account for less than 10% of baseline emissions in final targets, which limits its application within science-based targets. ⁸⁰ Similarly, the UN's High-level Expert Group on the Net Zero Emissions Commitments of Non-State Entities has stated that "high integrity carbon credits in voluntary markets should be used for beyond value chain mitigation but cannot be counted toward a non-state actor's interim emissions reductions required by its net zero pathway."
Climate Disclosure Standards Board (CDSB)	Established in 2007, the CDSB was a climate reporting framework formed by a consortium of business and environmental NGOs. The CDSB was consolidated into the International Sustainability Standards Board in November 2021.
Carbon Disclosure Project (CDP)	Established in 2000, the Carbon Disclosure Project (CDP) is a voluntary disclosure framework for companies, cities, states and regions. It is currently used by over 13,000 companies, 1,100 cities, states and regions and nearly 600 investors with over \$110 trillion in Assets Under Management (AUM).
Climate Governance Initiative (CGI)	The CGI (Climate Governance Initiative) is a global initiative driven by a community of non-executive directors focused on making climate a boardroom priority, building on the World Economic Forum's Principles for Effective Climate Governance. The AICD is host of the Australian chapter.
Decarbonisation	Decarbonisation is the process of reducing carbon dioxide and other greenhouse gas emissions to combat climate change. It involves transitioning to lowcarbon alternatives and implementing sustainable practices to achieve a significant reduction in emissions and mitigate global warming.

Appendix B: Glossary

Term	Defination
Double materiality	The consideration of both the financial impacts of climate-related risks and opportunities on a company, as well as the impact of the company's activities on the environment and society
Financed Emissions	GHG emissions associated with the investments, loans, and financial activities of commercial banks, insurers and asset managers, which is one of the categories of scope 3 emissions (Category 15 under the GHG Scope 3 Protocol)
Greenhouse Gas Protocol	The Greenhouse Gas Protocol is a partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) which was established to develop global standards and methodologies to measure and manage greenhouse gases for private and public sector operations, value chains and mitigation actions. IFRS S2 requires organisations to measure their GHG emissions in accordance with the Greenhouse Gas Protocol's Corporate Standard, unless required by a jurisdictional authority on which the entity is listed to use a different method.
Global Reporting Initiative (GRI)	Established in 1997, the Global Reporting Initiative develops and issues sustainability reporting standards. The GRI Standards are used by more than 10,000 organisations in over 100 countries.
Greenhouse Gas (GHG) emissions	The seven greenhouse gases listed in the Kyoto Protocol—carbon dioxide (CO ₂); methane (CH ₄); nitrous oxide (N ₂ O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF ₃); perfluorocarbons (PFCs); and sulphur hexafluoride (SF ₆). In Australia, these are reported under the National Greenhouse and Energy Reporting (NGER) Scheme.
Greenhushing	The act of corporate management teams under-reporting or concealing their sustainability action, performance and/or credentials.
Greenwashing	The practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical.
Integrated Reporting Framework	The Integrated Reporting Framework (IRF) was established in 2013 to promote a cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time. The IRF is not part of the IFRS Foundation and is under the joint responsibility of the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB).

Appendix B: Glossary

Term	Definition
Internal carbon price (ICP)	Price used by entities to assess the financial implications of changes to investment, production and consumption patterns, as well as potential technological progress and future emissions-abatement costs. See Fact Sheet 4 for further details.
International Financial Reporting Standards (IFRS) Foundation	<p>The IFRS Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards. IFRS comprises two 'sister' boards – the International Accounting Standards Board (IASB), which is focused on financial accounting standards, and International Sustainability Standards Board (ISSB), which is focused on sustainability standards. The</p> <p>IFRS Foundation is also home to the Integrated reporting and Connectivity Council which is an advisory body and provides guidance on how reporting required by the IASB and ISSB could be integrated and how the IASB And ISSB could consider applying principles and concepts from the Integrated Reporting Framework.</p>
International Organisation of Securities Commissions (IOSCO)	Established in 1983, IOSCO comprises securities regulators from countries around the world, covering more than 95% of the securities markets in more than 130 jurisdictions. IOSCO provides technical assistance, education, training and research to its members and other regulators.
International Sustainability Standards Board (ISSB)	The International Sustainability Standards Board (ISSB) was formed in November 2021 with a remit to improve the quality and comparability of disclosures by issuing sustainability standards that could form a global baseline of sustainability information. It has also provided the opportunity to consolidate the 'alphabet-soup' of existing sustainability disclosure standards and frameworks. In June 2023, the first two IFRS Sustainability Disclosure standards - IFRS® General Requirements for Disclosure of Sustainability-related Financial Information and IFRS® S2 Climate-related Disclosures (IFRS S2) were issued. These standards are colloquially referred to as the ISSB Standards.
Natural Environment	The natural, physical surroundings in which all living and non-living things occur on Earth or some region thereof. It includes ecological units that function as natural systems without much human interference, such as vegetation, micro-organisms, soil, rocks, atmosphere, and natural phenomena. The natural environment can also be divided into different domains, such as land, water, plants, and air.
Net zero	The balance between the amount of greenhouse gas that is produced and the amount that is removed from the atmosphere. It can be achieved through a combination of emission reduction and emission removal.

Appendix B: Glossary

Term	Definition
Paris Agreement	The Paris Agreement is a legally binding international treaty on climate change that was adopted by 196 countries at the UN climate change conference in 2015. ⁸⁹ The goal of the Paris Agreement is to limit “the increase in the global average temperature to well below 2°C above pre-industrial levels” and drive action to “limit the temperature increase to 1.5°C above pre-industrial levels”.
Physical risks	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. These risks may carry financial implications for entities, such as direct damage to assets, and indirect effects of supply-chain disruption. Entities’ financial performance may also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting entities’ premises, operations, supply chain, transportation needs and employee safety.
Scenario analysis	Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an entity to explore and develop an understanding of how the physical risks and transition risks of climate change may affect its businesses, strategies and financial performance over time.
Science-based	There is no current Australian sustainability taxonomy in place (although one is being developed) which defines what ‘science-based’ targets means in the context of Australian law. However, science-based targets are defined by the ‘Science-Based Targets Initiative’ (SBTi) (a well-regarded accreditation regime that defines and promotes best practices in emission reduction and net zero targets in line with climate science) as being those “in line with the latest climate science and projected to meet the goals of the Paris Agreement – limiting global warming to well below 2°C above pre-industrial levels, and pursuing efforts to limit warming to 1.5°C.”
Scope 1 emissions	Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.
Scope 2 emissions	Indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Purchased and acquired electricity is defined as electricity that is purchased or otherwise brought into an entity’s boundary. Scope 2 emissions physically occur at the facility where electricity is generated.

Appendix B: Glossary

Term	Definition
Scope 3 emissions	Indirect emissions (not included in scope 2 emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 emissions include the scope 3 categories in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).
Sustainability Accounting Standards Board (SASB)	Established in 2011, the Sustainability Accounting Standards Board (SASB) has developed and issued sustainability disclosure standards for 77 industry subtypes. In August 2022 the International Sustainability Standards Board (ISSB) assumed responsibility for the SASB Standards. Under IFRS S2 organisations must refer to and consider SASB industry metrics, as set out in the IFRS S2 Illustrative Guidance, as part of their disclosures.
Taskforce for Climate-related financial disclosures (TCFD)	Formed in December 2015 by the Financial Stability Board, the Taskforce for Climate-related Financial Disclosures (TCFD) was tasked with identifying and setting out the information needed by investors, lenders and insurance underwriters to assess and price climate-related risks and opportunities. The TCFD released its final recommendations and report in June 2017, with disclosures framed around the four pillars of governance, strategy, risk management and metrics and targets.
Transition risks	Moving to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements relating to climate change. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to entities.
Transition plan	A transition plan setting out an organisation's plan to contribute to, and prepare for, a transition towards a low Greenhouse Gas emissions economy.
Value Chain	The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates. This encompasses conception to delivery, consumption and end-of life.
Value Reporting Foundation	Established in 2021, the Value Reporting Foundation merged the Sustainability Accounting Standards Board (SASB) and the Integrated Reporting Framework. In November 2021, the Value Reporting Foundation was consolidated into the International Sustainability Standards Board (ISSB).

Appendix C: Additional resources for directors

- i.ISSB, IFRS S1 General requirements for Disclosure of Sustainability-related Financial Information (June 2023)
- ii.ISSB, IFRS S2 Climate-related disclosure Standard Climate-related disclosure Standard (June 2023)
- iii.Australian Institute of Company Directors and MinterEllison, Climate risk governance guide (Aug 2021)
- iv.Australian Institute of Company Directors and Herbert Smith Freehills, Bringing together ESG - Board structures and sustainability (Nov 2022)
- v.Australian Institute of Company Directors and Pollination, Climate change and organisational strategy (Feb 2023)
- vi.Australian Institute of Company Directors and Pricewaterhouse Coopers, Climate Governance for NFP Directors (May 2023)
- vii.ASIC Information Sheet 270 (INFO 271), How to avoid greenwashing when offering or promoting sustainability-related products (June 2022)
- viii.Deloitte, Leading in the Age of Climate (August 2023)
- ix.Deloitte, The CFO guide to data management strategy (2020)
- x.Deloitte, Asia Pacific's Response to International Sustainability Board (ISSB)'s Finalised IFRS S1 and IFRS S2 Standards (July 2023)
- xi.Climate Governance Initiative UK, Chapter Zero, Board Toolkit (2022)
- xii.World Economic Forum Chairs Guide Series:

- a.The Chairperson's Insights into Climate Action (April 2022)
- b.The Chairperson's Guide to Climate Stakeholders (April 2022)
- c.The Chairperson's Guide to Decarbonization (April 2022)
- d.The Chairperson's Guide to a Just Transition (September 2022)
- e.The Chairperson's Guide to Valuing Nature (January 2023)
- f.The Chairperson's Guide to Climate Integrity (July 2023)

ABOUT THE AICD

The AICD is dedicated to enhancing societal well-being through exceptional governance practices. Our goal is to serve as the authoritative and reliable advocate for governance, fostering the skills of a

community of leaders to contribute positively to society. Our membership comprises directors and senior executives across business, government, and the not-for-profit domains.

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