

1.2

CORPORATIONS ACT AND CLIMATE-RELATED DISCLOSURE REQUIREMENTS

Introduction to climate-related disclosures



Key topics

- › What are the basic features of Australia's new climate-related disclosure requirements?
- › Who do the requirements apply to?

Overview

New climate-related disclosure requirements have been introduced in Australia. Large entities and financial institutions are required to prepare an annual sustainability report containing climate-related disclosures for annual reporting periods beginning on or after 1 January 2025. The report must be prepared in accordance with the sustainability reporting requirements in the *Corporations Act 2001* (Corporations Act) and AASB S2 *Climate-related Disclosures*, lodged with ASIC and given to shareholders or members alongside the annual financial report. These requirements are being phased in over time, starting with very large entities.

Users of these reports, such as investors, will receive high-quality, consistent and comparable climate-related financial information about an entity as part of the annual report. This will help them to make better-informed financial decisions.

Basic features of climate-related disclosure

In late 2024, the Australian Parliament passed amendments to the *Corporations Act 2001* (Corporations Act) to introduce mandatory climate-related disclosure requirements for large entities and financial institutions (referred to in these materials as reporting entities). The Australian Accounting Standards Board (AASB) subsequently issued AASB S2 *Climate-related Disclosures* (AASB S2), which sets out the information that must be included in an entity's climate-related disclosures. AASB S2 is based on international standards issued by the International Sustainability Standards Board (ISSB).

The objective of the new disclosure requirements is to improve the quality, consistency and comparability of climate-related disclosures. These changes are significant.

'The growing interest in environmental, social, and governance issues is driving the biggest changes to financial reporting and disclosure standards in a generation.'

- ASIC Chair Joe Longo

Under the new requirements, reporting entities must also prepare an annual sustainability report consisting of climate statements, which include information on the reporting entity's:

- › climate-related risks and opportunities
- › governance
- › risk management



ASIC
Australian Securities &
Investments Commission



Australian Government
Australian Accounting Standards Board



- › strategy
- › metrics and targets, and
- › scenario analysis.

Directors of the reporting entity must make a declaration on the sustainability report.

The reporting entity must also:

- › keep records to substantiate the information in the sustainability report for 7 years
- › have the sustainability report audited by a registered company auditor
- › lodge the sustainability report and auditor's report on the sustainability report with ASIC
- › give these reports to the reporting entity's shareholders or members at the same time as the annual financial report, as part of the entity's annual reporting, and
- › table these reports at the reporting entity's annual general meeting.

The sustainability report must be prepared in accordance with the relevant requirements in the Corporations Act and AASB S2.

If you are familiar with financial reporting in Australia, it is helpful to think about sustainability reporting in a similar way because the legal and regulatory arrangements for both are closely aligned.

The Corporations Act sets out the reporting architecture. It explains who needs to do what, when and how it must be done, and what happens if it is not done

AASB S2 is the Standard that sets out what information must be included in the climate statements.

Key agencies in Australia's sustainability reporting system

There are three key agencies in Australia's sustainability reporting system:

- › ASIC is Australia's integrated corporate, markets, financial services and consumer credit regulator. ASIC is responsible for administering, and where appropriate, enforcing, the sustainability reporting requirements under the Corporations Act. ASIC is also responsible for oversight of auditor independence and ensuring the audits of the financial and sustainability reports are conducted in compliance with auditing standards.
- › The AASB is an Australian Government agency established under the *Australian Securities and Investments Commission Act 2001* (ASIC Act). Its functions and powers include developing, issuing and maintaining accounting and sustainability standards for the purposes of the Corporations Act.
- › The Australian Auditing and Assurance Standards Board (AUASB) is an Australian Government agency established under the ASIC Act. It is responsible for developing, issuing and maintaining auditing and assurance standards for the purposes of the Corporations Act.

Important to keep in mind

- › While the Corporations Act requires that a sustainability report be prepared, at present the only requirement is for the sustainability report to contain climate-related disclosures. The sustainability report referred to in these learning materials is different from any voluntary sustainability report or information that reporting entities may have produced in the past or continue to produce in the future. These materials generally use 'climate-related disclosures' or 'sustainability report' interchangeably when referring to the report required under the new reporting obligations.

Climate-related disclosures are a transparency tool. The Corporations Act and AASB S2 do not require reporting entities to respond to any climate-related risks and opportunities in a particular way or set a particular target or strategy. This remains the responsibility of the reporting entity to determine based on its own circumstances.

Who do the requirements apply to and when do they apply?

The requirement to prepare climate-related disclosures is being phased in over three years, beginning with larger Group 1 entities in 2025 and ending with Group 3 entities in 2027. This section provides a high-level overview to help you understand when different entities will begin reporting.

It is important to note that it is not the purpose of these learning materials to provide you with a tool to work out whether and/or when a particular entity might need to report. This is an assessment you will need to undertake based on the individual facts in each case. Further information is available in ASIC Regulatory Guide 280 *Sustainability reporting* (RG 280).

Generally, there is a two-step test that is applied:

- › Step 1: Is the entity required to prepare and lodge a financial report under Chapter 2M of the Corporations Act for the relevant financial year? If so, proceed to step 2. If not, there is no obligation to prepare climate-related disclosures for that financial year.
- › Step 2: Does the entity meet any of the reporting thresholds below? If the answer is yes, climate-related disclosures are required for that financial year. If not, there is no obligation to prepare climate-related disclosures for that financial year.

Group 1

Group 1 entities begin reporting for financial years commencing on or after 1 January 2025. These entities will lodge their first climate-related disclosures in 2026.

Group 1 entities are either:

- › Entities (other than superannuation funds and managed investment schemes) that meet two of the following three size tests for the financial year: consolidated assets of more than \$1 billion, consolidated revenue of more than \$500 million, 500 or more employees.
- › Entities that are registered corporations that have emissions reporting obligations under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act) and are above the threshold in section 13(1)(a) of the NGER Act.

Group 2

Group 2 entities begin reporting for financial years commencing on or after 1 July 2026. These entities will lodge their first climate-related disclosures in 2027.

Group 2 entities include:

- › Entities that meet two of the following three size tests for the financial year: consolidated assets of more than \$500 million, consolidated revenue of more than \$200 million, 250 or more employees.
- › Superannuation funds and managed investment schemes where the value of assets at the end of the financial year of the entity (and the entities it controls) is equal to or greater than \$5 billion.
- › Entities that are registered corporations that have emissions reporting obligations under the NGER Act and do not fall into Group 1.

Group 3

Group 3 entities begin reporting for financial years commencing on or after 1 July 2027. These entities will lodge their first climate-related disclosures in 2028.

Group 3 entities are:

- › Entities that meet two of the following three size tests for the financial year: consolidated assets of more than \$25 million, consolidated revenue of more than \$50 million, 100 or more employees.

Different requirements for Group 3

Group 3 entities are required to prepare a sustainability report if they face material climate-related risks or opportunities for the financial reporting period. However, if a Group 3 entity has determined that it has no material financial risks or opportunities relating to climate for a financial year, then it does not have to prepare climate statements containing information required under AASB S2 for that financial year.

Instead, the Group 3 entity will need to prepare a climate statement which contains a statement that there are no material financial risks or opportunities relating to climate and an explanation of how the entity came to that conclusion. Directors of the reporting entity must make a declaration on the sustainability report.

These learning materials may assist Group 3 entities to identify potential climate-related risks and opportunities, supporting this assessment.

Key takeaways

- › The law has changed. Reporting entities now need to prepare annual climate-related disclosures that meet the requirements of the Corporations Act and AASB S2, have them audited and give them to shareholders or members and ASIC at the same time as the annual financial report.
- › Climate-related disclosures requirements only apply to large entities and financial institutions. Entities that are not required to prepare financial reports under Chapter 2M of the Corporations Act and do not meet the threshold tests for Group 1, 2 or 3 have no legal obligation to prepare climate-related disclosures. Some of these entities may choose to do so voluntarily, depending on their facts and circumstances.
- › Shareholders or members of reporting entities and other users will receive high quality, consistent and comparable climate-related information as part of the annual report and this will help them make better informed financial decisions.
- › Enhanced climate disclosures also benefit reporting entities themselves, enabling them to better understand their climate-related risks and opportunities over the short, medium and long term.
- › These changes will directly and indirectly impact many stakeholders who work for, advise, invest in, trade with, or lend to reporting entities (see Module 1 Unit 1 for further details).