

From sustainability marketing to sustainability accounting

How prepared is corporate Australia for mandatory climate reporting?

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rsm.com.au/esg-climate-risk-report

ACKNOWLEDGEMENT OF COUNTRY

RSM Australia acknowledges the Traditional Owners of the lands and waters on which we live and work. We pay respect to Elders past and present as the custodians of their culture and continuous connection to Country.

Artwork entitled "Koara-Benang-Bidi" by Michelle Kickett depicts Perth's waterways symbolising RSM's establishment in Whadjuk Country over 100 years ago, and captures the firm's growth across six states and territories of Australia.



FOREWORD

During the digital revolution, we marvelled that every company suddenly had a website – over the last three years we have seen similar rhetoric about sustainability reports as they grow from a business nice-to-have, to a necessity.

Comparisons between the digital revolution and the current shift in corporate social responsibility (the sustainability revolution?) have been rising as the corporate world adapts to these changing expectations, but one key difference between these two huge shifts in the business landscape is the requirement for public reporting.

Climate risk reporting is due to be introduced in Australia on 1 January 2025. So, with less than a year to go, how prepared is corporate Australia to respond to the greatest corporate disclosure challenge of our time? RSM has reviewed the sustainability reporting practices of over 1500 Australian companies to answer just that question. To date, less than 40% of mandatory reporters have collected and reported their Scope 1 and 2 emissions data, demonstrating a significant gap in where corporate Australia is now, versus where we need to be.

Mandatory climate reporting means that the risks and opportunities to companies from climate change and the transition to a net zero economy present must now be quantified in financial reporting – something that has been attempted by only a handful of Australian companies to date.

This obliges organisations to devise and implement new strategies, metrics and integrate an understanding of climate risk into every aspect of business management. Climate can no longer be isolated from other risk management processes; it must be understood, integrated, quantified, managed and communicated accordingly. In addition, this disclosure will need to be assured, with the intention to see the same rigour applied to sustainability reporting as with financial reporting.

All organisations will be impacted. As more and more companies are required to report their financial climate risks, this will cascade through the supply chain and across the broader economy. If you're a smaller company, you might have already noticed this cascade, with key major companies already seeking emissions data from their supply chain or clarity regarding human rights policies.

While the Treasury consultation proposes a three-year period of liability relief for companies and directors, the integration of climate risk management and reporting will require major adjustments not only in terms of reporting, but more so in terms of business practices such as strategy and risk management. Getting to grips with these changes and standards will take time and significant, in-depth technical expertise to deliver. Few organisations have all the answers, and many are learning as they go in a rapidly evolving environment.

Australian businesses need to act now to understand climate risks and opportunities to position their organisations for success in the new economy. Among the first requirements is education around the governance, plans and processes that will be required to manage the emerging operating environment as the economy shifts and the climate changes. There is no one-size-fits-all approach. The response to both climate risk and impact will be different for every organisation but will need to be proportionate to the size of the business and its level of risk.

A growing number of companies have announced net zero targets – totalling about 80% of the ASX 200 market capitalisation¹ – and now action is required to map out specific plans and quantify the financial impact.

Governor of the Reserve Bank Michele Bullock noted the complexity of navigating climate change risks in a speech in mid-2023.² "The uncertainty around climate change is particularly acute," she said. "There is not only uncertainty around exactly how the climate will change but also around how this will affect the economy and financial system."

In this report, we delve into the expected requirements, timelines, assurance, corporate risks and opportunities, unpacking how you can actually deliver on these new requirements.

We will explain how to prepare for the reporting standards, and what 'ready' will look like when it comes to the new obligations for responsible entities. Importantly, we look at the current landscape to assess how ready corporate Australia is for this coming change in reporting.



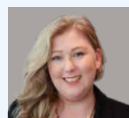
Jacob Elkhishin

National Leader – Energy, Resources & Sustainability



Catherine Bell

Director – ESG & Climate Services



Sarah Melville-Maguire

Lead Researcher

Senior Manager, ESG & Climate Services

Sarah was the lead researcher for this significant report. In developing these insights, Sarah and the RSM team have evaluated the reporting practices of more than 1500 companies against the four pillars of Australia's incoming climate reporting standards.

This research is the first in Australia to attempt to understand how prepared Australian companies are for the standards considering both public and private companies. This represents a significant step forward in understanding the impact of this mandate on Australian companies.

Sarah is a sustainability professional based in RSM's Perth office, with extensive experience in supporting clients to understand complexities of ESG and climate reporting both locally in WA, and across state and international borders. Her varied experience across the spectrum of environmental and social issues enables pragmatic advice to clients, both in reporting and strategic planning across the ESG field.

¹ Bowen C, [Speech to Australian Business Economists](#), Department of Climate Change, Energy, the Environment and Water, (2023, August 15)

² Bullock M, [Climate Change and Central Banks](#), Reserve Bank of Australia (2023, August 29)

Key Points

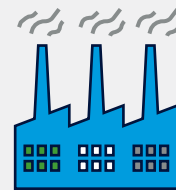
This report is based on information contained with the Australian Government Treasury's second consultation on climate reporting in Australia and the Australian Accounting Standards Board's Disclosure of Climate-related Financial Information Exposure Draft as at October 2023. Disclosure requirements are subject to change prior to finalisation and may ultimately differ from the contents of this report. Minor updates have been made to reflect changes to the implementation schedule as at March 2024.

What you need to know

Australia's mandatory climate reporting commences from **1 January 2025**



Phased-in reporting based on revenue and number of employees will start with Australia's largest reporting entities and emitters meeting a two of three threshold of over 500 employees, \$500m revenue and \$1bn assets.



All organisations will be impacted.

As more and more companies are required to report their financial climate risks, this will cascade through the supply chain and across the broader economy.



Even among those with highly developed ESG reporting, many are yet to truly consider climate risk, which is a mandatory consideration going forward.

To date, most Australian companies have undertaken marketing-focused sustainability reports, lacking the now required globally aligned data-driven approach.



Three-year regulatory-only enforcement

Future civil penalties apply

There is a clear intention to ensure the same rigour applied to financial reporting is also applied to sustainability reporting. In this regard, the Treasury requires that disclosures are included in General Purpose Financial Statements



“ Our experience in developing climate risk assessments and impacts is that it requires a whole-of-organisation approach, starting with education around the market dynamics driving the energy transition. For those who have limited carbon footprints or believe their ability to influence climate change is minimal, the focus should fall on resilience around how their organisations are able to manage market shifts, client demands, reputational opportunities and legal/policy changes driven by climate change.

Catherine Bell

Director – ESG & Climate Services

How prepared is corporate Australia?

With mandatory reporting set to be introduced by 1 January 2025, RSM has reviewed the public sustainability reporting practices of more than 1500 Australian public and private companies expected to become mandatory reporters under the new Australian Climate Reporting Standards. The rapid change in reporting requirements prompted RSM, as sustainability and climate thought leaders, to understand and unpack the current state of climate and sustainability reporting in Australia.

Only **36%** of mandatory reporters currently publish a sustainability report.

30% of Group 1 companies have not reported Scope 1 and 2 emissions.

Up to **49%** of reporters have not disclosed climate management practices.

39% have reported Scope 1 and 2 carbon emissions either through a sustainability report or NGER reporting.

26% of Group 1 reporters have done climate scenario analysis.

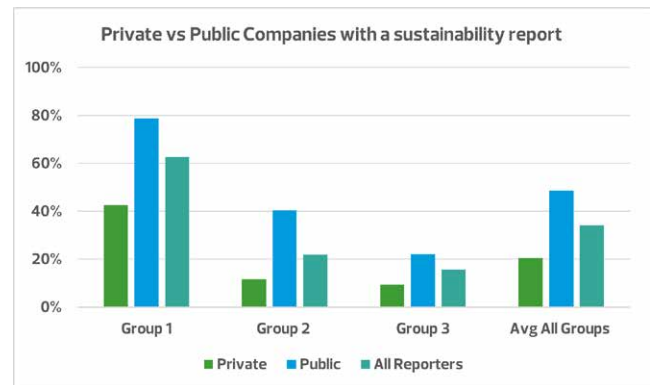
40% of first year reporters have a net zero target, while less than **3%** of Group 2 and Group 3 reporters have a target.

Leading industries
Mining, financial services, energy sector, real estate.

Laggard industries
Construction, retail, agriculture/forestry/fishing, ICT.

Private vs public

- The number of expected reporters is **similar for both public and private companies**.
- Public companies clearly have a head start on private companies** – while around half of publicly listed companies set to become mandatory reporters have begun their sustainability reporting journey, only 20% of private companies have done so.



This trend is repeated throughout the maturity of disclosures, with public companies being more likely to report against Governance, Risk, Strategy and as well as Metrics and Targets.

Research assumptions and approach

- Potential reporting entities were identified through IBISWorld Top 500 Private Companies, all NGER reporting Controlling Corporations, and Refinitiv Eikon's ASX listed companies that reach both the \$25m consolidated gross assets and \$50m consolidated annual revenue requirements. Companies that met either the NGER reporting requirements, or the assets, employees, and revenue test were included in this research.
- Subsidiaries, joint ventures and facilities from NGER reporters were excluded from this research as reporting is required at the consolidated entity level.
- Government organisations, educational institutions and associations have been excluded from the statistics included in this report in order to focus on corporate entities.
- This resulted in a sample of 1560 public and private companies that may become mandatory reporters under the current climate reporting standards in Australia.
- RSM reviewed the publicly available ESG reporting information of these companies as at 31 October 2023. Information was collected from company websites as well as annual and sustainability reports, and NGER published reporting entities.
- Climate reporting can be subjective, and some reporters may go into more depth than others. No assessments have been made on the quality of the information reported.
- Reporters were assessed on whether they disclosed each reporting requirement (Governance, Strategy (including specific climate-related risks and opportunities, business model and value chain, strategy and decision making, financial position, financial performance and cash flows, and scenario analysis) and risk management) in relation to climate change.
- Reporters were considered to have reported metrics (Scope 1, Scope 2, and Scope 3 emissions) if tonnes of CO2e were disclosed against each scope.

Why mandatory disclosures?

Central banks and financial regulators around the globe believe that climate change, both the physical impacts, as well as the transition to a net zero economy, poses a clear systemic risk on the global financial system due to the potential market shocks expected in the coming years.

As a result, the growing demand by investors, regulators and stakeholders for consistent, transparent and comparable data has prompted the development of climate reporting regimes. Responding to a growing call for a single system, in 2021 the International Financial Reporting Standards Foundation (IFRS) launched the development of the International Sustainability Standards Board (ISSB) at the United Nations Climate Change Conference 2021 (COP26) to create a high-quality, comprehensive standard.

In the same year, the Finance Ministers meeting of the G7, together with Australia, India and the Republic of Korea, released a communique expressing support for the ISSB and called for mandatory climate-related financial disclosures.

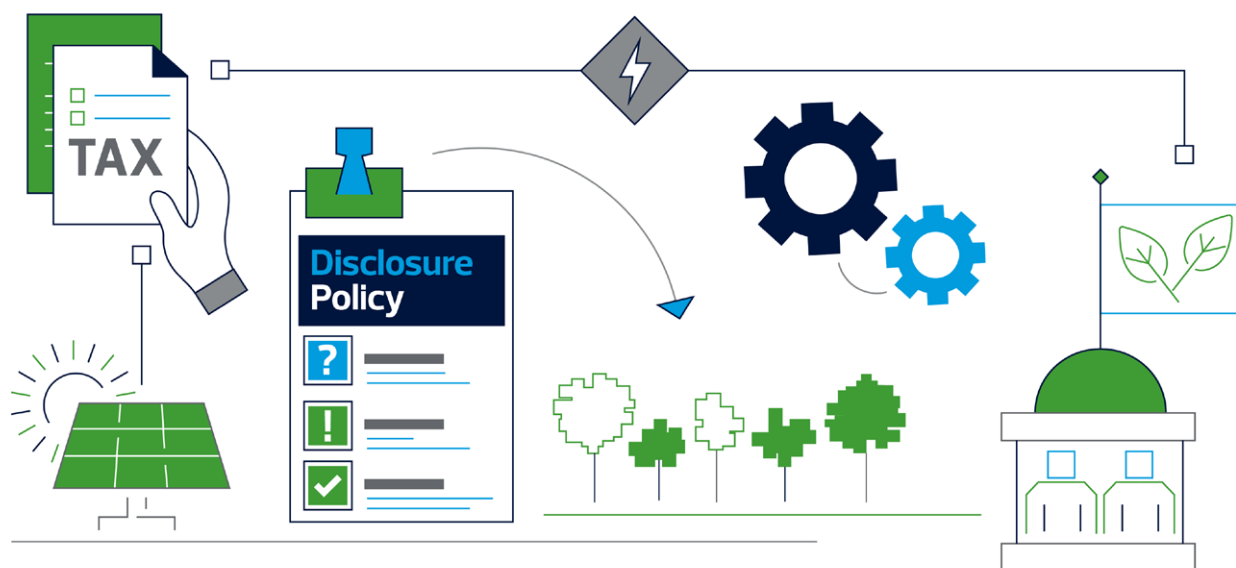
In 2022, the draft IFRS S2 Climate-related Disclosures was issued for consultation as a global baseline for sustainability and climate-related financial disclosure reporting standards.

Amid rising demand for disclosure in sustainability and climate reporting from investors, government and stakeholders, the

Australian Treasury has proposed to adopt ISSB standards. In October 2023, the Australian Accounting Standards Board (AASB) released Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* which will come into effect from 1 January 2025.

In a staged approach from 2025, reporting entities will be required to disclose material physical risks of climate change – such as increased climatic volatility and changing rainfall patterns – and the transition risks of transforming to a net zero economy.

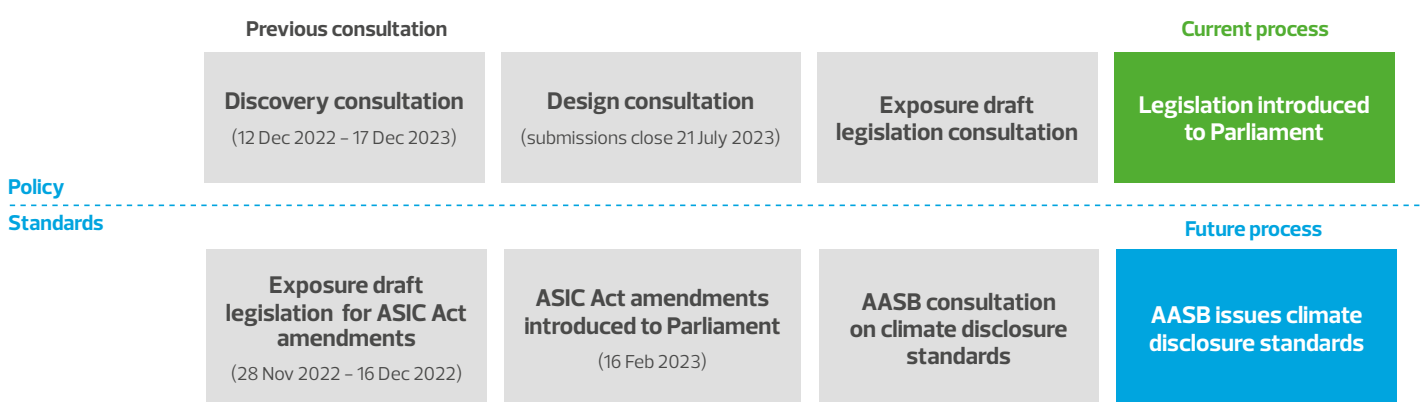
While emissions reporting was formalised under the National Greenhouse and Energy Reporting and revisions to the Safeguard Mechanism now effective from July 2023 (for Scope 1 and 2), the proposed changes will bring Australia's reporting into line with the international approach to climate-related financial risks and opportunities.



What are Australia's new reporting requirements?

The phased-in timing of climate reporting in Australia is happening at speed. Over the last 12 months, the Australian Government Department of the Treasury (Treasury) and the Australian Accounting Standards Board (AASB) have been consulting on legislation and reporting standards for climate-related financial disclosures in Australia.

Consultations have indicated there will be a staged approach that will see initial reporting entities in Group 1 report starting 1 January 2025. This cohort comprises those that currently report under Chapter 2M of the Corporations Act and meet two of the three thresholds of more than 500 employees, consolidated gross assets of \$1bn or more, or revenue of \$500m or more. Over the following three years, this will flow down to companies meeting much lower thresholds.



	Group 1 Reporting period commences 1 Jan 2025	Group 2* Reporting period commences 1 July 2026	Group 3 Reporting period commences 1 July 2027
Number of employees	500+	250+	100+
Consolidated gross assets	\$1bn +	\$500m +	\$25m +
Consolidated annual rev	\$500m +	\$200m +	\$50m +
	+		
NGERS reporting entities	NGERS 'Controlling Corporations' which meet the NGERS publication threshold (50,000t CO2e).		All NGERS 'Controlling Corporations'

*Note that Group 2 reporters will include asset owners (such as registrable superannuation entities and registered schemes) with \$5 billion or more in assets under management

While all reporting companies will ultimately need to report their supply chain carbon emissions, this means that those companies not captured by the mandatory reporting are also likely to be affected and may need to start measuring their carbon footprint to respond to this wider supply chain requirement.

To add another layer of complexity, companies would be best placed to have at least two years of data, with the second year providing time to rectify or address any data gaps. This means companies waiting until mandatory reporting year is in place to begin collecting data will be at a disadvantage. Our recommended timeline is below.

	FY25	FY26	FY27	FY28	FY29	FY30
Group 1 Prepare	Group 1 Report Reasonable assurance Scope 1 & 2 + governance, limited assurance on remainder	Group 1 Report Reasonable assurance Scope 1 & 2 + governance, limited assurance on remainder	Group 1 Report Reasonable assurance over all climate risk disclosures, including Scope 3	Group 1 Report Reasonable assurance all climate disclosures	Group 1 Report Reasonable assurance all climate disclosures	Group 1 Report Reasonable assurance all climate disclosures
Group 2 Prepare		Group 2 Report Reasonable assurance Scope 1 & 2 + governance, limited assurance on remainder	Group 2 Report Reasonable assurance Scope 1 & 2 + governance + ESG, limited assurance on remainder	Group 2 Report Reasonable assurance Scope 1 & 2 + governance + ESG, limited assurance on remainder	Group 2 Report Reasonable assurance Scope 1 & 2 + governance + ESG, limited assurance on remainder	Group 2 Report Reasonable assurance over all climate risk disclosures, including Scope 3
		Group 3 Prepare	Group 3 Materiality & Report Reasonable assurance Scope 1 & 2 + governance, limited assurance on remainder; No reporting of Scope 3 required	Group 3 Materiality & Report Reasonable assurance Scope 1 & 2 + governance + ESG, limited assurance on remainder including Scope 3	Group 3 Materiality & Report Reasonable assurance Scope 1 & 2 + governance + ESG, limited assurance on remainder including Scope 3	Group 3 Materiality & Report Reasonable assurance Scope 1 & 2 + governance + ESG, limited assurance on remainder including Scope 3

This timeline has since been updated to reflect the latest information from Treasury and the Australian Assurance Standard Board – April 2024

Based on the consultation to date, we expect that the disclosures will be contained within a company's annual General Purpose Financial Statements.

Companies will need to report their climate information under four pillars:

Governance – the processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities

Strategy – how the company manages climate-related risks and opportunities

Risk Management – the company's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process

Metrics and Targets – performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set

There are three aspects to keep in mind in terms of the new AASB Sustainability Reporting Exposure Draft:

1. Urgency: There is clear intent from the AASB to ensure standardised sustainability and climate reporting. In keeping with global reporting developments, the current focus is on climate change. In addition, the timeframes for reporting bring potential mandated sustainability and climate-related disclosures much quicker to the reporting stage than perhaps anticipated.

2. Mandated financial integration: Sustainability reporting and climate reporting have evolved rapidly from qualitative methods to quantifiable and data-driven responses. The next step is now to consider this data in terms of a company's financial performance and report on financial impacts, implications and opportunities accordingly.

3. Mandated reporting topics: Companies familiar with sustainability reporting will also be familiar with the concept of materiality. The AASB Exposure Draft moves away from typical sustainability reporting formats, such as proposed by SASB or the GRI, where a list of themes, sub-themes and corresponding indicators are suggested. In the case of the proposed standards, companies must consider at a minimum; Scope 1, Scope 2 and Scope 3 Greenhouse Gas emissions; and climate-related risks.

Assurance considerations

The consultations have also clearly signalled that these disclosures will need to be assured to enhance the credibility of disclosures and reduce the risk of greenwashing. Treasury have proposed that assurance over climate disclosures will commence with limited assurance, moving to reasonable assurance over time. Companies who implement a strategic data-driven approach will see significant benefits when faced with these assurance requirements.

This report looks at these changes and the aforementioned reporting pillars to understand what the requirements are, and what companies need to know to be prepared to respond to them.



Act now to understand climate risks and opportunities to position your organisation for success in the new economy.

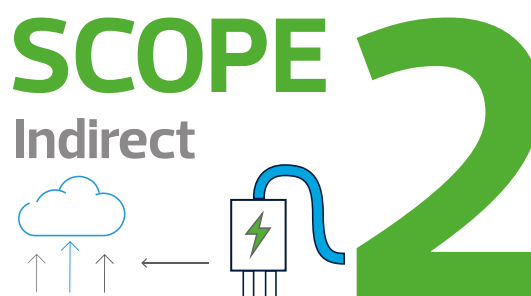
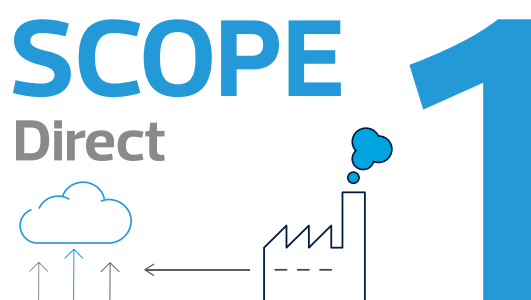
Materiality

As corporate Australia has progressed on its sustainability reporting journey, most organisations have taken a stakeholder-led approach to materiality assessments. This approach sees a company engage with its stakeholders to identify ESG topics important to them and use those as a basis for reporting ESG topics. Some more advanced materiality processes have also considered risks to the business to progress towards mandatory reporting standards. Whichever approach your company has taken, major change lies ahead.

While those who have undertaken more complex double materiality³ in assessing company risks and impact will be more prepared, there is still likely to be significant adjustments.

Some aspects of materiality under the new standards are clear cut – Scope 1, 2 and 3 emissions are prescribed material topics with all companies needing to report these. It's also been highlighted that climate risk is likely to be material, to some degree, for all companies⁴. In practice this means that all companies will need to engage in a robust climate risk and scenario analysis. Without this underlying work, companies will not be able to confirm that something is immaterial.

Even if a company determines a climate reporting topic to be immaterial, in order to make that assessment they will need to undertake a comprehensive climate risk assessment including scenario analysis and report on the process as part of the Governance, Strategy and Risk Management disclosures.



³ European Financial Reporting Advisory Group, [European Sustainability Reporting Guidelines 1 Double materiality conceptual guidelines for standard-setting](#), (2022)

⁴ Australian Government Department of the Treasury, [Climate-related financial disclosure: Consultation paper](#), (2023)

CASE STUDY

Sealord



Doug Paulin
CEO, Sealord



Stuart Yorston General Manager –
Business Development & Sustainability, Sealord

New Zealand-based seafood company [Sealord](#) has developed a comprehensive framework over three years that has seen the organisation embed sustainability into the heart of its strategy and operations.

As one of the southern hemisphere's largest fishing operations, it conducts deep-sea fishing and fin-fish aquaculture and exports 90% of its catch to more than 40 countries around the world.

About three years ago, stakeholder and internal engagement elevated climate as a key risk. Today, Sealord invests up to 10% of its profits in sustainability initiatives. Sealord's sustainability framework has been overhauled to include the assessment of physical risk, operations, metrics and targets and integrate goals into key performance indicators.

General Manager, Sustainability, Stuart Yorston said the company had developed their strategy and plans over time, as resourcing allowed, but had achieved significant progress across a number of initiatives including carbon reduction, waste diversion and reducing plastic usage. "We've made some great inroads," he said. "We've reduced our carbon footprint by 24%. We've reduced plastic by about 8%. We've replaced a whole lot of equipment onsite to reduce power through upgrading equipment such as compressors and the hot water system. We've just signed a \$10m, 10-year investment to develop a carbon offset because the current forecast new vessel propulsion options for fishing vessels is some decades off and then the capital investment required when these are available will be significant with new vessels costing between \$50m and \$100m. We will have a residual carbon footprint in 2050, so we are building an offset to cover 90% of that residual over the next 20 years. The \$10m investment is the first tranche of this program."

Mr Yorston said as a starting point on developing the sustainability strategy, he spoke with Board directors and the executive leadership team to gain their insights and buy-in for key priority areas. This generated a Board commitment to invest up to 10% of profits into sustainability initiatives.

Based on the key priorities Sealord developed a sustainability strategy with 11 different work streams, including carbon reduction at sea, offsets, carbon reduction on land, infrastructure risk assessments on land and at sea, water use, waste and plastics and approaches to disclosures. They developed KPIs for each stream, together with milestones and review processes.

They mapped their carbon footprint and set science-based targets aligned with the Paris Agreement target to limit global temperature rises to 1.5 degrees Celsius. They have also mapped commitments to the UN Sustainable Development Goals.

However, Mr Yorston says they are holding off on net zero commitments until they are certain they are achievable.

"I don't believe that we should be committing to that [net zero] unless we have a plan to get there," he said. "Lots of companies are making commitments with no idea on how they're going to do it. We want to be a little bit more transparent around that."

Sealord signed a partnership with Te Arawa Fisheries and New Zealand Carbon Farming to develop under-utilised Te Arawa whenua into permanent forest and offset a majority of their residual carbon emissions.

Announced in September 2023, the program will maximise the potential of marginal land, create jobs and improve whānau outcomes, and help improve the local environment, including water quality in and around Te Arawa lakes around Rotorua.

Emissions reductions have been achieved to date through investment in new vessels, fuel optimisation, focused maintenance and reducing fossil fuel use on land.

Sealord is also working with its suppliers to drive sustainability and decarbonisation throughout its value chain.

“There's so much data out there now. When you get into the scenario planning, and you're doing a +4.5°C or a +3°C world, you quickly get onboard because of the far-reaching implications this will have on how we and future generations will live and work.**”**

Stuart Yorston, General Manager Sustainability
Sealord

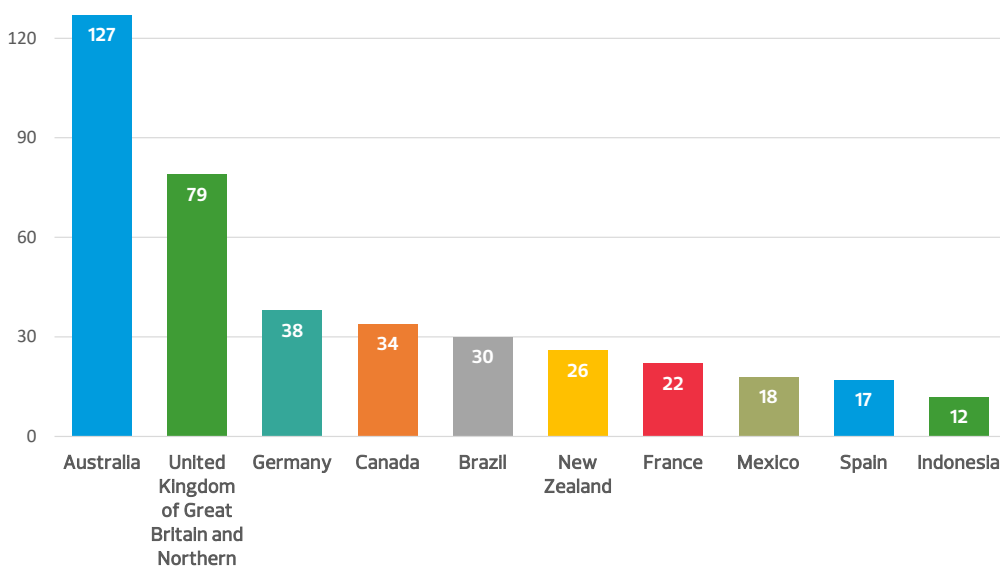
ESG – shaping company decisions for the future



Governance

Governance forms a crucial part of sustainability reporting. The new reporting standards require sustainability and climate change to form part of governance through strategic and informed decision-making, enabled by capacitated boards. The need for explicit sustainability and climate-related governance is emphasised by a current, volatile litigation landscape. There has been a steady increase in climate-related litigation. “... second only to the US, Australia has the highest number of climate-related cases (and first on a per capita basis)... the number of cases against companies and financial institutions has rapidly escalated, driven largely by the significant number of recent greenwashing cases filed.”⁵ Moving from voluntary to mandatory sustainability reporting will “test companies and investors on the strength and depth of their sustainability commitments and the priorities they support in light of a growing risk of ESG-related litigation.”⁶

Top 10 Jurisdictions with the highest number of cumulative climate change related cases (Excl US and EU)



Just **26%** of mandatory reporters have embedded climate risk into their corporate governance approach.

⁵ UNEP, [Global Climate Litigation Report: 2023 Status Review](#); MinterEllison, [Climate litigation development: Australia leading the pack](#), (2023)

⁶ S&P Global, [Key sustainability trends that will drive decision-making in 2023](#), (2023)



Companies will be required to disclose information about governance processes, controls and procedures underway to monitor and manage climate-related financial risks and opportunities.

In describing the board's oversight of climate-related issues, companies should consider including a discussion of the following:

- Processes and frequency by which the board and/or board committees (eg audit, risk, or other committees) are informed about climate-related issues
- Whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the company's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures
- How the board monitors and oversees progress against goals and targets for addressing climate-related issues

The AASB reporting framework will require the specific details of the body or persons responsible for oversight at Board level, as well as in management. RSM's research found that only 26% of mandatory reporters are currently disclosing information on climate governance. As expected, Group 1 reporters have the highest level of disclosure at 49%.

In describing management's role related to the assessment and management of climate-related issues, companies should consider including the following information:

- Whether the company has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues
- A description of the associated organisational structure(s)

- Processes by which management is informed about climate-related issues
- How management (through specific positions and/or management committees) monitors climate-related issues

There should be transparency around risk identification systems. Any sustainability-related incentives related to metrics and targets should be highlighted.

It may be helpful to assess the roles and responsibilities of directors, and whether an individual with specific expertise in climate may be beneficial for the company. Regardless of the oversight structures, all directors should take advantage of the lead-up period to learn about climate change impacts, risks and opportunities as relevant to their company. Akin to other risk management processes, climate should be identified and assessed in a way that is consistent with other strategic, financial or operational risks.

Directors must ensure the climate disclosures are aligned to the content in their financial reports.

Company directors will need to have a firm understanding not only of what physical and transition climate risks and opportunities are, but also how they are managed and prioritised at an operational level.

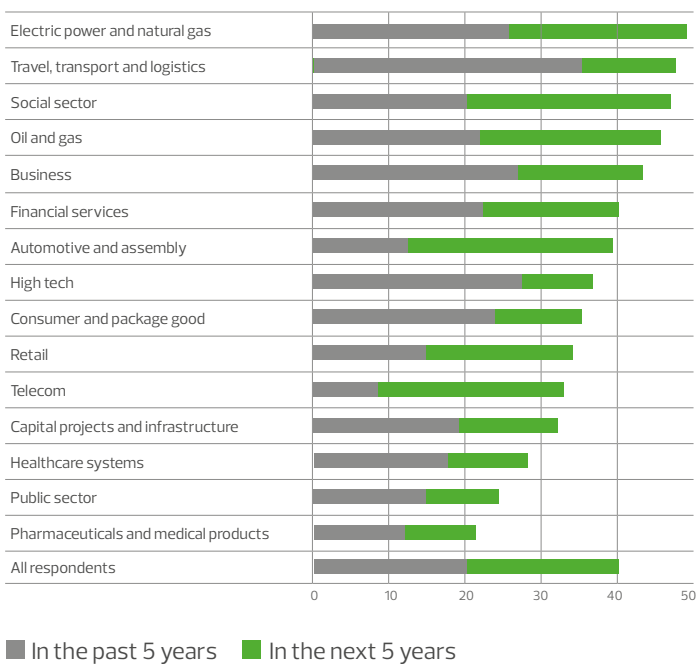
"The objective of climate-related financial disclosures on governance is to enable users of general-purpose financial reporting to understand the governance processes, controls and procedures an entity uses to monitor and manage climate-related risks and opportunities."⁷

⁷ AASB Sustainability Reporting Exposure Draft ED SR1, *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, (October 2023). [AASB ED SR1](#)

Strategy

A recent McKinsey & Company study⁸ found that 40% of major global companies, across various regions, suggested that integrated sustainability strategies and related programs will generate modest to significant value in the near term.

Share of respondents who report or expect 'modest' or 'significant' value created from sustainability programs, by industry, %



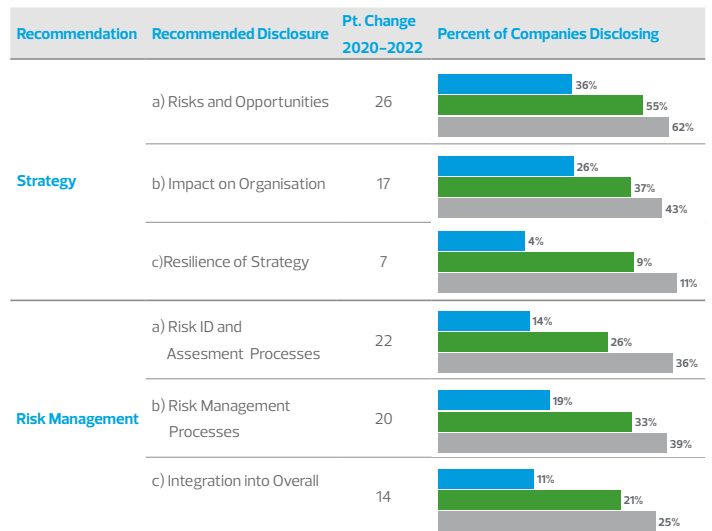
The new standards will ensure that climate action is embedded into organisational strategy, explaining how climate change will affect the business model, cash flows, assets, finance and capital.

While sustainability has an elevated importance because of its holistic impacts, climate change and climate transition are just additional risks that must be mitigated and managed. The same processes of risk assessment, stakeholder engagement, risk tolerances and appetite, and integration into the enterprise risk management system apply.

⁸ McKinsey & Company [How companies capture the value of sustainability: Survey findings, \(2021\)](#)

40% of respondents expect company sustainability programs to generate value in the next five years – nearly double the current share.

TCFD-aligned disclosures by fiscal year for 2020–2022



Legend: ■ FY 2020 ■ FY2021 ■ FY2022

As the most complex of the four disclosure pillars, Strategy disclosures pose unique challenges for organisations large and small. The latest TCFD Status Report⁹ (2023) illustrates this point: Although showing an increase in reporting, strategy and risk management disclosures are still lagging (see figure on top).

Key elements to consider when preparing disclosures in this regard include:

- Describe what is considered the relevant short, medium, and long-term time horizons, taking into consideration the useful life of the company's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and long terms.
- Describe the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the company.
- Describe the process(es) used to determine which risks and opportunities could have a material financial impact on the company.

Best practice will mean integrating climate-related considerations into all aspects of decision making. This includes, but is not limited to, strategy, plans, key performance indicators, budgets and objectives. It may also include potential investments and disposals, and planned sources of funding to implement the strategy. It is expected that the information about the strategy will be provided within the Directors' report instead of the annual report.

Disclosures on climate strategy pose one of the greatest corporate disclosure challenges of our time. Companies will need to take action now to establish a genuine understanding of what the future looks like for their business in the context of a changing climate. This means considering what the future looks like under possibilities like 1.5°C warming and 2.5°C warming and quantifying how this could impact their business.

Overall, the disclosures should outline how climate, both the changing conditions and the transition period, will impact the short, medium and long-term financials of the company. This includes the risk and opportunity assessments for the reporting period and the effects on the business model and value chain, financial position, performance and cash flow, and climate resilience.



The following provides considerations for determining impact on financial performance versus impacts on financial position.¹⁰

Category of Impact	Description of Impact
Impact on Financial Performance	<p>Changes to income and cash flow statements or other financial performance measures as a result of climate-related risks and opportunities may provide insight into management priorities and strategic efforts. Impact on financial performance can include the following:</p> <ul style="list-style-type: none"> ▪ increase in revenue from new products or services from climate opportunities ▪ increase in costs due to carbon prices, business interruption, contingency or repairs ▪ changes to operating cash flow from changes in upstream costs ▪ impairment charges due to assets exposed to transition risks ▪ changes to total expected losses due to physical risk
Impact on Financial Position	<p>Changes to the balance sheet statement as a result of climate-related risks and opportunities can include the following:</p> <ul style="list-style-type: none"> ▪ changes to the carrying amount of assets due to exposure to physical and transition risks ▪ changes to the expected portfolio value given climate-related risks and opportunities ▪ changes in liability and equity due to increases or decreases in assets (eg due to low-carbon capital investments or to sale or write-offs of stranded assets)

What is climate scenario analysis?¹¹

A useful tool for strategic and risk management **decision-making** under **complex and uncertain conditions**

They allow for a **better understanding of the risks** and uncertainties a company may face under **different hypothetical futures, and how its performance might be affected**

Scenarios are not exact predictions of the future, but **descriptions of plausible events**

Climate-related scenario analysis allows a company to develop an understanding of how the **physical and transition climate-related risks and opportunities might plausibly impact the business over time**, and how such vulnerabilities are or should be addressed

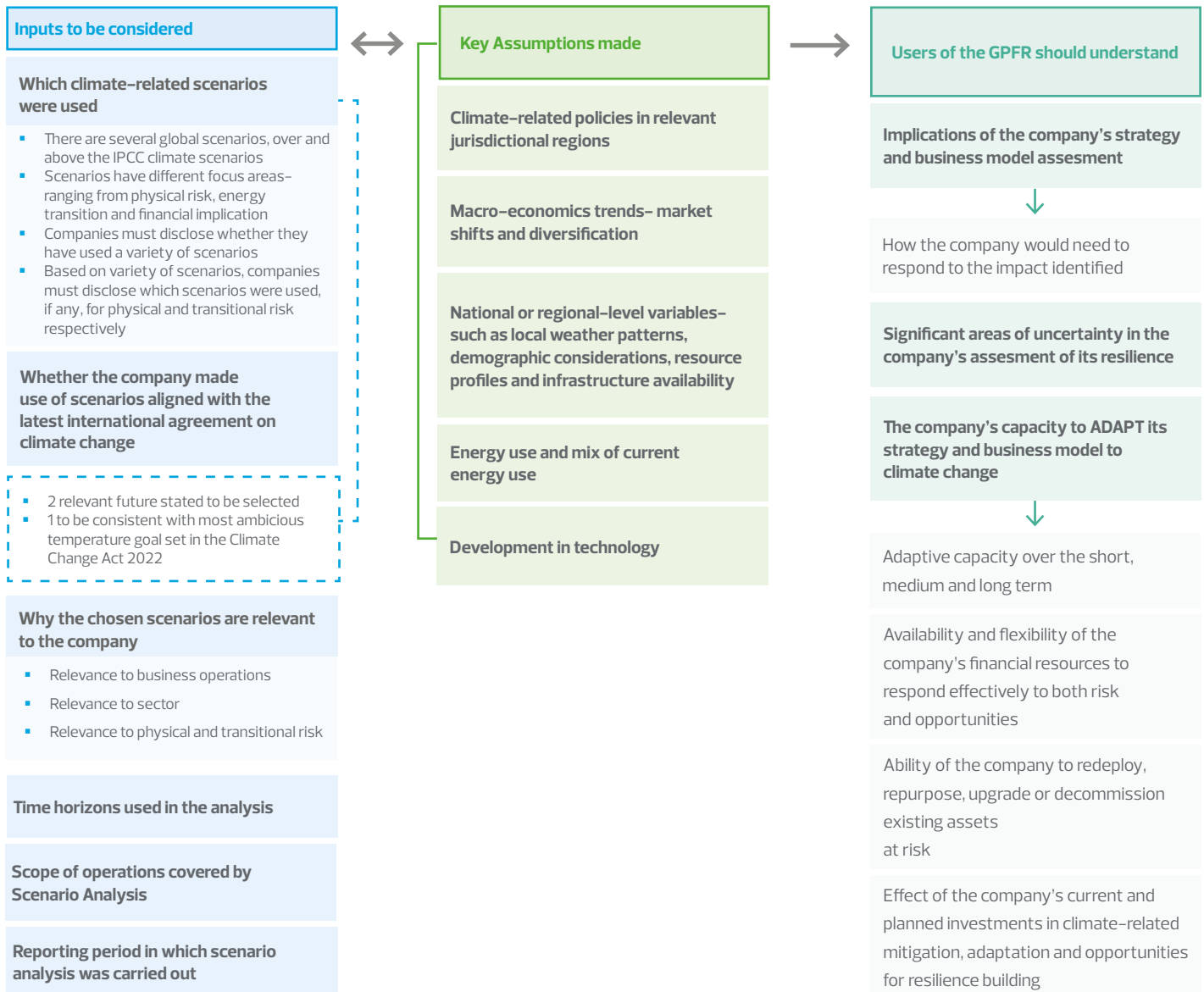
^{9,10} Financial Stability Board, [Task Force on Climate-related Financial Disclosures 2023 Status Report](#), (2023).

Business resilience

Business resilience in the context of climate change refers to companies developing adaptive capacity to respond to climate change. Adaptive capacity enables companies to better manage the associated risks and seize opportunities, related to both transition risks and physical risks resulting from climate change.

The proposed reporting standards requires companies to consider business resilience in relation to climate change related risks. To address the various considerations as part of business resilience, it is suggested that companies undertake a climate-related scenario analysis.

The proposed AASB standards suggest the following in terms of scenario analysis



The challenge of climate scenario analysis is not just the sheer number of companies that need to undertake this bespoke analysis, but the complex skill set required to complete this type of work.

Conducting climate scenario analysis for an organisation requires a multidisciplinary skill set that blends expertise in climate science, financial analysis, risk management and strategic planning.

A strong foundation in environmental science and climate change dynamics is essential to comprehend the potential impacts of various climate scenarios.

Financial acumen is crucial for assessing the economic implications of climate-related risks and opportunities, as well as for integrating climate considerations into financial models.

Analytical skills, including data interpretation and modelling, are vital for processing complex climate data and projecting future scenarios.

Risk management expertise is necessary to identify, assess, and prioritise climate-related risks and develop strategies for business resilience.

Effective communication skills are also essential to convey the implications of climate scenarios to diverse stakeholders within the organisation.

Finally, a strategic mindset is crucial for integrating climate considerations into the overall business strategy, ensuring that the organisation is well prepared for a net zero economy.

Summary of Strategy disclosures

Climate related risks and opportunities	Business model and value chain	Strategy and decision making	Financial Position, performance, cash flow	Climate resilience
Physical and transition risks to the company arising as a result of climate change	<p>How those risks affect the company's business model and value chain, and where the risks are concentrated.</p> <p>Key elements to consider:</p> <ul style="list-style-type: none"> ▪ Products and services ▪ Supply chain and/or value chain ▪ Adaptation and mitigation activities ▪ Investment in research and development ▪ Operations (including types of operations and location of facilities) ▪ Acquisitions or divestments ▪ Access to capital 	How climate-related risks and opportunities are integrated into the strategic decision-making processes of the company	<p>The effects of climate-related risks and opportunities on the entity's financial position, performance, and cash flows (current financial effects)</p> <p>(anticipated financial effects)</p>	How resilient the company is to future climate change scenarios. This involves assessing potential warming scenarios and understanding how they impact the business from both physical events and market/transition impacts.

Risks and opportunities

Under the new reporting, companies will be required to disclose information about how their business is likely to be impacted by our changing climate. Climate risk impacts every asset class and industry.

Companies will need to consider immediate and long-term climate risks and incorporate these into their existing enterprise risk management systems.

These are characterised into physical and transitional risks.

Climate risk is one of the least-considered pillars by Australia companies, with only

19% *having reported climate risk to date*

“ The World Meteorological Organisation indicates that climate-related disasters are now nearly five times as frequent. If this current trend continues, the number of disasters could rise to 560 per year by 2030, up 40% from 2015. There is now a dire need for adaptation funding, at country, regional and local levels. It is estimated that AUD \$520bn per year of dedicated adaptation finance is needed by 2030.¹²

Physical risks, transitional risks and climate-related opportunities¹³

 Physical Risks	Acute <ul style="list-style-type: none"> Increased severity of extreme weather events such as cyclones and floods 	 Resource Efficiency <ul style="list-style-type: none"> Use of more efficient modes of transport and production and distribution processes Use of recycling Move to more efficient buildings Reduced water usage and consumption
	Chronic <ul style="list-style-type: none"> Changing weather patterns and rising mean temperature and sea levels 	
 Transition Risks	Policy and Legal <ul style="list-style-type: none"> Increased pricing of GHG emissions Enhanced emissions-reporting, obligations Mandates on and regulation of existing products and services Exposure to litigation 	Energy Source <ul style="list-style-type: none"> Use of lower-emission sources of energy Use of supportive policy incentives Use of new technologies Participation in carbon market
	Technology <ul style="list-style-type: none"> Substitution of existing products and services with lower emissions options Unsuccessful investment in new technologies Costs to transition to lower emissions technology 	Products & Services <ul style="list-style-type: none"> Development and/or expansion of low emission goods and services Development of climate adaptation and insurance risk solutions Development of new products and services through R&D and innovation
	Market <ul style="list-style-type: none"> Changing customer behaviour Uncertainty in market signals Increased cost of raw materials 	Markets <ul style="list-style-type: none"> Access to new markets Use of public-sector incentives Access to new assets and locations needing insurance coverage
	Reputation <ul style="list-style-type: none"> Shifts in consumer preferences Stigmatisation of sector Increased stakeholder concern or negative stakeholder feedback 	Resilience <ul style="list-style-type: none"> Participation in renewable energy programs and adoption of energy-efficiency measures Resource substitute/diversification

¹² S&P Global, [Key sustainability trends that will drive decision-making in 2023](#), (2023).

Physical risks

The physical risks of climate change are the visible and often talked about impacts – floods, fires, the impact of rising temperatures, and how the business might be affected by these through destruction of assets, stock loss or interruptions to production. There is also likely to be temperature extremes that can impact everything from agriculture to labour productivity as well as other impacts such as water scarcity, biodiversity loss and food security risks. Financial institutions are increasingly viewing physical climate risk in the short term as supply shocks. However, climate change will be a trend change that has implications for the structural change of industries and demand.



Transition risks are the less visible risks of climate change that are changing the way we do business. This includes policy and legal risks of changing regulation and carbon pricing, market risk and changing preferences, technological risks and disruption, reputational and financial backlash, impacts from carbon pricing, supply chain risks, and credit risks.

Transition risks

As the issue of climate change litigation becomes increasingly visible for investors, an important question is whether markets are systematically taking climate litigation risks into account. Although firm evidence in this regard is still limited, a key interdisciplinary study found that small but statistically significant changes in valuation result from climate litigation. A filing or an unfavourable court decision in a climate case reduces firm value by -0.41% on average, relative to expected values.¹⁴

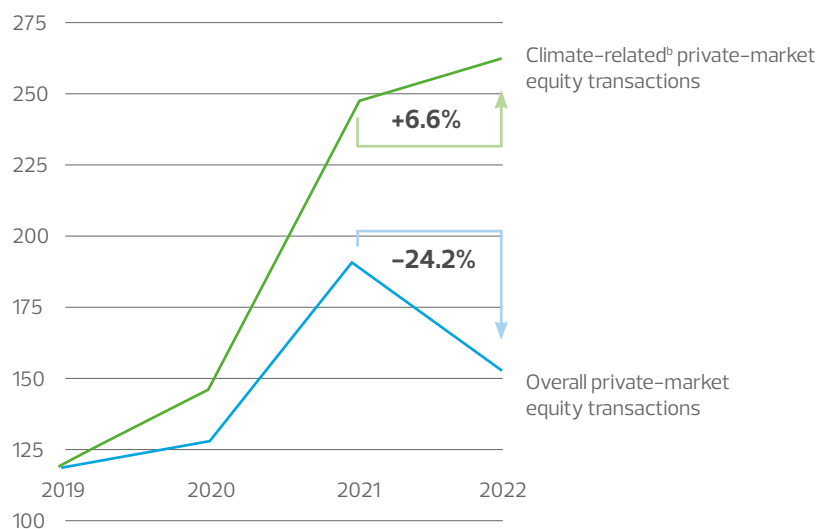
The implications of decarbonisation continue to alter as the Australian Government and States confirm their policies, transition plans and energy roadmaps.

Opportunities

Climate-related private-market investment far outpaced the broader market in 2022 as measured by deal activity, the amount of capital deployed and capital flows into dedicated funds.¹⁵

Climate-related private-market equity investments have grown significantly despite a slowdown in the broader market

Private-market equity deal volume,^a index (100=2019)



^aIncludes completed buyout/leveraged buyout, growth/expansion, private investment in public equity, add-on, accelerator, angel, seed, early-stage venture capital, later-stage venture capital, grants and infrastructure investments.
^bIncludes subsegments: transport, buildings, power, water, agriculture and land use, consumer, oil and gas decarbonisation and sustainable fuels, hydrogen, waste, industrial decarbonisation and carbon management.

Source: Taken from McKinsey & Company, *Climate investing: Continuing breakout growth through uncertain times*.

¹³ Financial Stability Board, *TFCD Workshop: Strategy*, (2022)

¹⁴ Seltzer J & Higham C, *Global Trends in Climate Change Litigation: 2023 Snapshot*. London: Grantham Research Institute on Climate Change and the Environment and Centre for Climate Change Economics and Policy, London School of Economics and Political Science, (2023).

¹⁵ McKinsey & Company, *Climate investing: Continuing breakout growth through uncertain times*, (2023).

Climate change poses significant risks in terms of economic stability, liveability and equitable development. However, mitigating and adaptation to climate change also allows for opportunities. Through economic restructuring, a changing legislative and policy environment and the drive of new services and products to meet low-carbon demand, several sectors could see major opportunities coming to the fore.

Those wishing to get ahead of the curve are seeing first-mover benefits, and many companies are using this opportunity to diversify into new areas ahead of the market.

Transition plans

Organisations' transition plans are of particular interest to users, especially when they are seeking to verify the credibility of the organisations' commitments related to climate change. Users are particularly interested in information on how organisations will adjust their strategies or business models, including the specific actions they will take to reduce risks and increase opportunities as they transition to a low-carbon economy.¹⁶

Once a company has a clearly defined strategy, best practice requires an organisational transition plan that addresses both climate mitigation and adaptation simultaneously.

A transition plan is an aspect of a company's overall business strategy that lays out a set of targets and actions

supporting its transition toward a low-carbon economy, including actions and commitments such as reducing its GHG emissions.¹⁷

Many companies have already developed decarbonisation plans ie targets, actions or resources for its transition towards a lower-carbon economy. These need to be disclosed under current disclosure requirements.

Climate mitigation approaches seek to reduce greenhouse gas emissions to reduce global temperature rises, while adaptation is aimed at responding to the impacts that are already underway.

Temperatures have already risen 1.1°C over the last 150 years. It is anticipated the aspirational global target to limit future rises to an average of 1.5°C will not be achieved.¹⁸

That means companies must act now to reduce future risk and optimise the forecast opportunities. Climate adaptation investments can reduce risks by avoiding potential damage and losses incurred through both the physical and transitional risks.

Under the proposed disclosure framework, transition plans set out how the company will achieve its specific decarbonisation and other climate-related targets and quantitative information on the risk profiles. It would also include information about carbon emission offsets, emissions targets and other mitigation strategies. Companies must be transparent about the resourcing and process of risk identification and review. These processes will become increasingly important if global climate assumptions change over time.

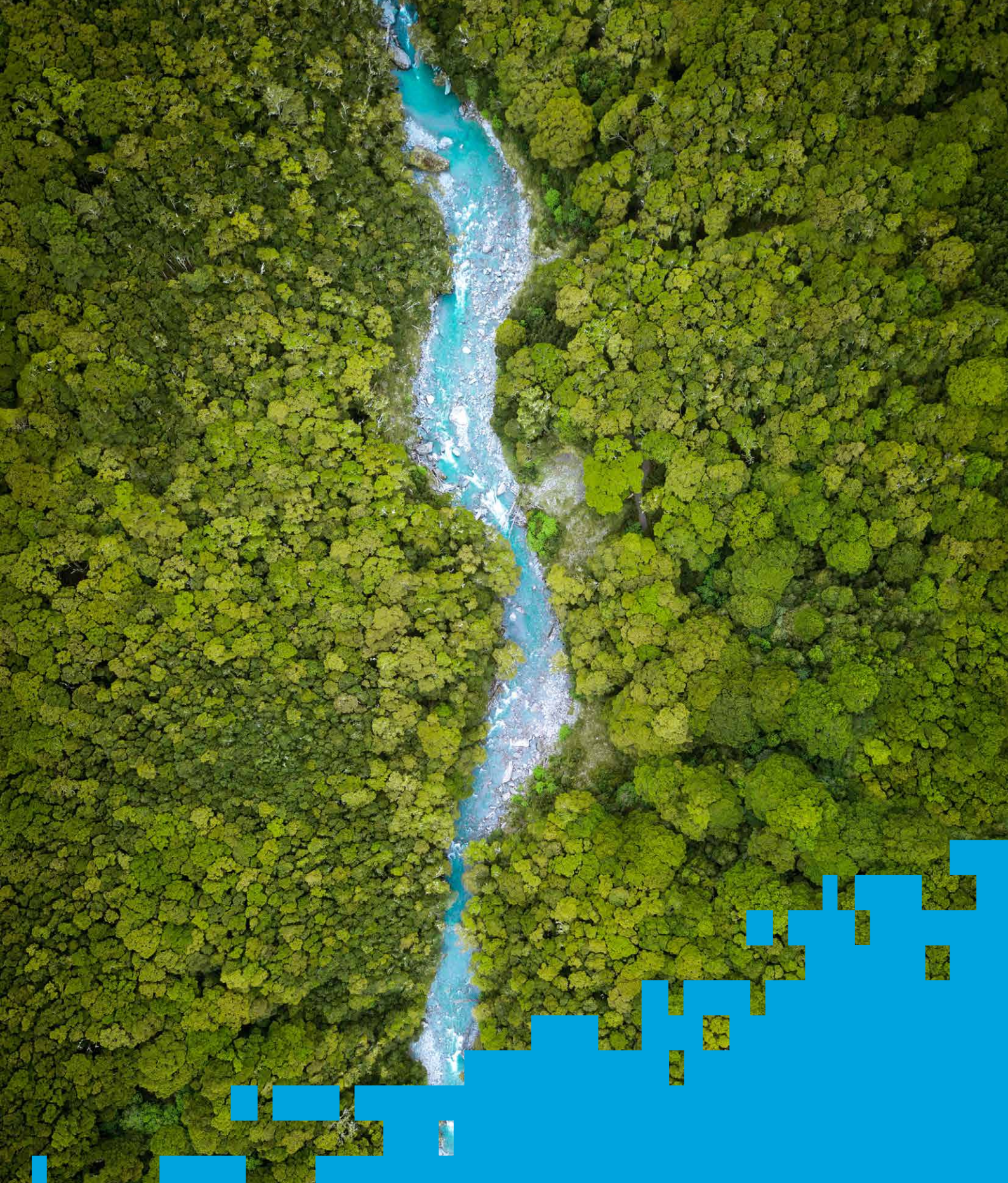
Effective Transition Plans are:

- Aligned with strategy
- Anchored in quantitative elements, including climate-related metrics and targets
- Subject to effective governance processes
- Actionable and specific
- Credible
- Continuously reviewed and updated
- Reported annually to stakeholders

¹⁶ Task Force on Climate-Related Financial Disclosures, [Guidance on Metrics, Targets, and Transition Plans](#), (2021).

¹⁷ Task Force on Climate-Related Financial Disclosures, [Strategy Workshop](#), (2022).

¹⁸ www.bbc.com/news/science-environment-66256101



Navigate the impact of
regulatory change

Metrics and Targets

Within three years... over 50% of RFPs will include metrics regarding carbon emissions, material use, and labour conditions.¹⁹

Metrics and targets can be considered as the equivalent of a balance sheet in your ESG and climate reporting. Governance, Strategy, and Risk Management are critical to understanding how your organisation is approaching climate change, but Metrics and Targets is where this becomes measurable.

The climate change metric that immediately comes to mind for most is carbon emissions, and this forms a central part of the 'ESG Balance Sheet'. Reporting on direct and indirect emissions, that is Scope 1 and 2 emissions, is the first mandatory metric to be reported. In a company's second year of reporting, this is extended to Scope 3 (supply chain) emissions.

Other data that may form part of your balance sheet:

- The amount and percentage of activities or assets vulnerable to climate-related physical and transition risks.
- An internal carbon price if the company has implemented one.

What else is required will depend on your industry and the markets you operate, which again speaks to the bespoke approach required to address and report against climate risk.

Any internal carbon price will have to be disclosed, alongside an explanation of how that price is factored into investment decisions, transfer pricing or scenario analyses.

There will also be an onus on the organisation to disclose targets to manage climate-related impacts and capital and assets that are aligned to climate opportunities.

Characteristics of effective climate-related metrics:

- » Decision-useful
- » Clear and understandable
- » Reliable, verifiable and objective
- » Consistent over time considering current, historical and forward-looking time horizons

In terms of climate targets, companies are expected to increase the robustness of their goal setting with specific details. These include the metrics to assess progress on reaching the target, whether they are absolute or intensity targets, objectives, alignment with international agreements, the baseline, milestones and timeframe.

Organisations must start preparing now to ensure they have the capacity in place, internally or externally, to understand their current emissions profile and check for skills or capability gaps. The data quality should be robust and ideally confirmed by assurance processes.

IFRS S2 Climate-related Disclosures states that "The objective of climate-related financial disclosures on metrics and targets is to enable users of general-purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set."

IFRS S2 also requires disclosure on whether and how climate-related considerations are factored into executive remuneration.

¹⁹ Forbes, [Sustainability Trends 2023: Goodbye Greenwashing. Hello Business Results.](#) (2023)

CASE STUDY

Bunzl



Felicity Kelly
Head of Sustainability

Global product sourcing, consolidation and delivery company [Bunzl](#) determined its sustainability impact should be focused on four priority areas.

The London-listed company, which has 1300 employees across the Asia Pacific region and 35 facilities in Australia and New Zealand, seeks to be an influential leader in the transition to a more sustainable and equitable future. It works collaboratively with both suppliers and customers in healthcare, hospitality, cleaning, retail and mining sectors.

For Bunzl, this is built around four pillars for impact: responsible supply chains, taking action on climate change, investing in a diverse workplace and providing tailored solutions. Head of Sustainability for APAC, Felicity Kelly, said as a specialist distribution and services company, Bunzl was in a unique position to provide various, more sustainable options to customers enabling them to make more informed decisions about the products they buy, to ultimately deliver a tangible improvement.

"In our region, when we first developed our sustainability strategy, we recognised the opportunity we have to affect real change, so working with suppliers and customers and our teams formed a key part of our approach," she said.

"Working on product and packaging sustainability, including phasing out problematic, unnecessary single-use plastic packaging has been a key program."

"We also aimed to phase out fragmentable plastics by July 2022, ahead of any ban, which has already been achieved."

She said single-use plastic phase outs are regulated differently in each state and territory, and they work with customers to enable them to transition to meet the changing compliance requirements.

"It's not straightforward," she said. "Transitioning could involve trialling products, testing them, working with waste

recyclers to see what they will take and what they won't. It's quite complex and comprehensive."

Globally, Bunzl has a net zero (Scope 1 and 2) by 2030 carbon emissions reduction target, with net zero Scope 3 by 2050, if not before. Bunzl APAC has an established carbon roadmap that includes the installation of rooftop solar, and other building efficiency improvements. Their Scope 3 program of work is just beginning and has involved measuring supply chain carbon emissions in line with the Greenhouse Gas Protocol.

"We have set a supplier engagement target verified by the Science Based Target Initiative (SBTi). We're now working through our data to identify key suppliers to partner with," she said.

Globally, in 2022, Bunzl has reduced their absolute Scope 1 and 2 carbon emissions by 15% since 2019, which means they are on track to meet science-based reduction goals in 2030. Ms Kelly advises companies starting out on their journey to start with understanding what the key sustainability issues are.



A materiality assessment is essential to identify the most relevant issues to your business, and your key stakeholders, that will help to prioritise what's most important. But also the simple approach. Just take a step forward and start. We can sometimes be caught up by how complex and diverse sustainability is. So I think it's important to step forward and do what you can. Achieving something, no matter how small, can build momentum that will ultimately lead to the important goal of reducing environmental impact.

Felicity Kelly, Head of Sustainability
Bunzl APAC

Recommendations

RSM's research demonstrates the significant gap between where corporate Australia is, and where it needs to be.

Companies must start preparing now for incoming mandatory disclosure schemes and the broader transition to a net zero economy. This is a major change that will require new skills and frameworks. Through proactive steps, companies can shield themselves from future adverse impacts from climate change itself and ensure business resilience as the market transitions to a net zero economy. By mitigating climate risks, enhancing reputation, ensuring compliance, stimulating innovation, attracting investment and fostering employee engagement, companies can position themselves to be at the forefront of a sustainable future. It is a strategic imperative.

So, where to start?

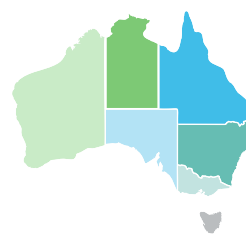
1. Understand the reporting requirements and the future updates. Familiarise the specific obligations for your industry and operating locations.
2. Establish a cross-sector team within the organisation who can bring together insights on sustainability, the environment, finance, operations, legal and communications. This group would be responsible for the coordination of data collection, analysis and reporting.
3. Collect carbon emissions – all mandatory reporters should already be collecting and reporting Scope 1 and 2 carbon emissions information.
4. Determine where the business stands now. What are the current settings and outputs in terms of carbon emissions and circular economy? This may include data on energy consumption, emissions, waste, water use and other environmental metrics. Other parts of the company may need to be engaged to develop comprehensive data sets.
5. Once the data has been identified, robust data management systems are required to collect, store and analyse the sustainability data. The data should be standardised as well. There are software systems available that can help with this. These systems should be capable of generating reports that are in line with the contemporary disclosure requirements.
6. Translate this environmental data into financial terms whenever possible.
7. It will be necessary in the medium term to engage with suppliers and partners to determine their environmental data. This will be important to ensure a comprehensive understanding of the company's entire value chain in the future.
8. Consider engaging third-party assurance for the reported information. This is an emerging field where there is significant upskilling underway. Now is the time to invest in capacity building and training.
9. Prepare and publish reports. If your organisation is a reporting entity, this will be in the form of the annual report and directors' statements. Continuous disclosure of material impacts will be required. These reports should be clear, transparent and written in a way that is easy to understand for a range of stakeholders.



The reporting landscape is not only changing on home soil, but is also part of a much bigger global shift taking place at rapid pace. The European Union (EU) is a prime example of reporting directives that will implicate companies conducting business in or with the EU as well as companies with subsidiaries based in the EU. The German Supply Chain Due Diligence Act came into effect in January 2023 and requires companies to conduct human rights and environmental due diligence to identify risks and mitigate. In July 2023 the European Sustainability Reporting Standards (ESRS) were adopted by the EU. These standards are to be implemented by all companies subject to the Corporate Sustainability Reporting Directive (CSRD). Both reporting frameworks require in-depth sustainability and climate-related reporting.



Appendix



Climate Reporting by State

The regional breakdown of our research tells a varied story. In terms of Scope 1 and Scope 2 emissions, a significant number of companies, across all states have taken up this charge. Scope 1 and Scope 2 greenhouse gas reporting are considered standard sustainability practice, yet, across all states there is less than 50% of all reporters disclosing this basic information. When we consider climate scenario analysis, the percentage of companies reporting climate risk reduce significantly across all regions. Australia will face a range of both physical and transitional climate risks. Our exports and our role in global supply chains will be under increased pressure from upstream and downstream clients as the global systems look to decarbonise.

State	Mandatory reporters sampled	% Scope 1 and 2 reported	% Scenario analysis reported	Leader/Laggard
NSW	553	42%	12%	Leader
WA	231	48%	10%	Leader
QLD	216	42%	7%	Mid
TAS	27	44%	7%	Mid
SA	74	34%	7%	Laggard
VIC	439	35%	8%	Laggard
ACT	15	40%	0%	Sample size too small to determine leader/laggard
NT	5	40%	0%	Sample size too small to determine leader/laggard
Grand total	1560	39%	11%	

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RSM has significant experience in supporting clients in their ESG, climate change and sustainability journeys

>> Click here to find out more

Climate change presents unprecedented risks to companies in Australia. But with the right strategies and quality assurance, there are also untold opportunities. At RSM, we provide a comprehensive range of audit, assurance and advisory services designed to strengthen and streamline compliance with reporting obligations, while building resilience against the increasing risks posed by climate change. Working across a variety of sectors, we have extensive expertise in the regulatory frameworks that seek to reduce the greenhouse gas emissions and improve the energy efficiency of companies in Australia, and are certified auditors for many climate, energy and sustainability schemes. Our goal is to empower your organisation to not only meet its requirements, but to drive innovation in ways that positively impact the environment, communities, and the business.

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