

SALTERBAXTER

Do you want to be the
standard or **standout?**

Preparing for mandatory climate
disclosures with Salterbaxter Australia

May 2024

What's happening?

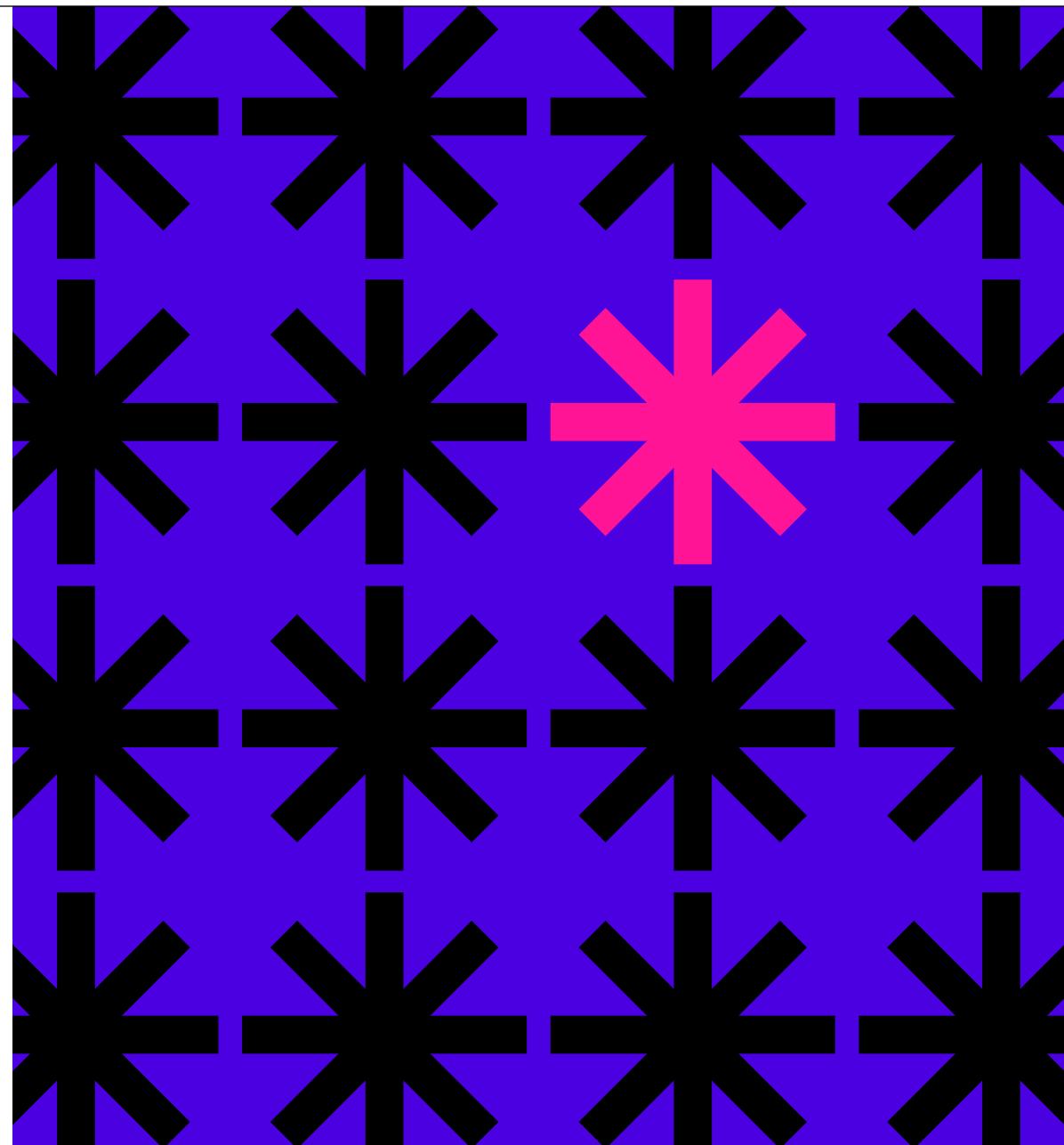
The Australian Government is introducing mandatory climate disclosure reforms that mean from 2025 many businesses, including listed and non-listed businesses, will need to disclose climate-related financial risks. Information about how a company uncovers, manages and responds to its climate-related risks and opportunities will have to form part of the annual reporting content, and will cover aspects such as targets, risk-management strategies and emissions footprint.

According to the Australian Institute of Company Directors, the move to mandatory disclosures "represents the biggest change to corporate reporting in a generation".

Why you should care?

Climate change is having, and will continue to have, a significant impact on businesses. The upcoming requirements will mean companies need to consider how to manage transition and physical risks while building resilience and capitalising on opportunities in the context of this change.

The disclosure reform aims to assist the Australian economy in fulfilling international environmental commitments while supporting businesses in navigating large-scale disruptions. While the mandated requirements set the minimum standard, businesses can leverage the heightened reporting obligations as an opportunity to evaluate the sustainability of their operations in an uncertain future.



What many businesses are overlooking

While many businesses are exploring climate-related reporting they are not necessarily unlocking the full strategic value of the process.

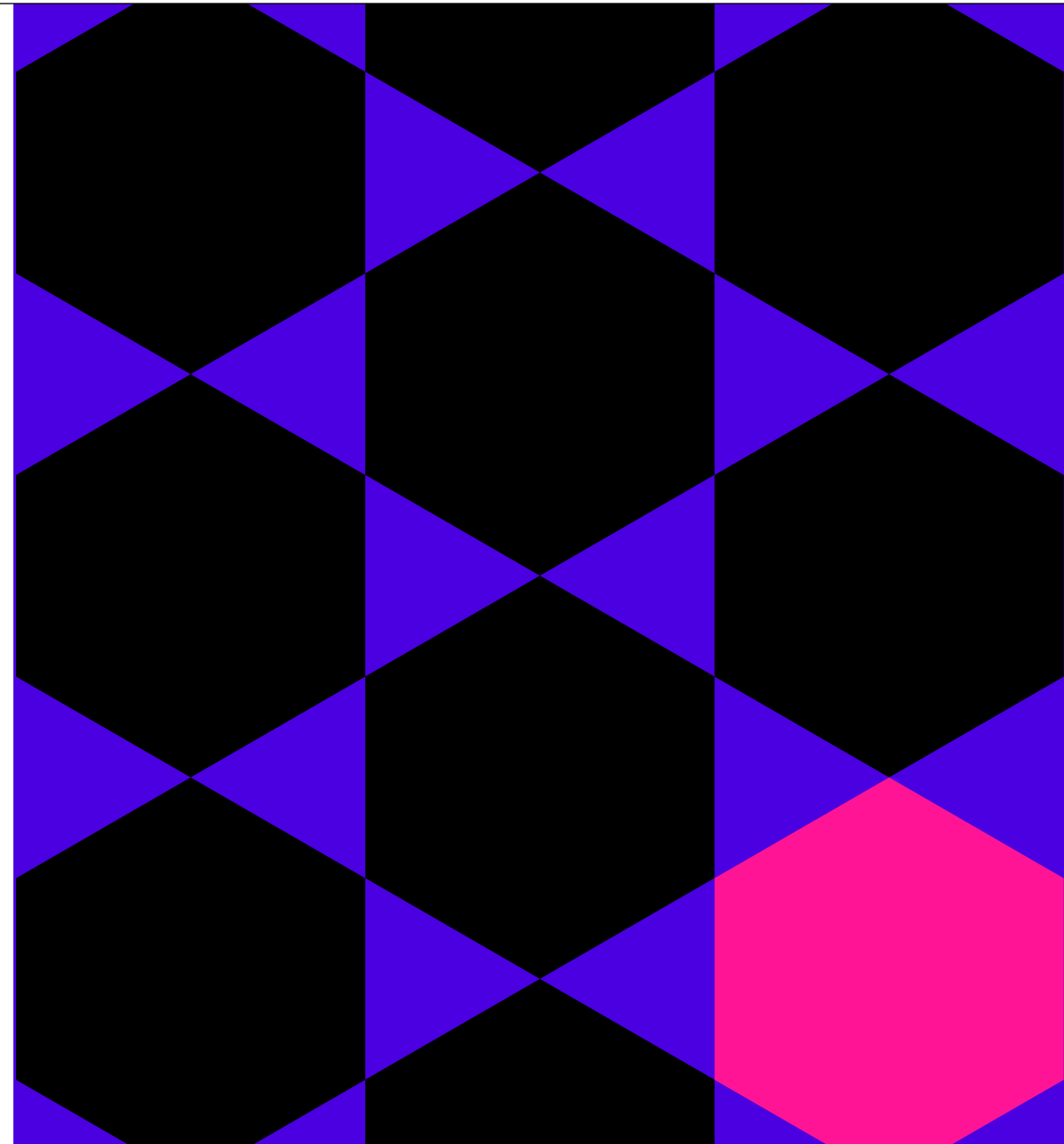
Ensuring successful and compliant reporting is crucial. At a minimum you need to meet the standard, but tying up all your sustainability resources in compliance is not the answer if you want to differentiate. The purpose of disclosure is not to produce the perfect report. It is about sharing meaningful insights into how your business responds to evolving risks and opportunities.

Demonstrating an understanding of the context in which your business operates, understanding your business, and making informed decisions in the short, medium and long terms is what is required by the standards. But using these insights effectively is what will deliver robust sustainability ambition, strategy, and actions.

The takeaway

Sustainability reporting is more than an exercise in compliance. It's an opportunity to transform business practices and performance. The key to unlocking this opportunity lies in leveraging sustainability reporting to improve strategic decision-making and proactive disclosure. Done well, this approach delivers a host of business benefits, including:

- Enhanced risk management
- Increased resilience
- Innovation in products and services
- Attracting investment
- Building brand reputation
- Drawing-in and retaining top talent



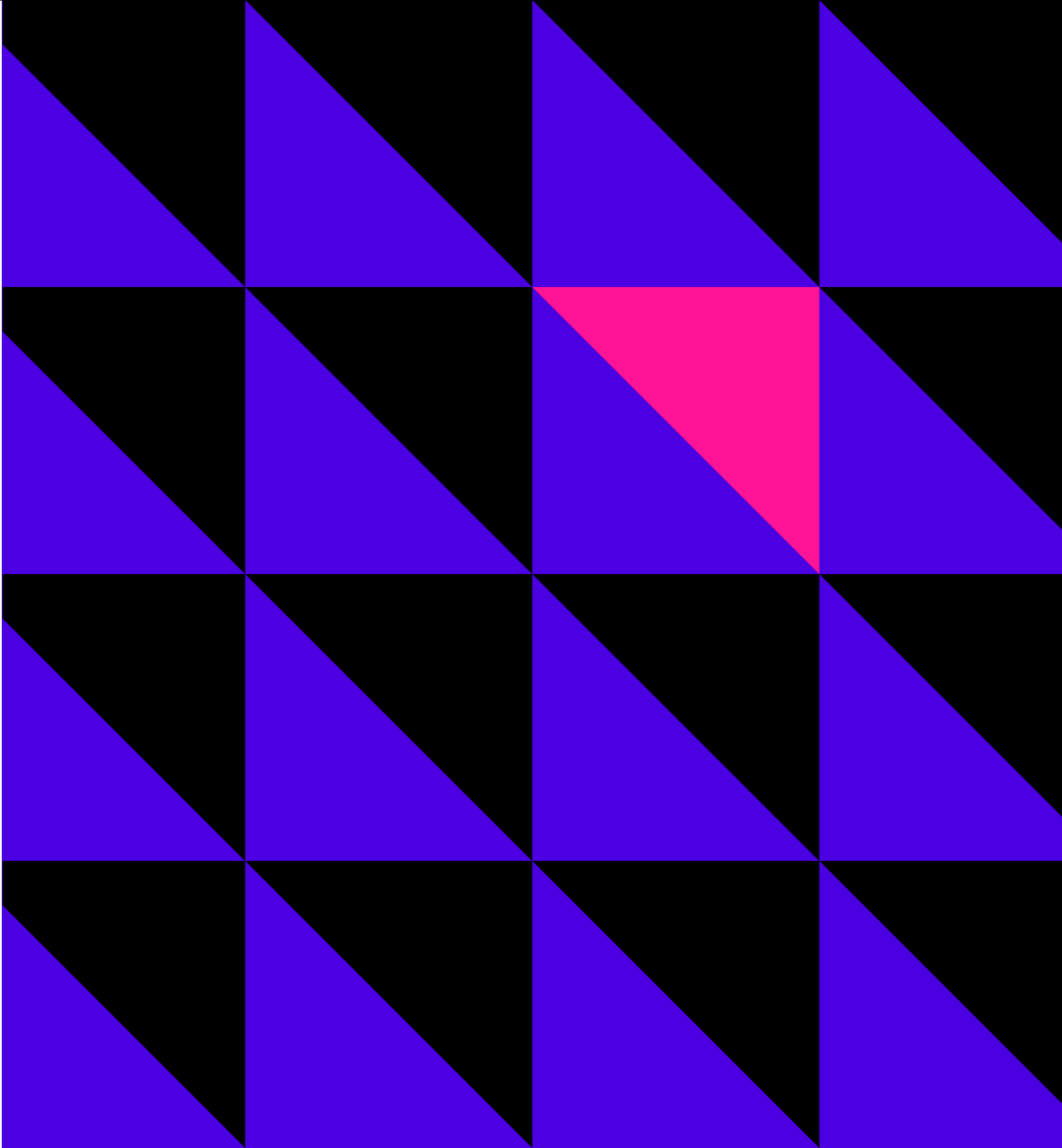
What you need to get right, now!

Climate disclosure reforms are in progress, with public consultation having just wrapped up on Exposure Drafts of the Australian Sustainability Reporting Standards (issued by Australian Accounting Standards Board) and the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 has been tabled at Parliament. The Standards will be substantially based on the International Financial Reporting Standards' (IFRS) International Sustainability Standards Board (ISSB) S1 General Sustainability & S2 Climate-related Disclosures. The final legislation and Standards are yet to be issued, and while there may be further changes, there is sufficient information available now to broadly understand what will be needed to deliver against requirements.

The time to prepare is now!

How ready is your business to disclose climate-related financial risks and opportunities?

A generic, tick-box exercise is unlikely to provide your business with the robust insights required for true transformation and differentiation. Using the four broad categories under which companies will have to report, we have set out some examples of what it looks like to meet the standard with reporting vs. taking a more robust approach that can help your business stand out.



Reporting that meets the standard	Reporting that helps you stand out
<p>Governance</p> <p>You clearly articulate the role your board and leadership team play in responding to climate risk and the controls / oversight you have in place, e.g. sustainability committee, documented accountability at board and executive level, capacity building and upskilling across entire organisation.</p>	<p>You have consistent, embedded and transparent approaches to decision-making. Accountability and responsibilities are consistently applied and trackable across climate risks and opportunities. Mechanisms are in place at management and board level that allow for two-way flow of communication.</p>
<p>Strategy</p> <p>Your climate strategy is informed by two scenarios that help identify risks and opportunities.</p>	<p>You use 2 – 3 scenarios.</p> <p>Qualitative scenario analysis is used to identify risks and opportunities and to create and test your strategy.</p> <p>Quantitative analysis helps forecast necessary emissions reductions over time to meet science-based targets.</p>
<p>Risk Management</p> <p>(You use scenarios and) Set out how transition, physical and liability risks will affect your financial performance in the short, medium and long term.</p>	<p>Climate risk is embedded into enterprise approach to risk management, updated to be fit-for-purpose for the unique nature of climate risks.</p> <p>Your approach shows that short-term decision-making does not compromise commercial resilience across time horizons.</p>
<p>Metrics and Targets</p> <p>You have set industry-relevant targets relevant to your emissions profile*, physical risks, transition risks and resource allocation. You know how to measure them.</p> <p>* Scopes 1 & 2 in first year, Scope 3 in all subsequent years</p>	<p>You have set long term goals with interim, science-based targets to reduce your absolute emissions.</p> <p>You describe the impact actions taken have had against short and long-term goals, in a way that aligns to the science, addresses shortfalls and identifies actions taken to remediate. Disclosures indicate accountability and resources allocated to targets and any variations on proposed actions.</p> <p>There are clear links between the risks and opportunities identified and the ambition of the targets.</p>

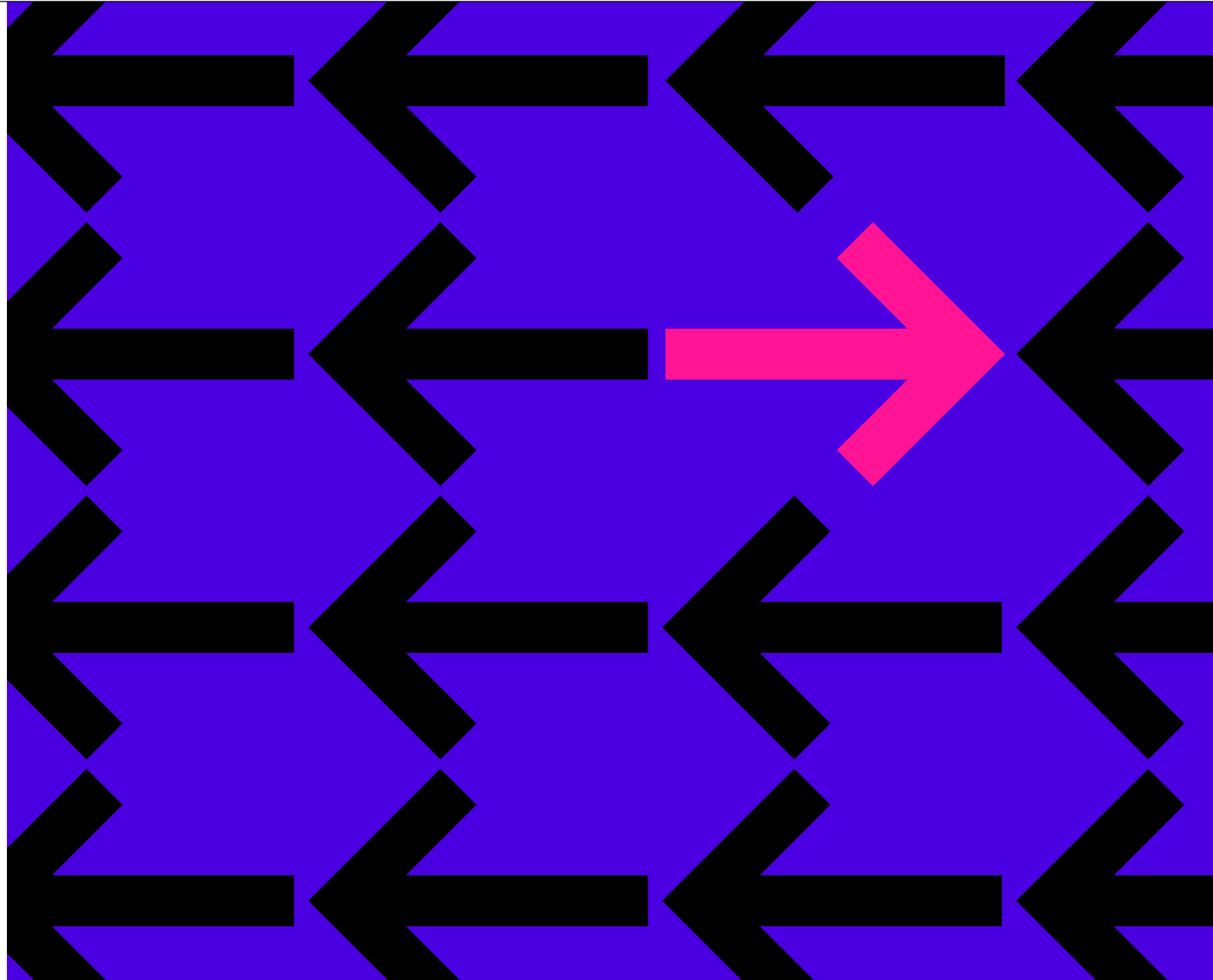
What to think about next?

Consider whether relying solely on a compliance-oriented approach to reporting aligns with your business goals.

Keeping pace with the rapidly evolving landscape of sustainability standards takes time, resources and energy.

Instead of being caught on the treadmill of continuously reacting to the latest sustainability standards, leverage the opportunity to proactively drive enduring transformation that sets your business apart.

These factors could help you stay ahead:



01 Integrating with business

A siloed sustainability reporting function is not able to contribute to strengthening business performance. Leverage insights from sustainability reporting to enhance strategy and operations. Ask yourself:

- Are sustainability goals and strategy integrated into broader business planning?
- Is sustainability responsibility embedded across the business?

02 Unearthing opportunities

IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Research suggests businesses are more mature in identifying risks than opportunities. Consider:

- How does realising sustainability ambitions create opportunities?
- Have you explored new products, services or circular operating models?
- Is scenario analysis effectively use for assessing business impact and actionable opportunities?

03 Trust and credibility

Improve the credibility of your approach by asking:

- Are short-term goals credibly linked to long-term commitments?
- Does your reporting cover deviations from the plan, with reasons?
- Is your strategy informed and tested by diverse stakeholders?
- Are priorities and progress communicated consistently internally and externally?

04 Thinking beyond climate

Climate-risk reporting is just the beginning for mandatory sustainability disclosures in Australia. We're focused on climate reporting right now but some Australian businesses are already reporting more broadly, using voluntary standards such as the GRI and TNFD frameworks. Other places, like the European Union, have already legislated reporting more broadly than climate. There is good reason to think that we too are heading in that direction.

It is important to think beyond climate-related disclosures to other sustainability issues, including nature, human rights and ethical practices.

- Do you understand how climate risk may affect modern slavery risks or incidents in your supply chain?
- Do you understand the impact biodiversity has on your business - what would you do if you had to account (and pay) for all the services nature provides your business for free?
- Do you understand how broader issues affect your climate risk or other elements of your business' success?

SALTERBAXTER

Salterbaxter is a global specialist sustainability strategy and engagement consultancy that has been helping companies inspire, engage and empower stakeholders on sustainability issues for over 25 years.

We offer solutions to help organisations turn their sustainability promises into progress and are well placed to help Australian business unlock the strategic value of sustainability reporting, including mandatory climate disclosures. Our end-to-end services include:

- Reporting readiness assessments
- End-to-end sustainability strategy and action plan development
- Materiality assessments, including double materiality
- Goal and ambition setting
- Sustainability governance and operations development
- Tools and support to shift mindsets and embed sustainability in your business

If you would like to find out more about our work in this area, or in wider sustainability strategy, execution and action, then please get in touch.

australia@salterbaxter.com

