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Climate Sustainability Reporting for Australian Businesses

A Guide to Understanding Your Obligations

Gallagher

Insurance | Risk Management | Consulting

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EXECUTIVE SUMMARY

Navigate Climate Sustainability Reporting — Mandatory for Australian Business Governance and Resilience

Climate change is an urgent global concern and businesses are increasingly expected to play a crucial role in reducing environmental impacts.

As a result, regulatory frameworks are being established to ensure that companies are transparent about their climate-related risks and actions. In this report, we discuss:

- The Australian Treasury Laws Amendment Bill 2024 and its impact on climate-related financial disclosures.[1]
- Compliance timelines and requirements for businesses.
- Key steps businesses should take to prepare for mandatory climate reporting.
- Challenges in data integration, costs, and insurance considerations.
- The role of insurance in managing climate-related transition risks and protecting directors.

INSURANCE — A KEY PART OF CLIMATE CHANGE RESILIENCE

At Gallagher, we are helping businesses navigate this legislation. Our specialists deliver professional analysis and advice to ensure your insurance supports you through physical climate change, transition and evolving regulations.

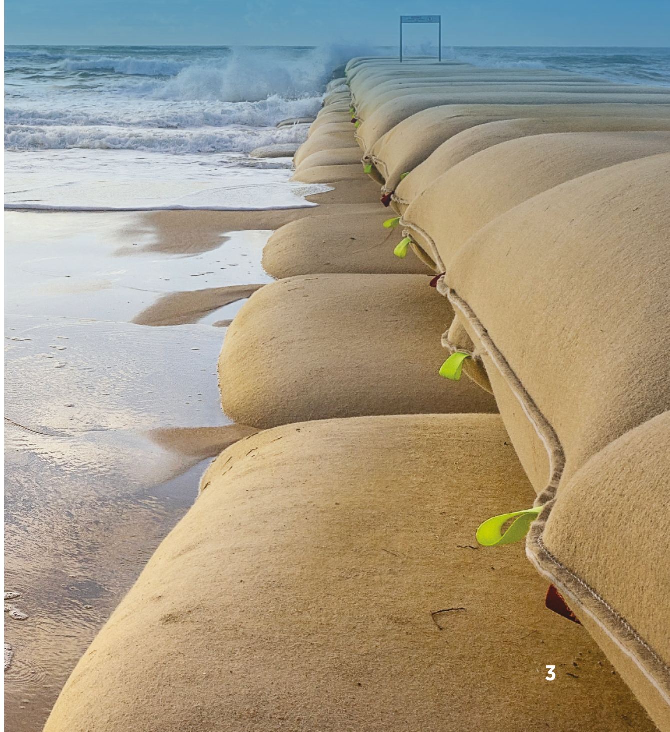
Insurance is a crucial pillar in addressing both physical and transitional climate change. Directors and senior management are responsible for driving compliance with the regulations for the organisation, and it's important that they're protected for decision-making in their capacity as such.

This guide delivers a clear analysis of timelines and compliance obligations for Australian businesses, serving as a strategic guide for senior decision-makers to adapt to the new regulatory landscape.

[1]"ASIC urges businesses to prepare for mandatory climate reporting," *ASIC*, 18 Sept. 2024.

"This initiative presents a strategic opportunity for organisations to understand and manage climate change's physical and transition-related risks. By embracing these requirements, businesses can enhance their resilience, foster stakeholder trust and gain a competitive advantage."

Sophie Griffin, Head of Climate and Sustainability, Gallagher



TACKLING CLIMATE REPORTING: WHAT CAN BUSINESSES DO?

To prepare for mandatory climate reporting requirements, businesses should:

1
ESTABLISH GOVERNANCE STRUCTURES

Develop frameworks to oversee sustainability reporting, including assigning roles and responsibilities to ensure compliance and facilitate accountability.

2
ASSESS READINESS

Evaluate current reporting practices and identify areas of improvement.

3
DEVELOP REPORTING CAPABILITIES

Invest in robust systems and processes for accurate data collection, analysis and reporting to ensure reliable information is always available.

4
ENGAGE STAKEHOLDERS

Communicate with investors and customers to understand their expectations.

5
SEEK EXPERT ADVICE

Leverage the expertise of consultants and auditors to navigate the complexities of climate reporting standards.

6
OBTAIN ASSURANCE

Arrange for external validation of reported information to enhance trust.

7
MONITOR REGULATORY DEVELOPMENTS

Stay informed about regulatory changes to ensure ongoing compliance.

WHICH AUSTRALIAN BUSINESSES MUST REPORT AND BY WHEN?

Mandatory climate sustainability reporting applies to large Australian businesses and financial institutions, categorised into three groups based on size and industry as follows:

First annual reporting periods starting on or after	Large entities and their controlled entities meeting at least two of three criteria:			National greenhouse and energy reporting (NGER) reporters	Asset owners (Registerable Superannuation Entities, Registered Schemes and Retail CCIVs)
	Financial year consolidated revenue	End of financial year consolidated gross assets	End of financial year full-time equivalent employees		
1 January 2025 Group 1	$500Mn or more	$1Bn or more	500 or more	Above NGER publication threshold (50 ktC02-e Scope 1 and 2 emissions)	N/A — entities are explicitly excluded from Group 1
1 July 2026 Group 2	$200Mn or more	$500Mn or more	250 or more	All other NGER reporters	$5Bn or more assets
1 July 2027 Group 3	$50Mn or more	$25Mn or more	100 or more	N/A	N/A

CLIMATE REPORTING VALIDATION — WHAT ASSURANCE IS REQUIRED?

Businesses must obtain external assurance from independent auditors to validate the reliability and accuracy of their climate-related disclosures. This process enhances stakeholder confidence in the reported data.

The level of assurance required may vary; some disclosures will require limited assurance, while others will need reasonable assurance, underscoring the importance of third-party verification.

"Individuals and organisations are increasingly recognising the importance of addressing sustainability challenges, especially in relation to climate commitments such as achieving net zero emissions. To ensure accuracy, it is essential to involve an external party to audit these processes. Organisations should first establish robust internal systems and processes and then seek external verification to validate their claims. This approach not only adds credibility to their assertions but also provides an additional layer of support beyond their internal efforts."

Theresa Lewin, National Head of Financial Lines, Gallagher

KEY CHALLENGES FOR BUSINESSES

1 HIGH COSTS AND LACK OF CLARITY

The high costs associated with initial fee proposals from consulting firms can be prohibitive for many organisations. The absence of clear guidelines on deliverables further complicates the situation, leading to inconsistent quality and understanding among consultants.

2 DATA QUALITY AND INTEGRATION

Data integrity is paramount in climate reporting. As companies seek to integrate climate-related disclosures into their existing frameworks, they must contend with challenges related to data quality, accessibility and expertise. The availability of government-sourced climate data presents an opportunity; however, businesses must be discerning about the sources and methodologies employed in their reporting.

3 RESOURCE AND EXPERTISE GAPS

The complexity of climate sustainability reporting demands diverse skills, including expertise in physical and transitional risks. Unfortunately, many organisations lack the resources and expertise to manage these complexities effectively.

4 DEPENDENCE ON BLACK BOX MODELS

Some consulting firms provide proprietary models without sufficient transparency, leading organisations to rely heavily on these services. This dependency can be costly and restrict an organisation's ability to adapt and update its models independently. It is important for organisations to own their climate modelling, both physical and transitional.

5 URGENCY TO ACT NOW

Don't wait — event preparedness demands immediate action. Immediate risk mitigation, prevention and response are non-negotiable. Businesses must protect their assets and environments now, not by 2030 or by 2050, by implementing robust risk management, emergency response, business continuity and supply chain continuity plans.

6 MANAGING SUPPLY CHAIN COMPLEXITY

Addressing Scope 3 emissions which arise from your supply chain can be particularly challenging due to the difficulty in obtaining data from external partners. To tackle this, build a dedicated team, provide them with proper training and map out all potential sources of emissions. Prioritise key areas for improvement, develop a clear action plan and collect relevant data. Regularly review and refine your approach, ensuring that you use a robust carbon accounting tool that empowers your organisation to control and track its emissions data effectively.

7 MITIGATING TRANSITION RISKS

To minimise the risks associated with transitioning to a more sustainable model, thoroughly stress-test your transition plan by identifying potential roadblocks or factors that could derail your progress. Ensure your plan is realistic, resilient and achievable, and make it a point to regularly review and adjust your strategy to stay on course.

8 DIRECTOR LIABILITY AND COMPLIANCE

Directors may face personal liability if their organisations fail to meet new legislation requirements. Although there is a three-year modified liability regime in place, the immunity will not extend to any action, suit or proceeding brought against a person or entity that is either a criminal action, or brought by Australian Securities and Investments Commission (ASIC).

"The fundamental problem is that the new disclosure rules are an accounting standard with significant non-accounting complexities. Organisations need a broad scope of skill sets to deliver on these requirements."

Sophie Griffin, Head of Climate and Sustainability, Gallagher

THE RISK IMPLICATIONS OF NON-COMPLIANCE

Failure to comply with reporting obligations can lead to:

- **Legal and regulatory risks:** Directors and companies face potential lawsuits and fines from governing bodies due to insufficient disclosures. Increased scrutiny from regulators can disrupt business operations and result in sanctions. There is also the threat of class actions from various parties (including shareholders or activist organisations) because of alleged misrepresentation.
- **Financial implications:** Non-compliance can result in economic losses from higher remediation costs and decreased investor confidence, adversely affecting market value. Poor assessment of climate-related risks may further influence investment decisions and limit access to capital.
- **Operational disruption:** Companies may encounter challenges in securing financing or accessing markets that prioritise sustainability, which can impact overall operational stability.
- **Reputational damage:** Inadequate disclosures trigger public scrutiny, eroding trust among consumers and investors while damaging brand equity. Insurers will closely monitor reputational risk when underwriting D&O renewal terms.
- **Transition risks:** Failure to align with sustainable practices exposes businesses to market challenges as the economy shifts towards low-carbon and net zero positions. Companies must strategically plan to meet transition requirements and align with climate goals.[2]

RIPPLE EFFECTS ON SMALLER BUSINESSES

Larger corporations' adoption of stringent climate disclosure practices will significantly impact smaller businesses' supply chains, compelling them to adapt to maintain competitiveness.

While adjusting to these new requirements may present challenges and costs, proactive measures can enhance competitiveness and prepare smaller firms for future regulatory expectations. Creating scalable sustainability frameworks is essential for organisations of all sizes to thrive in this evolving landscape.

[2] "A Director's Guide to Mandatory Climate Reporting," *AICD*, Sept. 2024.

INSURANCE COVERAGE PROTECTIONS

Directors & Officers (D&O) insurance is a key component in protecting directors against claims related to mismanagement of climate-related disclosures and sustainability practices.

Under the new regulations, directors and officers may face increased scrutiny as a result of required disclosures, making it essential to understand the coverage available.

Key aspects of coverage include:

- **Liability protection:** D&O insurance covers potential liabilities of directors stemming from climate-related disclosures. For publicly listed organisations, directors and the organisation itself may be vulnerable to class actions because of misrepresentation.
- **Legal defence costs:** Coverage extends to legal defence costs associated with directors' compliance failures, helping mitigate organisational financial impacts.
- **Tailored solutions:** Policies should be assessed to ensure they appropriately respond to the climate-related risk exposures.

Given the changes in climate-related disclosure affecting local directors, along with the potential for being subject to offshore legislation, either through the organisation's own footprint, or those of its supply chain, it is critically important that companies and the directors thoroughly evaluate their coverage with their brokers to ensure it protects against potential exposures and supports their transition to a low-carbon economy. Understanding these nuances is vital for effective risk mitigation.

While risk mitigation should be a priority for directors, the good news is organisations can gain the following benefits from climate sustainability reporting:

- **Enhanced reputation:** Showcasing commitment to sustainability attracts environmentally conscious consumers and investors.
- **Financial benefits:** Financiers are providing attractive offerings to organisations that can demonstrate a carbon reduction footprint.
- **Improved investor confidence:** Transparent reporting boosts access to capital by appealing to responsible investors.
- **Operational efficiency:** Identifying climate risks leads to cost savings and greater resilience.
- **Competitive advantage:** Early adopters of climate reporting differentiate themselves and establish market leadership.
- **Regulatory preparedness:** Proactive compliance reduces non-compliance risks and prepares businesses for future regulations.

THE ROLE OF INSURANCE IN TRANSITION RISK MANAGEMENT

Insurance is vital for protecting directors as they manage the risks associated with transitioning to a zero-emissions target, offering financial protection against claims brought by third parties for unforeseen events and liabilities.

Understanding how insurance integrates into climate risk management is essential, including assessing insured versus non-insured losses, and exploring alternative risk transfer mechanisms.

By combining expertise in insurance with insights into climate-related challenges, Gallagher supports clients in navigating these changes, identifying knowledge gaps and ensuring effective reporting as they transition to a net-zero emissions target.

"The insurance industry has a long-standing history of assessing the impact of natural hazards and is well equipped to incorporate climate change into this framework with expertise. As climate change evolves, the industry must adapt to new risks, necessitating engagement between organisations and insurers to understand potential impacts on coverage and premiums."

Sophie Griffin, Head of Climate and Sustainability, Gallagher

WHERE MUST THE DISCLOSURES BE MADE?

Companies are required to include climate sustainability disclosures in a separate Sustainability Report, part of their annual reporting suite, alongside the Financial, Directors' and Audit Reports.

These reports must be submitted to regulatory bodies such as the Australian Securities and Investments Commission (ASIC) and made publicly available to stakeholders.[3]

This framework aims to integrate climate sustainability disclosures into existing reporting systems, aligning with Australian Accounting Standards Board (AASB) guidelines to ensure consistency and comparability across industries, thereby providing a comprehensive view of corporate performance.

[3] "Sustainability reporting standards and legislation finalised: mandatory sustainability reporting begins," *PWC*, Sept. 2024. PDF file.

HOW GALLAGHER CAN SUPPORT YOU

Gallagher's Climate and Sustainability specialists in Australia provide tailored advice and solutions to help businesses navigate the complexities of the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024.

- **Holistic support:** We help clients evaluate climate readiness and identify compliance gaps.
- **Comprehensive framework:** We provide tailored frameworks guiding businesses from initial reporting to assurance, helping them prepare for sustainable practices at every stage.
- **Transparent models:** Our Excel-based models empower clients to independently manage their climate data using high-quality, publicly available information, minimising reliance on costly third-party providers.
- **Education and training:** We offer workshops and resources designed to help clients navigate reporting obligations and climate risks.
- **Risk assessment:** Our team identifies climate-related risks and develops mitigation strategies.
- **Insurance expertise:** We assist clients in assessing losses and adapting coverage to evolving needs.
- **Research and collaboration:** Partnering with institutions like James Cook University, we invest in research to stay at the forefront of climate risk assessment, delivering innovative, data-driven solutions.
- **Director support and compliance:** We guide directors on their responsibilities under the new legislation, assist with insurer presentations and ensure comprehensive coverage in D&O insurance policies.

WHAT DISCLOSURES ARE REQUIRED?

Businesses must deliver comprehensive climate sustainability disclosures encompassing several key components, including:[3]

- **Governance:** Outline the role of the board and management in overseeing climate-related risks and opportunities and the controls and procedures for monitoring these risks.
- **Strategy:** Provide detailed plans for managing climate-related risks and opportunities, including their impact on overall business strategy and resilience under various climate scenarios.
- **Risk management:** Identify and assess material climate-related risks and opportunities across short- to medium- and long-term horizons, implementing effective management processes.
- **Metrics and targets:** Report Scope 1 and 2 greenhouse gas emissions from the first year, including any eligible offsets and certificates, and begin reporting Scope 3 emissions in the second year. This includes progress on climate-related targets and performance metrics, including emissions data against transition plans and reduction goals.

Term	Definition
Scope 1 emissions	Direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity.[4]
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.
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 GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011).

[4]"IFRS S2 climate-related disclosures," *IFRS*, Jun 2023. PDF file.

NAVIGATING MANDATORY CLIMATE REPORTING WITH CONFIDENCE

The introduction of mandatory climate sustainability reporting marks a significant shift in the regulatory landscape for Australian businesses.

As regulatory bodies like the Australian Securities and Investments Commission (ASIC), The Australian Prudential Regulation Authority (APRA) and the Australian Competition and Consumer Commission (ACCC) focus on raising the bar for climate-related disclosures, organisations must adapt to these new requirements. The ability to manage and mitigate environmental impacts rests on companies' ability to accurately measure climate-related impacts. As such, the new rules are an important step towards this goal.

In the future, the scope of reporting will likely expand to include broader sustainability issues, such as nature and biodiversity, making it essential for decision-makers to understand their obligations and make the most of the current compliance opportunities.

Gallagher is poised to help businesses navigate these complexities with data-driven models and risk management expertise. By taking proactive steps now, organisations can meet regulatory demands and establish themselves as leaders in sustainability, ensuring resilience and a competitive advantage in a changing climate.

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