PITCHER PARTNERS

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A practical guide to *Sustainability Reporting* for the middle market

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Making sense of Australia's new *sustainability reporting* requirements

Australia is an early mover globally in introducing mandatory sustainability reporting and audit requirements. For many middle market businesses these changes bring both new responsibility and uncertainty.

Pitcher Partners believes that a great business is also a sustainable one, whether for the environment, its people, its customers, or the broader Australian and global community. Most businesses want to do the right thing, and many already have tailored initiatives in place to manage their impact.

This guide is designed to provide you with practical information as you navigate your sustainability reporting journey and transition to the next phase.

Abbreviations

AASB S1 and AASB S2	Collectively are referred to as Australian Sustainability Reporting Standards (ASRS) throughout this document.
RG 280: Sustainability Reporting	The guide to how ASIC will exercise specific powers under legislation (primarily the Corporations Act), how ASIC interprets the law and the principles underlying ASIC's approach.

Key resources

ASIC: Chairman Speech on Mandatory Climate Disclosure

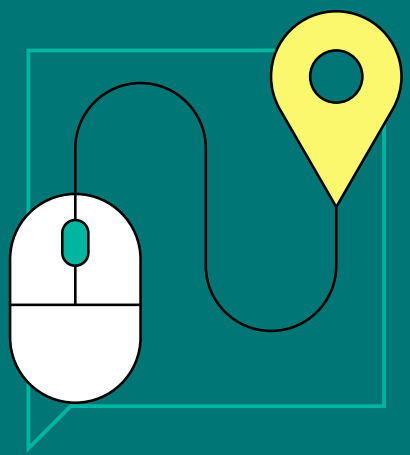
AASB S1: *General Requirements for Disclosure of Sustainability-related Financial Information [voluntary]*

AASB S2: *Climate-related disclosures*

RG280 Sustainability Reporting

Pitcher Partners Sustainability Reporting Guide

Pitcher Partners: Transitioning to an environmentally sustainable economy: Climate reporting is now law



Understanding the *new requirements*

Am I included?

Mandatory requirements in your financial statements are currently restricted to climate reporting only, and apply if you:

- lodge financial statements under Chapter 2M of the *Corporations Act 2001* (Act);
- meet certain size thresholds (timing is phased as per the below table).

Group	Annual reporting periods starting on or after	Threshold (Two or more to be met)			NGER	
		EOFY employees	Consolidated assets	Consolidated revenue	Reporting status under NGER	Asset owners*
1	1 January 2025	500 or more	$1b or more	$500m or more	Above NGER publication threshold	N/A
2	1 July 2026	250 or more	$500m or more	$250m or more	All other NGER reporters	$5 billion or more assets under management
3	1 July 2027	100 or more	$25m or more	$50m or more	N/A	Refer to Group 3 thresholds

* Including registered schemes, registrable superannuation entities, retail CCIVs.

Generally, if you lodge audited financial statements with ASIC annually, you are highly likely to be captured under mandatory sustainability reporting.

Your social and governance activities aren't currently part of any mandatory financial statement disclosures. There are specific obligations for Modern Slavery, Gender Pay Gap Reporting, Payment Times Reporting and other social/governance matters, but these aren't required for your annual reporting.

If you are **not** captured by the mandatory reporting, refer to page 13 for further information on other forms of Environmental, Social and Governance (ESG) reporting.

We recommend you *proceed with caution* if you currently rely on ASIC audit or reporting relief. This may not always mean relief from sustainability reporting requirements.

What's involved?

Mandatory sustainability reporting involves reporting on the following key areas:

Governance

The governance body responsible within the entity and the delegated authority within management

Monitoring and oversight of climate-related issues

Strategy

Climate-related risks and opportunities

Potential impacts on business model, supply chain, strategy, financial positions, performance

Climate Resilience Assessments and Scenario Analysis

Your overall resilience to climate-related risks

Stated impact on your business under two climate scenarios (increase in global temperatures of <1.5°C and greater >2°C)

Transition plans

Details of your climate transition action plan (where one is in place)

Risk management

Processes to identify, assess, prioritise and monitor risks and opportunities

Key data sources and information provided to monitor risk

Scope 1 & 2 emissions

Data on your direct and indirect emissions involved in your business

(more details below)

Scope 3 emissions

Data on your indirect emissions throughout your supply and value chain

(more details below)

Note: Not required in Year 1

Climate related metrics and targets

Any targets set, including its objective and interaction with international regimes

(more details below)

Monitoring around those targets

Audit requirements have been set as below. Limited refers to a reduced level of assurance provided by the auditor, and generally requires less extensive procedures. Reasonable is a higher level of assurance, equivalent to that provided in a financial statement audit report. By law, your sustainability report audit firm must be the same auditor as your financial statements.

Reporting year	Year 1*	Year 2	Year 3	Year 4 onward**
Governance	Limited	Limited	Limited	Reasonable
Strategy – risk and opportunities***	Limited****	Limited	Limited	Reasonable
Climate resilience assessments / scenario analysis	None	Limited	Limited	Reasonable
Transition plans	None	Limited	Limited	Reasonable
Risk management	None	Limited	Limited	Reasonable
Scope 1 and 2 emissions	Limited	Limited	Limited	Reasonable
Scope 3 emissions	None	Limited	Limited	Reasonable
Climate-related metrics and targets	None	Limited	Limited	Reasonable

* Group 1 – Years commencing 1/1/25, Group 2 – Years commencing 1/7/26, Group 3 – Years commencing 1/7/27.
** Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1/7/30.
*** Includes the phasing for assurance on Statements where there are no material climate-related risks and opportunities.
**** Assurance requirements will only apply to disclosures prepared for the purpose of complying with sub-paragraphs 9(a), 10(a) and 10(b) of AASB S2.

Greenwashing, protected statements and *risk management*

All directors have a duty to remain informed and exercise due care and responsibility. This includes monitoring material risks to climate. The sustainability reporting disclosures and legislation provides a framework for this.

Directors remain responsible for the accurate disclosure of relevant information and must be mindful of making statements or representations which would be considered "greenwashing". ASIC's monitoring of greenwashing is focused on prohibiting misleading and deceptive conduct, and particularly on entities they consider to carelessly give inaccurate or misleading statements.

Modified liability settings for Directors apply in relation to certain statements made in respect of:

- Statements relating to climate about the future (at time of report);
- Statements made about:
  - scope 3 greenhouse gas emissions;
  - scenario analysis; or
  - a transition plan.

These are protected statements only where stated in your mandatory sustainability report, or in the accompanying auditor's report. Directors and officers should be cautious in repeating or using these protected statements or making statements regarding sustainability outside of the mandatory sustainability report (such as in your directors' report, financial statements or other public communications).

Where a protected statement is made voluntarily. For example, where a protected statement is reproduced in an investor presentation or in promotional material, it will not be covered by the modified liability settings, unless that disclosure is required under a Commonwealth law.

What are your *responsibilities* as a director?

As a director, you must exercise due care and diligence in the discharge of your responsibilities, which includes your mandatory sustainability reporting obligations. At a minimum, this includes, but is not limited to:

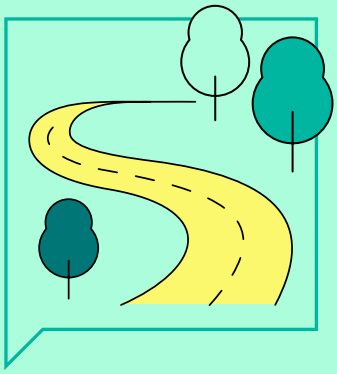
- Understand reporting obligations;
- Understand climate-related risks and opportunities;
- Establish systems to identify, assess and monitor material financial risks and opportunities relating to climate;
- Establish controls policies and procedures for overseeing and preparing the sustainability report;
- Establish controls, policies and procedures for keeping sustainability records; and
- Apply a critical lens to the disclosures proposed in the sustainability report.

We suggest directors formally establish and document how they are discharging their responsibilities in this space.

While directors may rely on the special knowledge or expertise of others in relation to sustainability reporting, they still need to make an independent assessment of the information or advice provided, using their own skills and judgement.

How do I *start*?

Here are some initial questions to help start your sustainability journey.



Framing	Who is the audience for your sustainability reporting? Are suppliers, investors or customers requesting climate data, or are you primarily focused on your mandatory reporting?
Governance	Who is responsible for your climate strategy, reporting and governance? How do they monitor and provide oversight?
Strategy	Does your organisation have a net zero commitment or climate strategy? What are your climate-related goals? How would these be measured? Do you currently understand your full value chain? How are they impacted by climate-related risks? What risks are present from climate-related **physical and transition risks?** Are there any opportunities?
Risk management	How would you explain the impact of these risks and opportunities on business model, supply chain, strategy, financial position and performance? Are the above risks captured on your risk register?
Metrics and targets	Do you have information to analyse key drivers of your emissions? (More information below) How do you currently store information about your direct emissions such as fuel usage (fleet and PPE) and your indirect emissions through electrical usage (Scope 1-2)?

Understanding *materiality*

As with financial reporting, materiality applies to disclosures within your sustainability reports.

ASRS defines materiality similarly to financial reporting. Materiality is whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users make, through nature or magnitude. There are no formal thresholds or guidance provided, and materiality judgements are left to management.

In sustainability reporting circles, there is a concept of double materiality. This is not explicitly included in ASRS, but is referenced in European standards, and other related frameworks.

Double materiality considers:	
Financial materiality	Does this matter generate material risks or opportunities to your future financial position, financial performance, cash fows, access to finance or cost of capital; and
Impact materiality	Does this matter generate material impacts on people or the environment?

Middle market businesses may find this a useful framework to consider when applying ASRS, though not mandatory in Australia.

Climate-related *risks and opportunities*

Climate related disclosures present organisations with both risks and opportunities. Historically businesses that have acted responsibly may not have been fully rewarded for their actions. With the introduction of these disclosures Treasury are anticipating greater rewards for those acting in a socially and environmentally responsible way.

The below table outlines the risks and opportunities as defined by the Australian Sustainability Reporting Standards. Organisations need to consider their exposure and opportunities in these categories as disclosure may be required.

Physical risks

Short-term events

Long-term shifts in climate

Transition risks

Arising from transition of the economy to lower-carbon – including legal, technological, market, reputational and financial

Opportunity

Potential positive effects from climate on an entity's operations

Greenhouse Gas Emissions *Accounting*

Climate-related disclosures will include disclosure of scope 1, 2 and 3 emissions. Organisations need to start capturing and storing relevant data captured under each scope to best prepare for the transition.

Scope 1

Direct emissions from sources controlled by the entity

E.g. burning of fuel from fleet vehicles / other PPE

Scope 2

Indirect emissions from generation of purchased electricity, steam, heating or cooling

Scope 3

Indirect emissions that occur in the value chain both upstream and downstream

Note: Scope 3 is excluded from first year reporting under mandatory sustainability disclosures

Scope 1

For most entities, Scope 1 emissions will be burning petrol or diesel fuel through owned motor vehicles. Other businesses may also consume fuel from manufacturing machines. Businesses should also be aware of the impact of refrigerants, or fugitive emissions (unintended emissions and leaks) that may be material. Many service-based businesses will have no material Scope 1 emissions.

The calculation of emissions is generally total fuel usage with a relevant emissions factor applied based on type of fuel and other factors.

Collation of fuel usage is generally not difficult conceptually, however businesses in certain industries may find efficient and effective processing of large volumes of fuel data challenging.

Scope 2

For most entities, Scope 2 emissions will be emissions from electricity.

The calculation of emissions is generally total electricity usage with a relevant emissions factor applied based on location and other factors.

Where your business utilises carbon offsets, renewable energy certificates or other instruments, you may take a “market-based” approach to more specifically measure emissions. This introduces additional complexity to the calculation, as well as estimates and judgements, and is best done with insight from relevant experts.

Collation of electricity usage is generally not difficult conceptually, however businesses with a large number of sites may find efficient and effective processing of large volumes of electricity usage challenging.

Scope 3

Scope 3 emissions can be an area of significant judgement and complexity. The minimum list of emissions categories under ASRS is:

- purchased goods and services;
- capital goods;
- fuel- and energy-related activities not included in Scope 1 or Scope 2 greenhouse gas emissions;
- upstream transportation and distribution;
- waste generated in operations;
- business travel;
- employee commuting;
- upstream leased assets;
- downstream transportation and distribution;
- processing of sold products;
- use of sold products;
- end-of-life treatment of sold products;
- downstream leased assets;
- franchises; and
- investments.

This list is not exhaustive, and you must consider if there are any other material indirect emissions in your value chain upstream and downstream.

Putting aside the emissions boundary considerations (described later), the nature of these emissions means significant additional information is required for a detailed calculation. Therefore, many businesses will place reliance on estimates based on expenditure or other more readily available information in the short-term, while information collection is improved.

As an example, the largest Scope 3 emissions for most businesses is purchased goods and services. High-level estimates may be possible based on a general emissions factor and total expenditure directly from your profit and loss. Stronger estimates will involve engagement with major suppliers to enable specific emissions factors to be generated, or a more detailed breakdown of expenses to increase precision of the estimate.

Improving the quality of information, estimates and assumptions is likely to be a journey for most middle market businesses. Appropriate methods and data in the first year may not remain appropriate for future years, as stakeholder, auditor and regulator expectations evolve. Businesses should target the most strategically critical measures when directing their efforts to enhance precision around estimates and judgements. This is similar to financial reporting. For example, a spend-based approach to Scope 1 fuel-burn could be widely accepted as appropriate, however some industries may expect actual fuel-burn data to underpin Scope 1 emissions estimates given its magnitude or strategic importance.

To help businesses understand the potential information requirements, we've summarised some key emissions categories and information requirements. **We note that the specifics of your business may change the type and level of information required.**

Purchased goods and services	**Indirect emissions associated with all purchased goods and services**	→	Expenditure split into key categories and suppliers. Engage with key suppliers to understand actual emissions associated to provide higher-quality information
		→	Expenditure broken down into key categories with broad-based emissions factor applied
Business travel	**Indirect emissions that occur due to business travel including flights, accommodation and sustenance**	→	Route and class of travel-level data with specific emissions listed for each trip (often available through corporate travel agencies)
		→	Business travel expenditure broken down into key categories with broad-based emissions factor
Capital purchases	**Indirect emissions resulting from purchases of capital assets**	→	Expenditure broken down to asset-level with specific emissions factors applied
		→	Capital goods expenditure broken down into key categories with broad-based emissions factor
Employee commuting	**Indirect emissions associated with employees commuting to normal place of business**	→	Employee commute survey with detailed information
		→	Estimation of average employee commute, and average employee site attendance

→ Higher quality data → Lower quality data

Applying estimation and judgement

Emissions accounting involves estimation of carbon emissions from your directly observable data. As with any estimate, there is uncertainty and judgement involved. Businesses need to apply reasonable care and expertise in this area, as they would with financial reporting. Some key areas of judgement are identification of appropriate emissions factors, tabulation of data not directly measurable, and drawing appropriate emission boundaries.

Many middle market businesses may benefit from external help in the first year to set a reasonable methodology and position on key judgements, assumptions and estimates. We foresee many businesses looking to in-house ongoing collation and reporting efforts, with external help sought on emerging issues and key organisational changes – similar to other compliance activities.

Using emissions factors

In some cases, you may have access to your actual emissions outputs. In most cases however, you will collate relevant data and convert into emissions through use of a relevant **emissions factor.**

Emissions factors may vary depending on location, nature of activity and input. As examples, the emissions factor per kWh of electricity differs between each state, and the emission factor applying to business travel could be based on actual flight distance and class, or based on expenditure. Identification of appropriate emissions factors is an area of judgement that can materially impact your emissions reporting.

Compiling data not directly measurable

While some data such as electricity and fuel usage can be directly measured, Scope 3 emissions will require businesses to estimate key inputs. A reasonable methodology must be applied with due consideration of estimation uncertainty and potential for bias.

As an example, calculation of Scope 3 emissions from employee commuting uses estimates of average distance and mode of employee travel, and average attendance at office during the course of the year. Many businesses will find it impractical or intrusive to collect this data on all employees. Instead a reasonable estimate based on a representative sample collected via survey may be appropriate.

Setting boundaries

Businesses are often complex, and that means their Scope 3 emissions usually are as well. The definition of Scope 3 emissions is wide-ranging in relevant protocols. The list noted earlier includes the minimum areas to be considered, however any additional material emissions sources should be included. Appropriate emissions boundaries include identification of all material emissions sources, and judgement around setting the extent and scope of inclusion of value chain emissions into Scope 3 emissions.

As an example, AASB S2 includes investments as a category for Scope 3 emissions. An entity that holds non-controlling interest or provides debt or grant funding to other businesses should consider whether it is appropriate to include a portion of these businesses' emissions.

For sellers of goods, the downstream consideration of processing, use and end-of-life treatment of sold goods may present significant challenges in data collation, and in identifying appropriate emissions boundaries.

What happens if I *fail to comply*?

For entities required to disclose as outlined earlier, failure to apply mandatory sustainability reporting requirements and include adequate disclosures are likely in breach of the *Corporations Act 2001*. Significant penalties can apply to businesses, and to directors personally, similar to breaching other parts of the *Corporations Act 2001*.

Beyond *mandatory sustainability reporting*, should I do more?

While mandatory requirements are front of mind currently, businesses might consider voluntarily preparing an ESG report. This decision should be driven by the values, strategy and needs of the organisation.

This approach is not one-size-fits-all, and we expect middle market businesses will approach voluntary ESG efforts and reporting differently. Strategic alignment and organisational buy-in are vital, and the level of detail and focus areas (E v S v G) will vary based on industry, size, and entity specific factors.

Below is a chart for middle market businesses to self-assess current state, and desired future state.

		ESG exposure (Inherent, Individual, Industry)		
		Low	Moderate	High
Level of ESG response	No action	Unaware	At risk	At risk
	Assessed risks	Aware	Reactive	At risk
	Developed strategy and key activities	Measured	Measured	Reactive
	Implemented initiatives, reporting regularly and embedded within business	Leader	Leader	Measured
	Direct action and commitment	Differentiator	Differentiator	Leader

The first step for any business is to assess your exposure to ESG. This analysis is similar to a risk assessment, and should factor in transition, strategic, operational and direct ESG risks.

Once you've considered your exposure, the level of action should reflect the strategic positioning sought by your business. Not all businesses will target leadership or differentiation, but being intentional about your approach will help sharpen the overall strategy and focus areas.

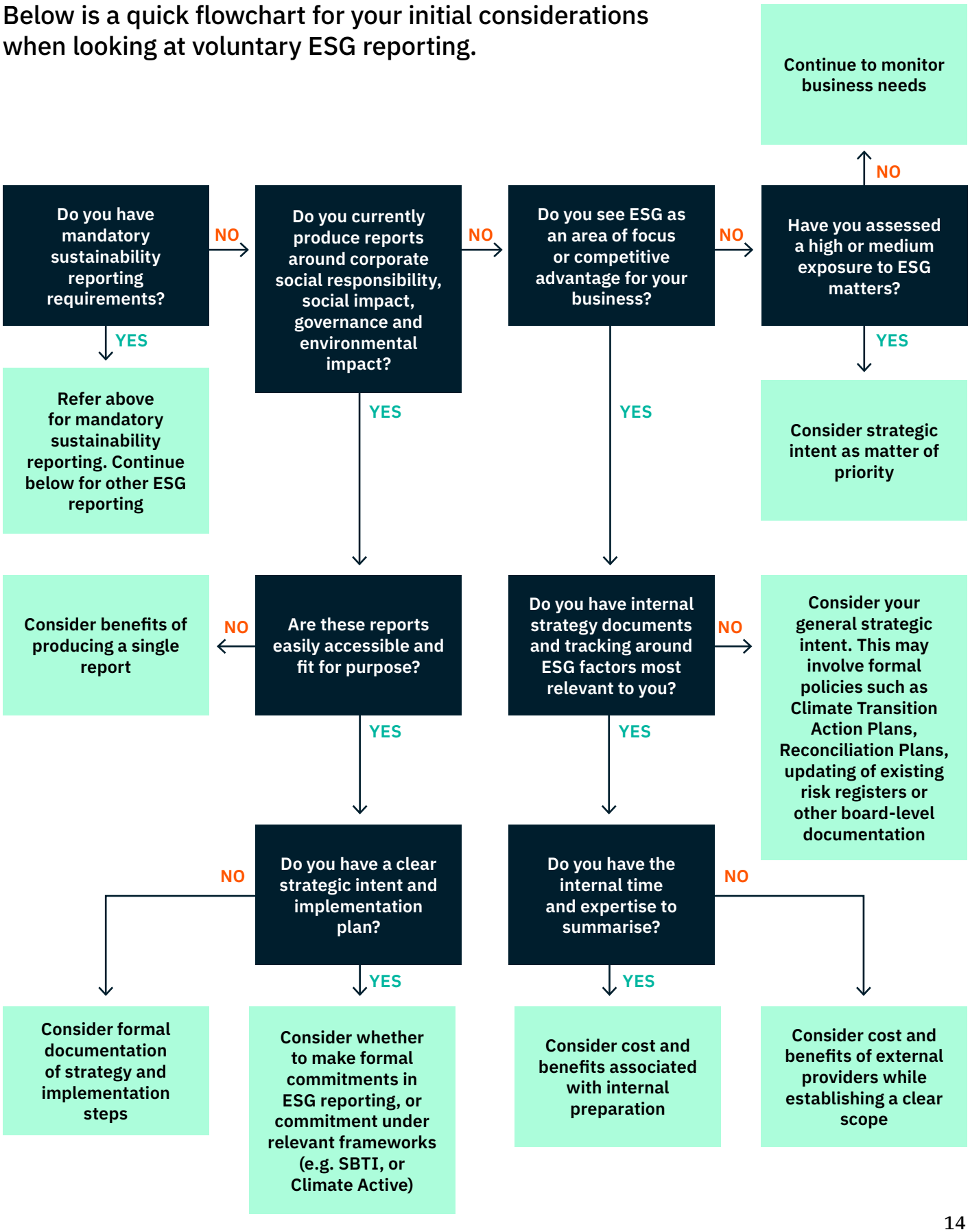
Reporting

Based on exposure and strategy discussed above, voluntary ESG reports will vary, and we would expect businesses to focus on ESG areas most important to their business.

As with any external communications, businesses must still remain aware of risks of greenwashing or similar with respect to ESG matters, and of misleading and deceptive practices in this area. Statements and claims should be factual, and due care taken to their accuracy, remembering that any voluntary ESG reporting is not a protected statement.

Determining your *approach*

Below is a quick flowchart for your initial considerations when looking at voluntary ESG reporting.



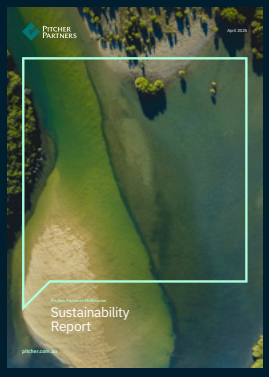
Our approach to *reporting*

Pitcher Partners Melbourne has prepared an annual ESG report since 2023. This report includes details of our impact on our people, clients and the community. And a summary of our key governance structures and a carbon footprint.

We reported Scope 1 and 2 emissions from 2023, and included limited Scope 3 emissions for the first time in 2024.

The report provides a summary of our ESG journey, and the progress we've made each year.

This journey aligns with our values and strategic direction. We're proud of the progress we've made and will continue to assess and report our impact as we grow.



View the 2024 Sustainability report here.

About *Pitcher Partners*

145+
partners

1,500+
people

6
independent member firms

9th
largest network of accounting and advisory firms

National statistic as at 1 July 2024

We're ready to *help you thrive*

Since day one we've been helping businesses, families and individuals intelligently frame their goals and make the most of their potential.

Today, we're one of the largest accounting, audit and business advisory firms in Australia. We work with middle market businesses, from family-run companies to renowned industry leaders and iconic brands. And help families and individuals manage their wealth across generations.

If you've got ambition, we're the team you want on your side.

Local knowledge, national footprint

Pitcher Partners is a national association of six independent accounting, audit and business advisory practices. You'll find our firms in Adelaide, Brisbane, Melbourne, Newcastle and Hunter, Perth and Sydney. Each firm has a unique character, with a strong connection to the local community. Supported by our combined resources, we deliver Australia's most personalised and responsive assurance and advisory services.

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At the heart of Pitcher Partners is the idea that business is never just business. We're known for the dedication we give to building great relationships, and it's been that way from the start. People first.

Everything we do is grounded in communication and collaboration. We're here for that frank, refreshing and always informed discussion that leads to new ideas and better decisions. And we're here for you. Whatever your goals, we can get there together.

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