Pitcher Partners

AASB S2: Board guide to mandatory *climate reporting*

pitcher.com.au

About this *guide*

The introduction of AASB S2 climate-related disclosures marks a significant shift in how organisations are required to identify, assess, manage and disclose climate-related risks and opportunities.

For boards, this brings heightened oversight expectations and a stronger link between climate considerations, strategy, risk management and financial reporting.

ASIC Regulatory Guide 280 highlights the important role directors play in approving sustainability reports and exercising their duties of care and diligence in relation to sustainability reporting. In doing so, directors are expected to:

- Have an understanding about the reporting entity's sustainability reporting obligations;
- Have an understanding about climate-related risks or opportunities that could reasonably be expected to affect the reporting entity's prospects;
- Require the establishing of systems that identify, assess and monitor any material financial risks and opportunities relating to climate;
- Require the establishing of controls, policies and procedures for overseeing, managing and preparing the sustainability report and for keeping sustainability records; and
- Apply a critical lens to the disclosures proposed in the sustainability report.

Directors may rely on experts and advisors, but remain responsible for making an independent assessment of information provided using their own skills and judgement.

This guide has been developed to assist boards and directors in discharging these responsibilities. It translates the requirements of AASB S2 into practical board-level actions across governance, strategy, risk management, and metrics and targets.

This guide is not intended to be a comprehensive summary of all AASB S2 disclosure requirements, nor a substitute for a detailed AASB S2 disclosure checklist or technical interpretation of the Standard.

It focuses on key board level considerations and practical actions to support effective oversight. Boards should use this guide as a practical reference tool when engaging with management, setting expectations and overseeing preparation for AASB S2 reporting.

For financial years commencing between 1 January 2025 and 31 December 2027, directors of entities subject to mandatory climate reporting are required to declare whether, in their opinion, the entity has taken 'reasonable steps' to comply with the Corporations Act and AASB S2.

Importantly, in preparing disclosures about the anticipated financial effects of a climate-related risk or opportunity, directors should use all reasonable and supportable information that is available to the organisation at the reporting date without undue cost or effort; and use an approach that is commensurate with the skills, capabilities and resources that are available for preparing those disclosures.

Mandatory climate reporting under *AASB S2*

AASB S2 requires organisations to disclose how climate-related risks and opportunities are governed, assessed, managed and measured around four pillars.

Pillar 1: *Governance*

The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities[1].

AASB S2 requirement	What must be disclosed	Practical actions for boards
Identify oversight body or individual(s) (para 6(a))	• The governance body or individual(s) responsible for oversight of climate-related risks and opportunities	• Assign oversight to the board or a committee and update board or committee charters accordingly
Clearly outline responsibilities in governance documents (para 6(a)(i))	• How climate-related responsibilities are reflected in terms of reference, mandates, role descriptions and policies	• Adopt or update governance documents (such as charters, terms of reference and mandates) to explicitly reflect climate responsibilities and escalation pathways
Board skills and competencies (para 6(a)(ii))	• How the board determines whether appropriate skills and competencies are available or will be developed	• Consider climate capability as part of the board skills matrix • Address skill gaps through training or external expertise
Board reporting and frequency (para 6(a)(iii))	• Processes and frequency for informing the board about climate-related risks and opportunities	• Integrate climate reporting into regular board packs (e.g. monthly, quarterly) with clearly defined reporting owners (Chief Financial Officer, Chief Risk Officer, Sustainability Lead)
How climate factors influence board decisions (para 6(a)(iv))	• How climate risks and opportunities are considered in overseeing the entity's strategy, decisions on major transactions, risk management policies and consideration of trade-offs associated with those risks and opportunities	• Ensure climate considerations are incorporated into board-level strategy, Enterprise Risk Management discussions and major decision papers • Require climate impact assessments for major decisions
Oversight of targets and remuneration (para 6(a)(v))	• How the board oversees the setting of climate-related targets, progress towards those targets, whether related performance metrics are included in remuneration policies and how those metrics are included	• Approve climate targets (if established) • Establish the process for tracking progress against climate-related targets (frequency and how disclosed) • Review remuneration frameworks for climate-linked metrics. Where climate metrics are used in remuneration, document oversight and review processes

1. AASB S2 para 5.

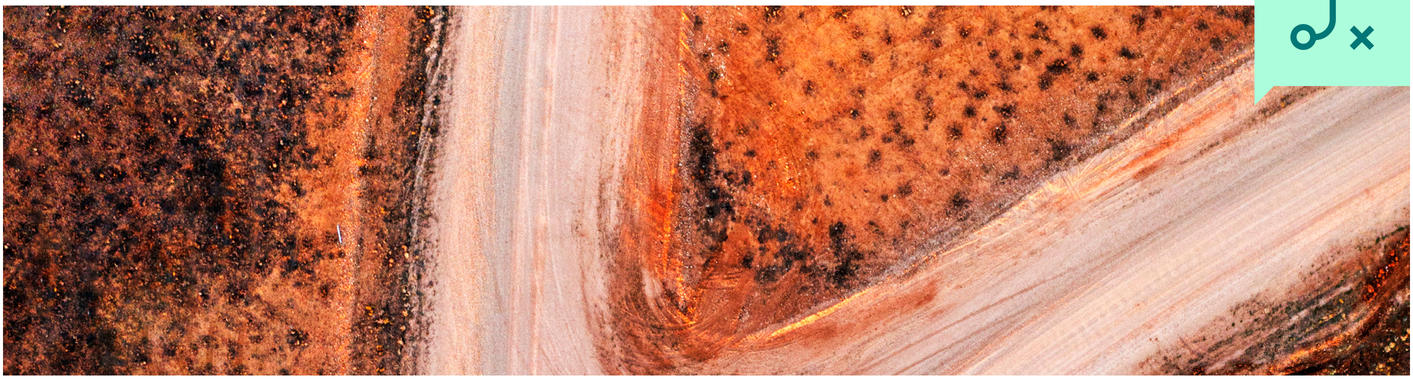
AASB S2 requirement	What must be disclosed	Practical actions for boards
Management's role (para 6(b))	• Management's role in governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities	• Clarify management accountability for climate matters and escalation pathways to the board
Delegation to management committees or roles (para 6(b)(i))	• Whether responsibilities are delegated to specific management roles or committees and how oversight is exercised	• Delegate relevant responsibilities to management, and oversee establishment of relevant management-level processes and controls such as a Sustainability / Climate committee, where appropriate • Document delegated responsibilities, committee terms of reference and reporting lines to the board
Controls and procedures used by management (para 6(b)(ii))	• Whether management uses controls and procedures to support oversight and how these integrate with other internal functions	• Ensure reporting protocols, review processes and escalation thresholds relied upon by the board are clearly documented • Consider update of relevant policies and risk frameworks for climate risk

Pillar 2: *Strategy*

The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities[2].

AASB S2 requirement	What must be disclosed	Practical actions for boards
Climate-related risks and opportunities (paras 9(a), 10-11)	• Climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects and for each risk, whether it is a physical risk or transition risk • The time horizons over which the effects could reasonably be expected to occur (short, medium, long term) • How the entity defines short, medium and long term, and how these align with planning horizons used by the entity for strategic decision-making	• Assess whether risks and opportunities identified reflect the entity's actual exposure • Understand how management identified climate-related risks and opportunities, assessed their materiality, and determined which matters were material for disclosure in the sustainability report • Understand the key judgements, assumptions and evidence supporting those conclusions, including where external expertise has been used • Challenge classification, time horizons and alignment with strategic planning horizons • Seek to understand key assumptions and information used
Business model and value chain (paras 9(b), 13)	• The current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain • Where in the business model and value chain risks and opportunities are concentrated (for example, geographical areas, facilities and asset types)	• Assess whether impacts on the business model and value chain are clearly identified and complete • Challenge whether areas of concentration are appropriately disclosed
Strategy and decision-making (paras 9(c), 14)	• How the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision-making • Current and anticipated changes to the business model, including resource allocation • Current and anticipated direct and indirect mitigation and adaptation efforts • Any climate-related transition plan (if established), including key assumptions and dependencies • How the entity plans to achieve climate-related targets (if established) • How the entity is resourcing these activities • Quantitative and qualitative information on progress of plans disclosed in prior periods	• Require climate impacts to be explicitly addressed in strategy papers and major investment or transaction proposals • Integrate climate considerations into regular strategic reviews • Assess whether strategic responses are clearly articulated and aligned with disclosed risks and opportunities • Consider whether a climate-related transition plan would support the entity's strategic objectives and management of climate-related risks and opportunities • Challenge key assumptions, dependencies and feasibility of transition plans (if established) • Evaluate whether resourcing and progress disclosures are credible and consistent with strategy

2. AASB S2 para 8.



AASB S2 requirement	What must be disclosed	Practical actions for boards
Financial position, financial performance and cash flows (paras 9(d), 15-16)	• The current and anticipated effects (considering short, medium and long-term and how factored into the entity's financial planning) of climate-related risks and opportunities on financial position, financial performance and cash flows for the reporting period • Quantitative and qualitative information on: – How climate-related risks and opportunities have affected financial position, performance and cash flows for the reporting period – Risks with a significant risk of material adjustment to asset and liability carrying amounts within the next reporting period – Expected changes in financial position, performance and cash flows over the short, medium and long-term	• Assess whether financial impacts are clearly linked to strategy and risk disclosures • Challenge consistency with budgets, forecasts and financial statements • Seek to understand significant assumptions underlying disclosed impacts including consistency with plans for capital expenditure, acquisitions and divestments, business transformation, asset retirements
Limitations on quantification (paras 18-21)	• Where quantitative information is not provided: – Explanation of why information is not provided – Qualitative information about financial effects (including identifying line items/totals within the financial statements affected or likely to be affected) – Quantitative information about combined financial effects, unless not useful	• Assess whether the approach is reasonable and supportable with information available at the reporting date taking into account the entity's skills, capabilities and resources • Challenge completeness of disclosures where quantitative information is omitted
Climate resilience and scenario analysis (paras 9(e), 22)	• The resilience of the entity's strategy and business model under climate-related scenarios, including using temperature pathways aligned to 1.5°C and well above 2°C, above pre-industrial levels* • The entity's assessment is to include the implications of the resilience assessment for strategy and business model, the significant areas of uncertainty considered and the entity's capacity to adjust or adopt its strategy and business model • Information about how and when scenario analysis was carried out, including information about the inputs, key assumptions used and the reporting period the analysis was carried out	• Approve a proportionate approach to scenario analysis aligned to the size and complexity of the entity • Assess whether resilience disclosures appropriately reflect key risks and uncertainties • Challenge relevance of scenarios, key assumptions and time horizons used • Evaluate whether implications for strategy and business model are clearly articulated • For many entities, the above may require consultation with a climate expert

* AASB S2 para 22; Corporations Act 2001 (Cth) s 296D(2A)-(2B).

Pillar 3: *Risk management*

The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports to understand an entity'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[3].

AASB S2 requirement	What must be disclosed	Practical actions for boards
Processes for identifying climate-related risks (para 25(a))	• The processes and related policies used to identify climate-related risks, including information about the inputs and parameters the entity uses and whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risk	• Clear description of the process and related policies to be outlined in board papers • Oversee the extension of existing enterprise risk management processes and risk registers to address climate rather than as a standalone exercise • Satisfy itself that key assumptions, data sources and areas of judgement are appropriate, understood and proportionate • Ensure material limitations and uncertainties are clearly disclosed • Require clear linkage between scenario insights and specific risks recorded in risk registers
Processes for assessing climate-related risks (para 25(a)(iii))	• The processes used to assess the nature, likelihood and potential magnitude of climate-related risks	• Ensure assessment criteria are understandable, consistent and decision-useful • Confirm that climate-related risks are assessed using the entity's existing risk assessment methodology, with appropriate consideration of longer time horizons • Challenge whether qualitative and quantitative assessments are proportionate and decision-useful
Processes for prioritising climate-related risks (para 25(a)(iv))	• The processes used to prioritise climate-related risks relative to other risks	• Consider how climate-related risk management is integrated within the enterprise level risk • Ensure climate-related risks are prioritised alongside other material enterprise risks using existing escalation thresholds • Require clear rationale for why particular climate risks are considered material or non-material

3. AASB S2 para 24.

AASB S2 requirement	What must be disclosed	Practical actions for boards
Processes for monitoring climate-related risks (para 25(a)(v))	• The processes used to monitor climate-related risks over time	• Integrate monitoring of climate-related risks into business-as-usual risk reporting cycles • Require regular updates on changes in exposure, controls and mitigation actions • Ensure change reflects learning and maturity, not inconsistency in approach
Changes in processes over time (para 25(a)(vi))	• Whether, and how, climate-related risk management processes have changed compared with previous reporting periods	• Require clear explanation of changes arising from improved information, capability or maturity • Challenge unexplained changes in risk ratings or methodologies
Processes for identifying climate-related opportunities (para 25(b))	• The processes used to identify, assess, prioritise and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities	• Ensure climate-related opportunities are identified and assessed with the same discipline as climate-related risks • Assess alignment between opportunity identification, strategy and capital allocation decisions
Integration with overall risk management (para 25(c))	• The extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks are integrated into the entity's overall risk management process	• Consider embedding climate-related risk management within existing enterprise risk management and registers to avoid duplicated effort and encourage holistic and consistent risk management • Ensure climate risks are included in standard board packs

Pillar 4: *Metrics and targets*

The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation[4].

AASB S2 requirement	What must be disclosed	Practical actions for boards
Greenhouse gas emissions (para 29(a))	• Absolute gross greenhouse gas ("GHG") emissions to be disclosed for Scope 1, Scope 2 and Scope 3 emissions, measured in accordance with the GHG Protocol (unless an alternative is required) • Disclosure of measurement approach, inputs and assumptions, reasons for selection, and changes	• Oversee completeness of emissions disclosures and obtain assurance over data integrity across all scopes • Scrutinise key methodologies, assumptions and any changes in measurement approach
Transition risk metrics (para 29(b))	• The amount and percentage of assets or business activities vulnerable to climate-related transition risks	• Assess whether disclosures faithfully represent the entity's transition risk exposure • Seek to understand basis of measurement and concentration of risk
Physical risk metrics (para 29(c))	• The amount and percentage of assets or business activities vulnerable to climate-related physical risks	• Assess whether disclosures faithfully represent the entity's physical risk exposures across key locations and operations • Assess alignment with scenario analysis and risk assessment outputs
Climate opportunities (para 29(d))	• The amount and percentage of assets or business activities aligned with climate-related opportunities	• Assess whether disclosures faithfully represent the entity's climate-related opportunities • Challenge whether opportunities are clearly defined and measurable • Assess consistency with strategy and capital allocation decisions
Capital deployment (para 29(e))	• The amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities	• Evaluate whether disclosed amounts reflect actual capital allocation decisions • Confirm consistency with financial disclosures and stated strategy
Internal carbon pricing (para 29(f))	• Whether and how a carbon price is applied in decision-making • Where applicable, the price per metric tonne of GHG emissions used	• Confirm whether carbon pricing is used in practice in decision-making • Assess consistency with investment assumptions and other disclosed metrics

4. AASB S2 para 27.

AASB S2 requirement	What must be disclosed	Practical actions for boards
Remuneration (para 29(g))	• Whether and how climate-related considerations are factored into executive remuneration • Percentage of executive remuneration linked to climate-related considerations	• Assess whether remuneration outcomes align with disclosed climate-related considerations • Evaluate whether the extent (or absence) of linkage is appropriate
Climate-related targets (if established) (para 28(c), 33)	• Quantitative and qualitative targets set by the entity, and any required by law or regulation to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities. For each target the metric used, objective of the target, part of the entity to which the target applies, period over which the target applies, base period, milestones and interim targets, whether absolute or intensity, and how the latest international agreement on climate change has informed the target	• Approve targets and confirm they form part of an integrated performance framework with appropriate governance oversight • Assess whether targets are clearly defined, measurable and aligned with strategy
Target setting and monitoring (if established) (para 28(c), 34)	• Approach to setting and reviewing targets and how it monitors progress • Whether targets or methodologies are validated by a third party • Processes for reviewing targets • Metrics used to monitor progress • Revisions to targets and explanations	• Evaluate the robustness of target-setting and monitoring processes, using appropriate and consistent metrics • Scrutinise revisions and assess comparability over time
Performance against targets (if established) (para 28(c), 35)	• Performance against each target • Analysis of trends or changes in performance	• Monitor performance at board level and challenge trends and variances • Consider linkage between performance outcomes, strategy and capital allocation
Additional disclosures for emissions targets (if established) (para 36)	• Which GHGs are covered by target • Whether Scope 1, 2 or 3 are covered by target • Whether target is gross or net (and disclose gross if net) • Planned use of carbon credits to offset GHG emissions to achieve a net GHG target	• Assess the credibility of emissions targets and underlying assumptions, including potential greenwashing risks • Challenge reliance on offsets and transparency of gross versus net targets

Making business *personal*

Nathan Balban

Partner, Business Advisory and Assurance

p +61 2 8215 7788
e nathan.balban@pitcher.com.au

Jack Mackintosh

Partner, Business Advisory and Assurance

p +61 3 8610 5596
e jack.mackintosh@pitcher.com.au

Kerry Hicks

Director, Technical Standards, Business Advisory and Assurance

p +61 2 9228 2272
e kerry.hicks@pitcher.com.au

Tanai Ghadiyar

Client Director, Business Advisory and Assurance

p +61 2 9228 2220
e tanai.ghadiyar@pitcher.com.au

Adelaide | Brisbane | Melbourne | Newcastle | Perth | Sydney

bakertilly NETWORK MEMBER

pitcher.com.au