AIRA
AUSTRALASIAN
INVESTOR RELATIONS
ASSOCIATION

ESG Reporting:
Challenges, Strategies and Opportunities for Australasian Listed Entities

November 2023

Sponsored by

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GLOSSARY

AASB

The Australian Accounting Standards Board - An Australian Government agency which develops and maintains financial reporting standards for entities in the private and public sectors.

ASX 200

Australia’s leading share market index that contains the top 200 companies listed on the ASX by market capitalisation.

Carbon offsets

An instrument used by a company to offset carbon they are emitting which thereby leads to a decrease in their net emissions.

C-suite

C-suite refers to the executive-level managers within a company, which typically includes chief executive officer (CEO), chief financial officer (CFO) and chief operating officer (COO) amongst others.

ESG

Environment, Social and Governance (ESG) criteria encapsulate a broad range of non-financial measures that are increasingly being scrutinised by investors as they may materially impact the risks and opportunities for company performance. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

ISSB

A standard-setting body established in 2021 - 2022 under the IFRS Foundation whose mandate is the creation and development of global sustainability-related financial reporting standards to meet investors' needs.

Global Reporting Initiative (GRI)

A global independent standards organisation who helps companies, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption.

New Zealand Climate Standards (NZCS)

A set of guidelines and standards designed to address climate change issues in New Zealand.

NZX 50

New Zealand's leading share market index contains the top 50 companies listed on the country's stock exchange by market capitalisation.

Scope 1, 2, and 3 GHG emissions

Refer to the categorisation of emissions where Scope 1 is direct emissions from owned or controlled sources, Scope 2 is indirect emissions from the generation of purchased energy, and Scope 3 is all other indirect emissions that occur in a company's value chain.

TCFD

An organisation established by the Financial Stability Board to develop consistent climate-related financial risk disclosures for use by companies, banks and investors in providing information to stakeholders.

EXECUTIVE SUMMARY

The introduction of new standards based on those from the International Sustainability Standards Board (ISSB) will require companies to commit to rigorous measurement and reporting on climate and sustainability performance. In New Zealand, mandatory reporting against ISSB-aligned standards—the New Zealand Climate Standards (NZCS)—has been in place since 1 January 2023. For Australian companies, The AASB has issued for consultation an exposure draft relating to climate disclosures only, which is in line with the AASB's climate first approach. The consultation period closes on March 1, 2024. As outlined in the AASB consultation paper, the roadmap has Group 1 companies reporting from 2024-25 onwards.

These standards represent a significant step forward in promoting global climate reporting standards and are expected to have a profound impact on how companies disclose their sustainability performance.

AIRA—in collaboration with Atticus—has conducted a comprehensive survey of over 70 ASX 200 and NZX 50 companies and AIRA corporate members from companies outside of this market cap range. Most surveyed companies express support for the new standards, citing many expected benefits including enhanced transparency, investor confidence, and strategic decision-making. However, concerns about readiness emerge as a key theme; hesitations primarily stem from the perceived costs of implementation and a current reliance on resource-intensive manual processes, principally around data collection and verification.

Encouragingly, over 75% of companies are already aligned with the Task Force on Climate-related Financial Disclosures (TCFD) standards, providing a solid foundation for adaptation to ISSB standards. Leveraging this alignment and synchronising efforts with existing frameworks will be crucial for a seamless transition.

High preparation costs are cited as a significant challenge, with companies expressing worries about timely readiness. Streamlining data collection through upgrades and automation emerges as a priority for nearly 80% of companies. AIRA's recommendation is to adopt integrated systems combining automated software and external assurance methods, enhancing efficiency and credibility. Proactive implementation ahead of regulatory deadlines is crucial to ensure thorough integration, compliance, and risk mitigation.

Key Challenges:

1. Preparedness and costs associated with implementation of the new reporting requirements. Most companies propose to use internal resources with the assistance of external consultants, both of which are likely to be resource constrained.
2. Data collection and verification largely remains a manual process, which companies need to rapidly streamline and/or automate.
3. Resource constraints of key external assurers, across both Australia and New Zealand.

4. There is an urgent need to increase education and expertise within organisations, particularly to gain executive buy-in.

Key Recommendations:

1. Undertake a gap analysis on your current sustainability reporting against the proposed standards.
2. Automate and/or streamline your data collection and verification processes.
3. Engage an external assurer as soon as possible to avoid potential resource constraints.
4. Educate your CFO, board, and other C-suite executives to gain buy-in.

AIRA Sponsor

AIRA is delighted to be in collaboration with Atticus regarding the preparation of this white paper.

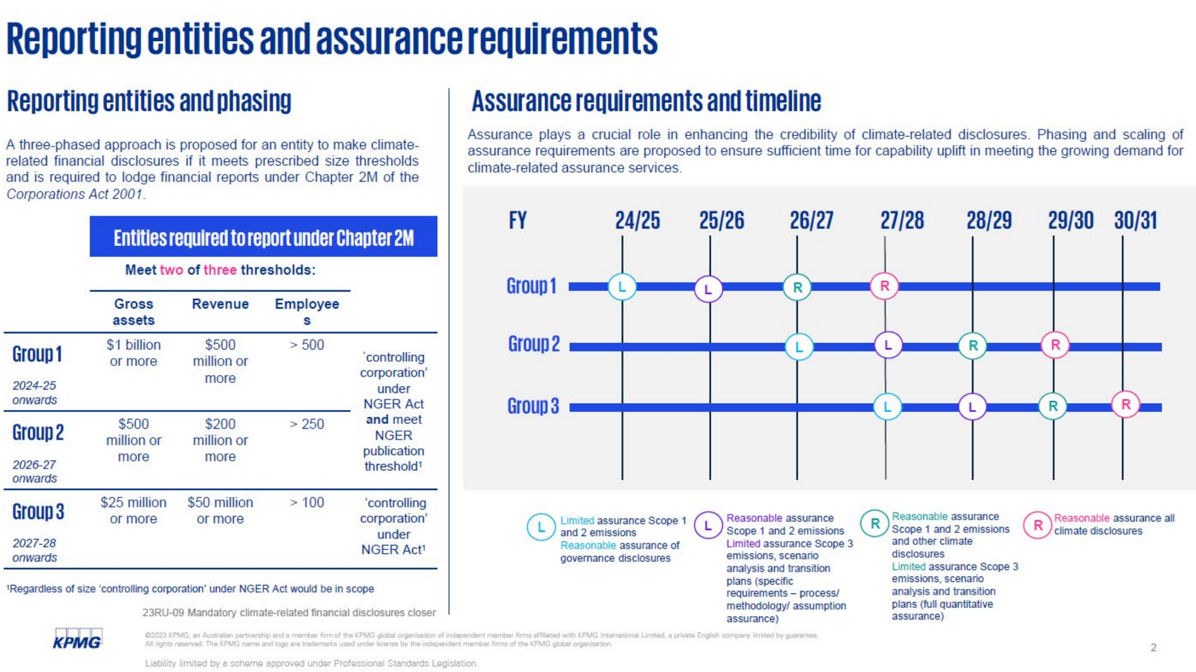
Atticus identified a growing concern amongst investor relations professionals about their readiness to adopt new climate-related disclosure standards and has partnered with AIRA to investigate the issue.

Atticus enables best practices in ESG reporting with document verification software that enables teams to replace manual fact-checking with collaborative, simple workflows. To learn more about how Atticus can streamline your processes, head to www.atticus.tech.

INTRODUCTION: THE ESG IMPERATIVE

The Australasian business landscape is undergoing a transformative shift in climate and sustainability reporting, spurred by new standards aligned with the International Sustainability Standards Board (ISSB) guidelines. In Australia, these standards will require comprehensive measurement and disclosure of climate-related performance, mirroring New Zealand's phased implementation of the Aotearoa New Zealand Climate Standards (NZCS), which has been in place since January 1, 2023. The roadmap as provided in the AASB consultation paper has Group 1 companies reporting from 2024-25 onwards.

Proposed Australian Reporting Matrix



New Zealand Reporting Matrix

Source External Reporting Board (XRB)

To support this transition, the Australasian Investor Relations Association (AIRA)—in partnership with Atticus—has conducted a survey of over 70 ASX 200 and NZ 50 companies to gauge business' readiness for these changes. Respondents varied from Australian companies currently in transition, through to New Zealand companies reporting on the benefits and challenges of mandatory reporting.

This whitepaper aims to facilitate discussion on this important shift in the ESG landscape, particularly between Australian companies and their New Zealand counterparts, who are ahead of the curve in this area. AIRA's survey findings represent an opportunity to learn from New Zealand companies' experiences, and this whitepaper offers industry recommendations that AIRA believes will help Australasian listed companies and their investors benchmark against peers and prepare for AASB reporting. It's important to note that in-depth exploration of the new standards is outside the scope of this paper; for more guidance on understanding the standards themselves, see the Further Reading section at the end of this document.

Overall, the ISSB standards represent a positive shift for companies and should offer significant benefits including:

- Increased transparency to the market and peers.
- Increased confidence from investors.
- Improved data quality, which will be globally comparable.
- Enhanced social licence to operate.
- Enhanced strategic decision-making and investor-company dialogue.

The evolving requirements around ESG reporting is driven not only by the ISSB standards, but by the expectations of stakeholders. Investors, financial institutions, regulators and customers are demanding more consistent and comparable sustainability data across industries and countries to inform investment and other decisions. The ISSB standards address this need by requiring detailed and verified disclosures on climate and sustainability matters.

Key verifiable disclosures that will be required include:

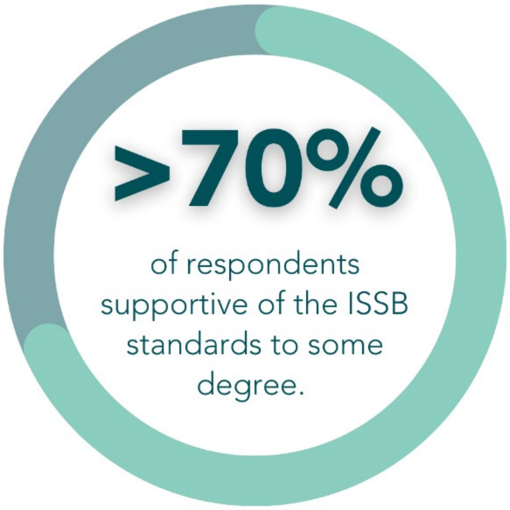
- Current and future company strategy and financial effects relating to climate and sustainability.

- Climate resilience assessments, inputs, and key assumptions.
- Scope 1, 2, and 3 GHG emissions (phased-in over time).
- Details on the use of carbon offsets to achieve targets.
- Company strategy for managing climate-related risks and opportunities, encompassing transition plans, governance frameworks, and risk assessment methodologies.

For most Australasian organisations, meeting these reporting standards requires a significant overhaul of their measurement, data collection, verification, and reporting practices. Businesses will need to make ESG a core component of company reporting, and to invest in systems that support better and more timely access to verifiable sustainability data.

CHAPTER 1: THE CROSSROADS

KEY TAKEAWAY



RECOMMENDATION

While companies are largely supportive of the new standards, hesitation about their readiness to comply emerges as a central tension for listed entities. Businesses are overwhelmingly behind the changes, with more than 70% of survey respondents supportive of AASB/NZCS mandatory reporting to some degree. However, many face significant challenges in managing the transition, citing cost and a dependence on resource-heavy manual processes as two of the greatest barriers to successful implementation. Given over two thirds of respondents will be required to report from 2024-25 onwards, it’s clear that companies will have to act swiftly to ensure their internal processes can support the changes.

Fortunately, many organisations have a solid foundation; the ISSB standards adopt the structure of existing reporting standards from the Task Force on Climate-related Financial Disclosures (TCFD). Over three quarters of surveyed companies' sustainability reporting is already TCFD-aligned, indicating strong foundational readiness for the new standards. Similarly, 61% of respondents indicate that their company reporting is aligned with global standards set by the Global Reporting Initiative (GRI), and 55% report that they already have full or close-to-full disclosures, though they will require some assistance to ensure they can meet upcoming timelines. By building on the work they have already done to become aligned with GRI and/or TCFD standards, companies are well-placed to adapt to the ISSB-aligned standards.

Case Study: Chorus New Zealand Limited

NZX-based company Chorus has been reporting its scope 1 and 2 emissions for over a decade. Its approach to climate-related reporting has been one of incremental improvement and this means it is well placed to comply with New Zealand's mandatory climate reporting from late 2024.

In 2019, Chorus undertook its first climate scenario analysis, working with its insurance and risk advisor to conduct a sea level rise risk analysis for its broadband network assets. This provided a useful base from which to communicate its ongoing climate strategy and network investment programme. In 2021, a standalone Sustainability Report was produced and a section of the report was aligned with TCFD reporting.

Over the next two years, refinements and improvements have included:

- alignment of emissions targets with the science-based targets initiative
- internal workshops used to provide updated views on climate risks and opportunities
- implementation of an emissions tracking tool and reporting of scope 3 emissions
- added sustainability team resource to support increased requirements
- running scenario analysis looking specifically at flooding (pluvial and fluvial) risk

Chorus is now carrying out an externally run assessment to identify any gaps that remain between its current level of reporting and the mandatory climate reporting standards. One clear area for review is to align its scenario analysis with the standards – this likely requires a third scenario to be run. Work is also underway to ensure a clear view on the relevant materiality thresholds to be applied when interpreting the standards. Chorus will also be reviewing the recent ISSB industry guidelines for any further insights.

Case Study: Vicinity Centres

The climate impact reporting journey for ASX-listed Vicinity Centres dates back more than a decade. It started with understanding the environmental impact of Vicinity through its Scope 1 and Scope 2 emissions and evolved to consider the impact of climate on Vicinity's portfolio and operations under multiple climate scenarios.

In 2019, Vicinity commenced the roll-out of Australia's largest solar panel investment program across a shopping centre portfolio and committed to a Net Zero carbon target by 2030 for Scope 1 and Scope 2 emissions across its wholly-owned portfolio.

In preparation for the AASB reporting standards, earlier this year with the assistance of an external consultant, a gap analysis was completed on current reporting versus expected future disclosure requirements. Fortunately, a long history of CDP reporting, combined with more recent reporting against TCFD recommendations has provided a solid basis to build off.

Vicinity is currently in the process of creating a project steering group while developing work plans and reporting milestones across a number of work streams. This will be followed by engagement with key stakeholders throughout 2024.

CHAPTER 2: THE BENEFITS

KEY TAKEAWAY

TRANSPARENCY

Companies see increased transparency as a key benefit of mandated ESG reporting.

RECOMMENDATION

Companies should utilise ESG reporting to enhance market transparency and support strategic decision-making.

AIRA's survey data shows that, overall, there is a positive outlook for the role of new framework in standardising reporting across businesses and industries. As one respondent states, "Standardised global structures will hopefully address regional reporting differences and lead to better quality information for better informed decision making." Respondents also believe that the enhanced comparability between reporters will "improve market data [and] encourage companies to be more proactive in the ESG space," generating "wider benefits to the economy through improved cost of capital" and "drive action towards net zero."

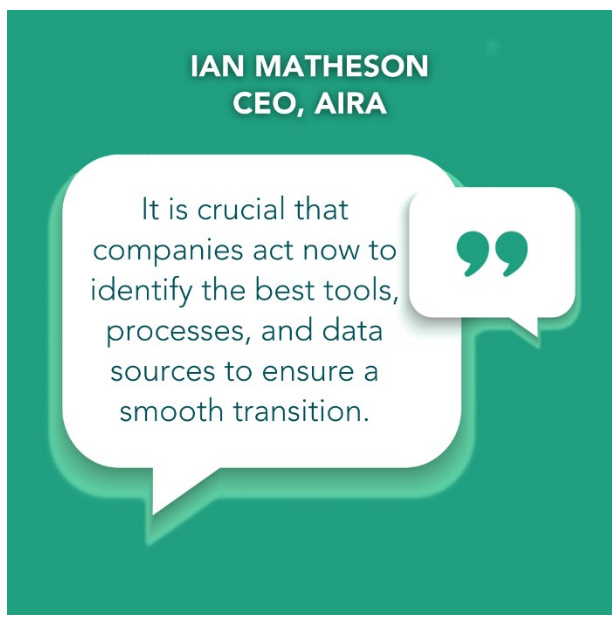
Surveyed companies generally agree that ISSB-aligned reporting requirements offer clear benefits, with respondents ranking the following as most beneficial:

1. Increased transparency to the market and peers.
2. Increased confidence from investors.
3. Enhanced operations and decision-making based on high quality sustainability data.

Other benefits reported by companies include:

- Decreased regulatory risk from greenwashing.
- Improvements to internal systems and processes.
- An increased profile of sustainability reporting within the business.
- Greater ownership of ESG strategy beyond the sustainability team.

It's clear the new standards represent a net positive for companies that are proactive. Ian Matheson said, "to make the most of these benefits, it is crucial that companies act now to identify the best tools, processes, and data sources to ensure a smooth transition".



CHAPTER 3: THE CHALLENGES

KEY TAKEAWAY

COSTS

Businesses cite high preparation costs as the biggest concern about the implementation.

RECOMMENDATION

Engage external assurers early and increase internal education to generate buy-in and justification for forthcoming investments in data collection and assurance.

The ISSB standards essentially require that climate and sustainability reporting have the same rigour as financial reporting, representing a significant increase in workload for IR and ESG teams. The majority of businesses, identify high preparation costs is the greatest concern for the transition. The next highly rated concern cites readiness for the first year of compliance, with data collection and assurance emerging as significant pressures.

External assurance is an important compliance strategy for the majority of companies, with just over half of respondents saying they have already engaged a provider. Those who are currently without an external assurance provider need to act now to engage one, as AIRA predicts a significant shortage of providers as the regulations come into effect. Concerns about "the availability, long lead times, scope and costs of engaging external assurance providers to review disclosure material" was a central argument in AIRA's submission to the second Treasury consultation on climate-related financial disclosures.

This is a concern shared by multiple industry bodies who made submissions to the consultation, including that by the Association of Superannuation Funds of Australia, which states: "There is a lack of sufficiently skilled people in the global and domestic market... This includes internal teams, as well as capacity in third-party organisations that will provide related services – such as modelling and particularly assurance."

This potential shortage of external assurers remains unaddressed, and survey respondents report "skills shortages in both the corporate and assurance sectors" as a key concern for the transition. AIRA's recommendation is to act early to engage an external assurer to avoid falling victim to any potential constraints. Similarly, significant upskilling in internal teams may be required to ensure employees are well-equipped to respond to an increase in the volume and complexity of work.

When it comes to internal processes, almost 80% of companies indicate that their highest priority is to upgrade and automate data collection and assurance. Only 1% of respondents plan to fully outsource their reporting, which means that companies will overwhelmingly rely on internal teams and processes for data collection and verification, nearly 60% of which are currently conducted manually.

RESPONDENT STATISTIC

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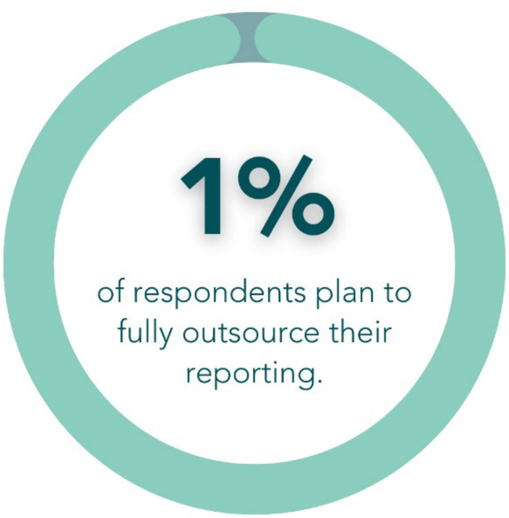


RESPONDENT STATISTIC

AIRA has identified some central challenges in organisations' manual data collection and verification processes, including:

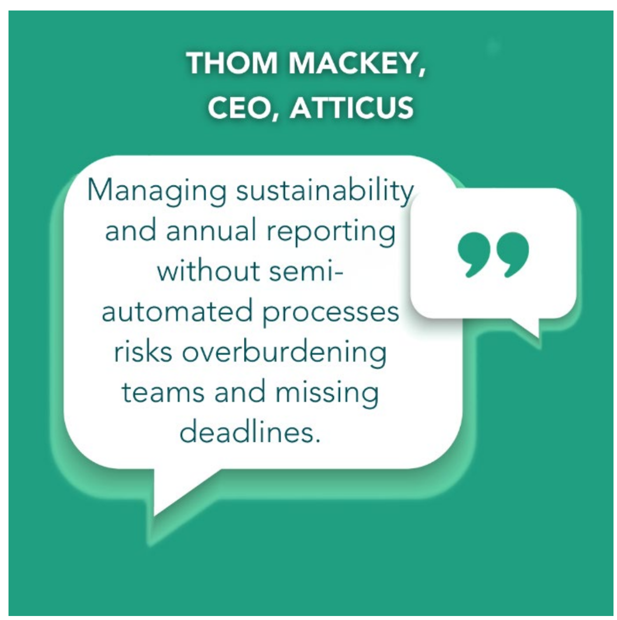
- Processes are time consuming and resource intensive.
- Inconsistency across departments.
- Ensuring sources are correct and verifiable.
- High likelihood of human error.

The demands of sustainability and climate reporting are set to increase, and without rapid action these challenges will only compound.

Nearly half of surveyed companies report that multiple workstreams need to progress to ensure they are prepared for AASB reporting. As one respondent notes, "The implementation of a new reporting regime is likely to be difficult for smaller, under-resourced issuers. As it's a new regime, there will be significant resources and cost spent to achieve compliance in the first few years while the regime is bedded in." With most sustainability teams hovering between 2-5 or 5+ people, this increase in workload combined with potential skill gaps represents a key risk for company readiness in complying with the new standards.

AASB reporting standards will require climate disclosures be released at the same time as companies' annual reports, with over half of AIRA-surveyed companies publishing their sustainability report (or equivalent) at the same time as their financial results. Usage data from Atticus—a data verification SaaS provider—indicates that sustainability reports typically require twice as many users and nearly 160% more verified annotations when compared to all other document types aside from annual reports.

Sustainability reporting is now almost as demanding as annual reports and significantly increases team workloads. "Managing both sustainability and annual reporting without semi-automated processes risks overburdening teams and missing deadlines," stated Thom Mackey, CEO of Atticus.



To be ready for the rollout, companies need to invest in streamlining internal processes to improve data collection methods, as well as incorporating robust data verification and assurance practices. Those who plan to use external assurance providers need to prepare for increased costs as the requirements for data verification across climate and sustainability become more demanding. Generating buy-in from management teams and boards will be dependent on robust internal education, which companies cite as a key strategy for successful implementation; these changes will require an investment commitment, and increasing internal ESG literacy will be essential for a smooth transition.

CHAPTER 4: A BLUEPRINT FOR ACTION

KEY TAKEAWAY

59%

of respondents indicate they are currently dependent on manual processes

RECOMMENDATION

Implement automated data collection and integrated verification systems to streamline, strengthen, and target best practice ESG reporting.

One of the biggest hurdles companies face in this transition lies in improving data collection and assurance processes; 59% of respondents indicate they are currently dependent on manual processes. This suggests a significant opportunity for automation, which will increase efficiency and reliability.

The challenge for companies lies in the inadequacy of traditional data collection and assurance methods, which usually involve complex spreadsheets, an overreliance on emails, and many responsible parties, both internal and external. A more collaborative and streamlined approach is crucial, enabling data collection to be more easily verified using integrated systems. Compounding these challenges is an anticipated shortage of available external assurers, meaning that companies who are overly reliant on external verification are at the risk of not meeting their reporting obligations.

To combat these challenges, companies should act now to implement integrated data collection and verification systems that combine automated software tools (currently used by only 19% of respondents) with external assurance methods (practised by 54% of companies) to increase the efficiency and credibility of ESG reporting. Companies' ESG strategies should also prioritise the enhancement of their internal verification processes, which is a priority for 44% of the companies surveyed.

Over 30% of companies report that they are not currently collecting the full data set required to meet the new standards. Given that many companies will be required to report from 2024 – 25 onwards in Australia—or are already required to report in New Zealand—it is imperative that businesses adopt these measures as soon as possible to adhere to implementation timeframes. Proactive implementation of new processes ahead of regulatory changes allows for thorough integration, ensures compliance with best practices by the time of enforcement, and effectively mitigates potential risks.

CONCLUSION: EMBRACING THE ESG EVOLUTION

Australasian businesses are facing an important transition as they adapt to the evolving ESG landscape, driven by the new ISSB-aligned standards. While the majority of companies express support for the new standards, their concerns about readiness, preparation costs, and a reliance on manual processes underscore the need for strategic transformation. From AIRA's comprehensive survey of Australian and New Zealand companies, three key insights emerge as central to a successful transition:

1. **Streamlining data collection and verification processes** through automation is a strategic necessity. The integration of automated software tools is paramount for efficiency, reliability, and compliance.
2. **Engaging external experts** early and leveraging their insights will be crucial in enhancing internal processes, ensuring compliance, and mitigating risks.
3. **Bridging the knowledge gap** with robust internal education, particularly for the C-suite, IR and ESG teams, is not just a preparatory step but a prerequisite for successful implementation.

Companies that proactively undertake these measures will not only meet the regulatory requirements but will be at the forefront of a new era of transparent, globally aligned, and strategically driven ESG reporting. The time to act is now to ensure a seamless transition, secure a competitive advantage, and to proactively adapt and thrive in this new era of ESG reporting.

APPENDIX: FURTHER READING

Consultation – Exposure Draft of the Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

AASB. October 2023

Submission to Treasury – Climate-related Financial Disclosures

Australasian Investor Relations Association. 21 July 2023

Another step closer towards implementing mandatory climate disclosure in Australia.

Minter Ellison. 24 Oct, 2023.

An overview of XRB's final climate-related disclosure standards.

Chapman Tripp. 19 Dec, 2022.

ISSB Standards are now live! KPMG. 26 June 2023

Making Sense of ISSB: A guide for organisations on navigating sustainability and climate disclosure, compliance, and reporting.

Deloitte. 17 Oct, 2023.

Mandatory climate reporting. Are you ready?

Deloitte. 4 Oct, 2023.

Mandatory climate-related financial disclosures closer: reporting update.

KPMG. 3 July, 2023.