

How to make your sustainability (or ESG) practices and reporting count

- Global and Australian ESG reporting trends
- Sustainability reporting strategy and action plan



Source: <https://probonoaustralia.com.au/news/2021/07/sustainable-finance-is-here-to-stay/>

A FEW CONSIDERATIONS ...



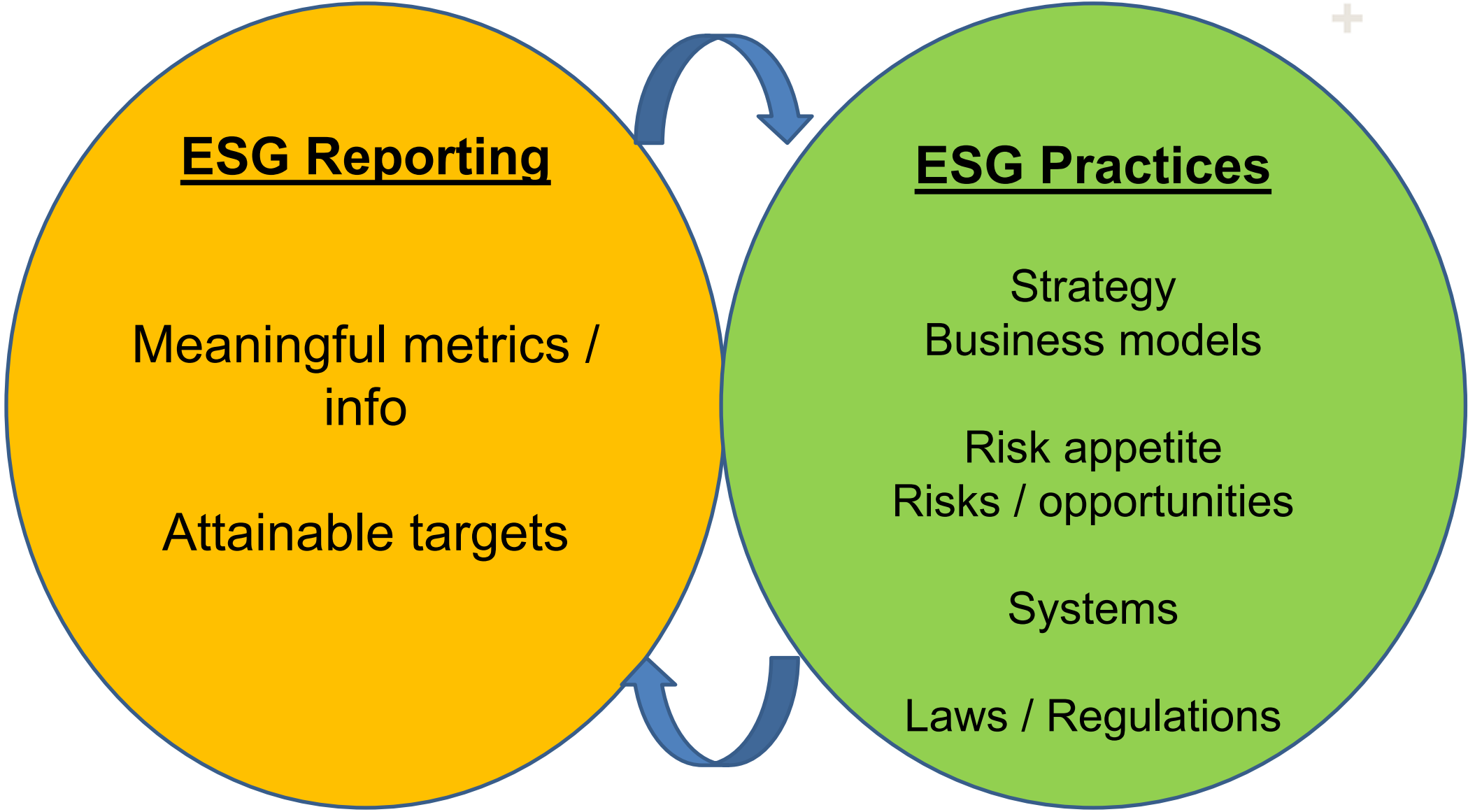
- **Nobody** can know everything about sustainability – we need multidisciplinary teams and collaboration
- ‘**PROGRESS** over perfection’
- Waiting for perfect data versus ‘doing the right thing’ **NOW**
- Many are finding the changes challenging (even the bigger end of town) – you are **not alone!**
- *Trade-offs* and balance
- **Celebrate** the (small) wins
- Look out for ‘*low hanging fruit*’
- Managing most **meaningful** impacts
- ‘*Rome wasn’t built in a day*’



<https://www.thebalancemoney.com/beware-the-lure-of-low-hanging-fruit-in-business-2276088>



<https://www.britannica.com/place/ancient-Rome>

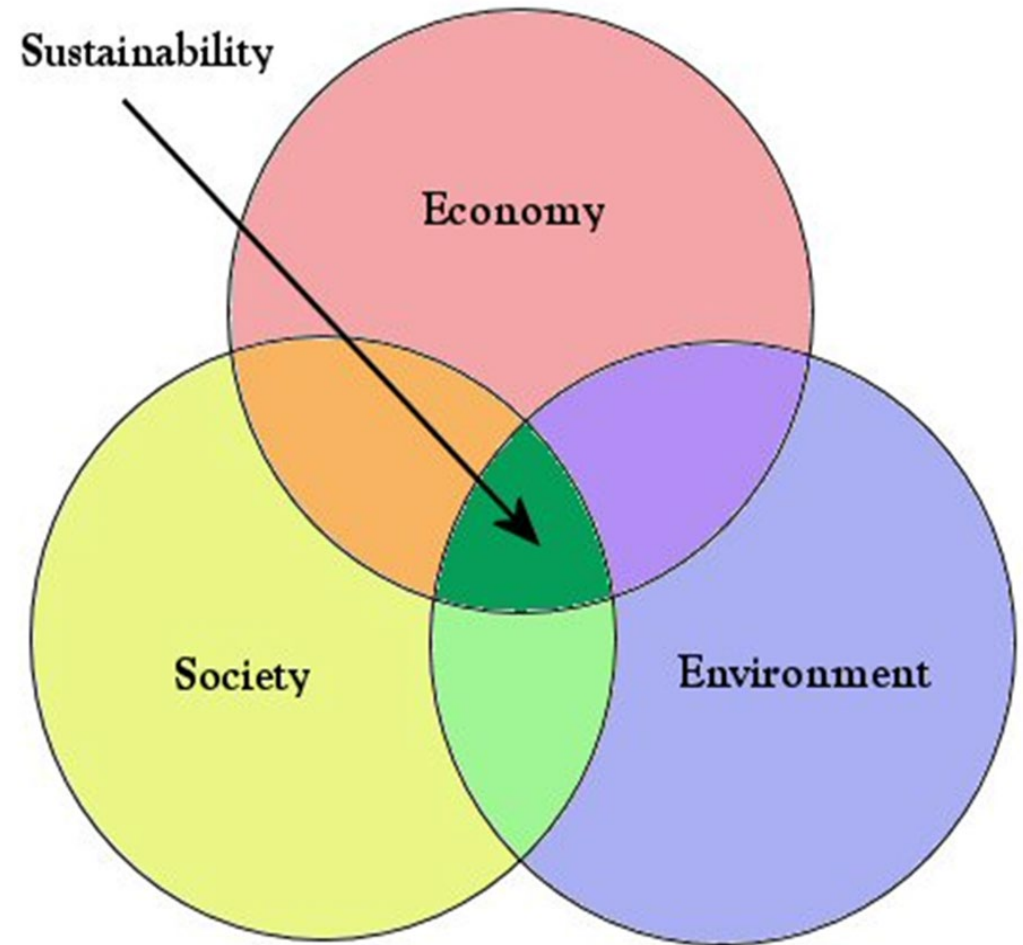


What is 'sustainability'?

1987, the World Commission on Environment and Development (WCED), 'Brundtland Commission' report:

'Sustainable Development':

- *development that meets the needs of the present without compromising the ability of future generations to meet their own needs.*



**VARIOUS NAMES FOR SUSTAINABILITY REPORTING
(SOME DIFFERENCES BUT USED INTERCHANGEABLY)**

ESG + E
(Enviro socio
gov +
Econ/financial)

Sustainability reporting

Non-financial, narrative reporting

PPP (People, planet, profit)

Triple bottom line

CSR (corporate social responsibility)

ESG (enviro, social, governance)



SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

What is included in 'sustainability' ?

1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

SUSTAINABLE DEVELOPMENT GOALS

Sustainability KPIs – what are companies reporting?

Category	KPI examples
Employee	<ul style="list-style-type: none"> Female executive managers (%) Lost Time Injury Frequency Rate
Environment	<ul style="list-style-type: none"> Carbon Dioxide emissions intensity Waste recycling rate (%)
Community and social	<ul style="list-style-type: none"> Amount donated (\$) Number of employee volunteer hours
Customer	<ul style="list-style-type: none"> Customer satisfaction rate (%) Customer complaints (% change)
Supply chain management	<ul style="list-style-type: none"> Supplier audit (%) Amount spend with local business suppliers (\$)
Awards and indices	<ul style="list-style-type: none"> Member of Dow Jones Sustainability Index ISO14001 certification
Business and innovation	<ul style="list-style-type: none"> Number of material breaches of licences Number of infringements regarding licences held



Non-financial KPI examples in annual reports of 200 large listed companies (Bayne et al., 2018)

Global sustainability reporting milestone events

10
yrs

- 1987 UN Brundtland Report 'Sustainable development'

- 1997 Kyoto Protocol

17
yrs

- 1997 Global Reporting Initiative (GRI) formation – voluntary sustainability reporting guidelines

- 2014 EU Commissions' Non-Financial Reporting Directive (NFRD) (2014) – voluntary to mandatory

- 2015 Paris Agreement

- 2016 UN Sustainable Development Goals

- 2017 Taskforce for Climate-related Financial Disclosures Recommendations (TCFD)

- 2021 Formation of the International Sustainability Standards Board (ISSB)

- 2021 IIRC and SASB merged into the Value Reporting Foundation (VRF)

- 2022 EU Corporate Sustainability Reporting Directive (CSRD)

- 2022 VRF and CDSB consolidated into IFRS Foundation

- 2023 26 June ISSB IFRS S1 (General Sustainability) and S2 (Climate-related)

- 2023 31 July European Sustainability Reporting Standards (ESRS) 12 stds

- 2024 TCFD work completed and monitoring responsibilities by IFRS Foundation from 2024

7
yrs

3
yrs



IFRS Foundation



Source: <https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/>

And then there were **Four**...

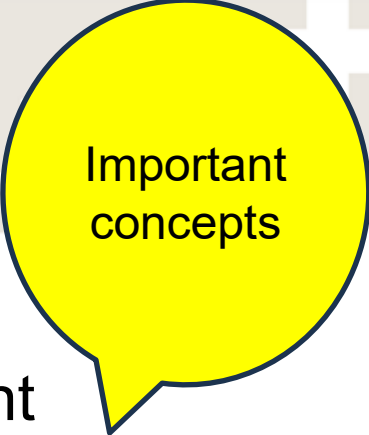
Four sustainability standard setting powerhouses



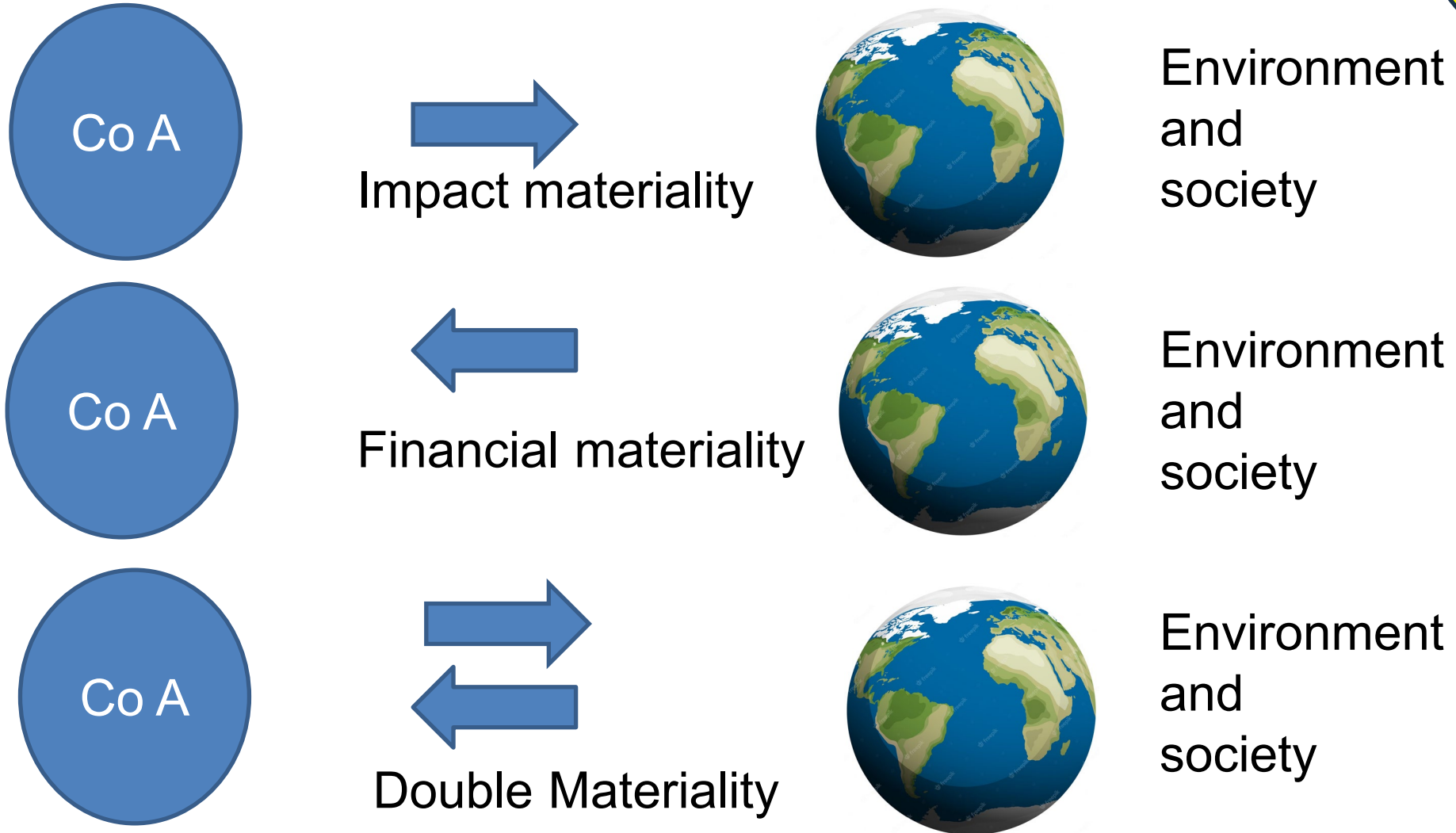
EFRAG

European Financial Reporting Advisory Group





A note on **materiality** (what is included or not in reporting)



Some are saying: Climate first; not climate only!

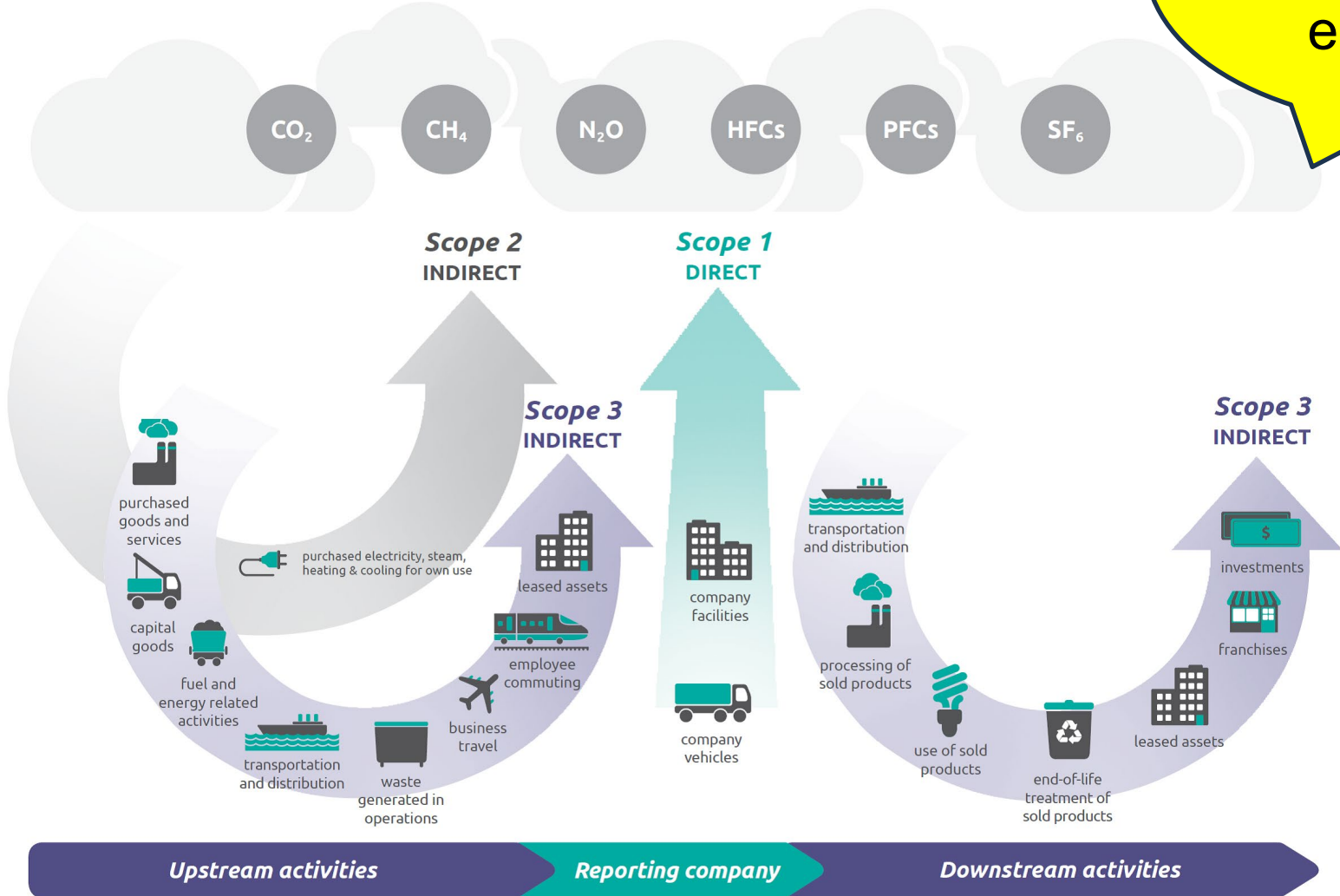
BBB

A quick note on GHG emissions

**Scope 1,2,
and 3 GHG
emissions**

**Burn
Buy
Beyond!**

<https://www.sustain.life/>





General rule for computing the CO2-e is as follows:

$$\text{Activity data} \times \text{appropriate published emission factor} = \text{Amount of GHG (e.g. CH}_4\text{)}$$

Then to standardise:

$$\text{Amount of GHG (e.g. CH}_4\text{)} \times \text{appropriate GWP factor (e.g. GWP for CH}_4\text{)} = \text{Amount of CO}_2\text{-e}$$



GLOBAL STANDARDS: FOUR POWERHOUSES

	IFRS Trustees - ISSB	SEC	EU Commission - EFRAG	GRI (and SDGs)
Audience	Investors and creditors	Investors and creditors	Wider stakeholders	Wider stakeholders
Materiality	Financial	Financial	Double	Impact

POWERHOUSE 1: INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

IFRS S2 *Climate-related disclosures*

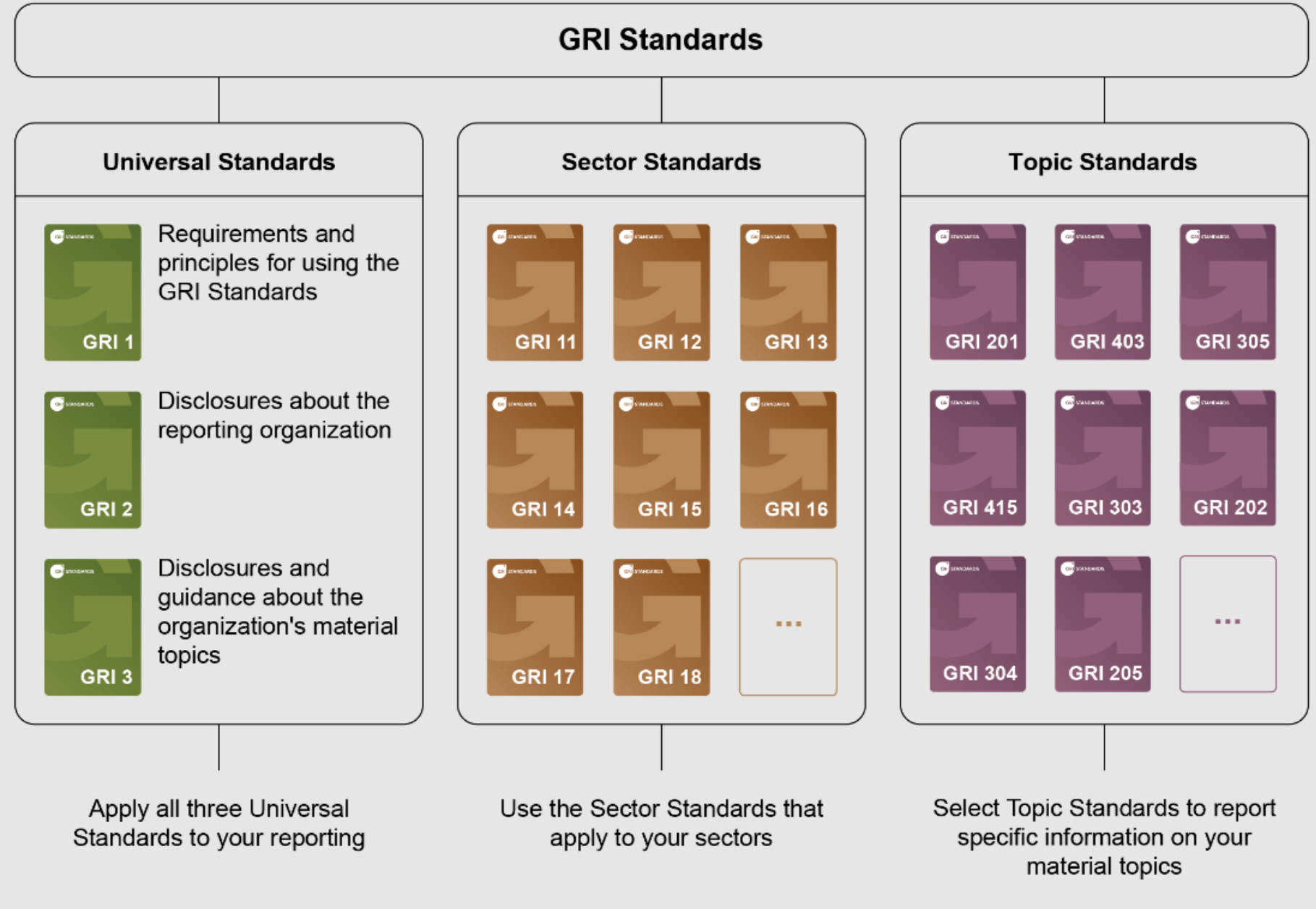
-Based on the TCFD (Taskforce on Climate-related Financial Disclosure) and SASB industry standards

Both **4 pillars** of reporting (from TCFD):

- **Governance**
- **Strategy**
- **Risk Management**
- **Metrics and Targets**

GLOBAL SUSTAINABILITY REPORTING LANDSCAPE





POWERHOUSE 2: GLOBAL REPORTING INITIATIVE (GRI)



GLOBAL SUSTAINABILITY REPORTING LANDSCAPE



POWERHOUSE 3: EU COMMISSION – EFRAG – EUROPEAN SUSTAINABILITY REPORTING STDS

 Cross-cutting standards	 Environment	 Social	 Governance
ESRS 1 General requirements	ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business conduct
ESRS 2 General disclosures	ESRS E2 Pollution	ESRS S2 Workers in the value chain	
	ESRS E3 Water and marine resources	ESRS S3 Affected communities	
	ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end-users	
	ESRS E5 Resource use and circular economy		



POWERHOUSE 4: SECURITIES EXCHANGE COMMISSION (SEC)

SEC 2024 March: Climate rule (similar to TCFD requirements, no Scope 3)

California

2023 Oct - signed into law two watershed climate bills that will require companies with significant revenue to make climate-related disclosures starting in 2026



- Climate standard: Oct 2023 AASB Exposure Draft ED SR1 *Australian Sustainability Reporting Standards– Disclosure of Climate-related Financial Information*
- Modern Slavery Act (2018)
- Accounting disclosure



<https://www.anbg.gov.au/oz/flag.html>

Mandatory Climate Reporting

- Large companies (*reporting entities who are required to prepare financial reports under Chapter 2M of the Corporation Act 2001 which are included in scope of the legislation*).
- Government entities?



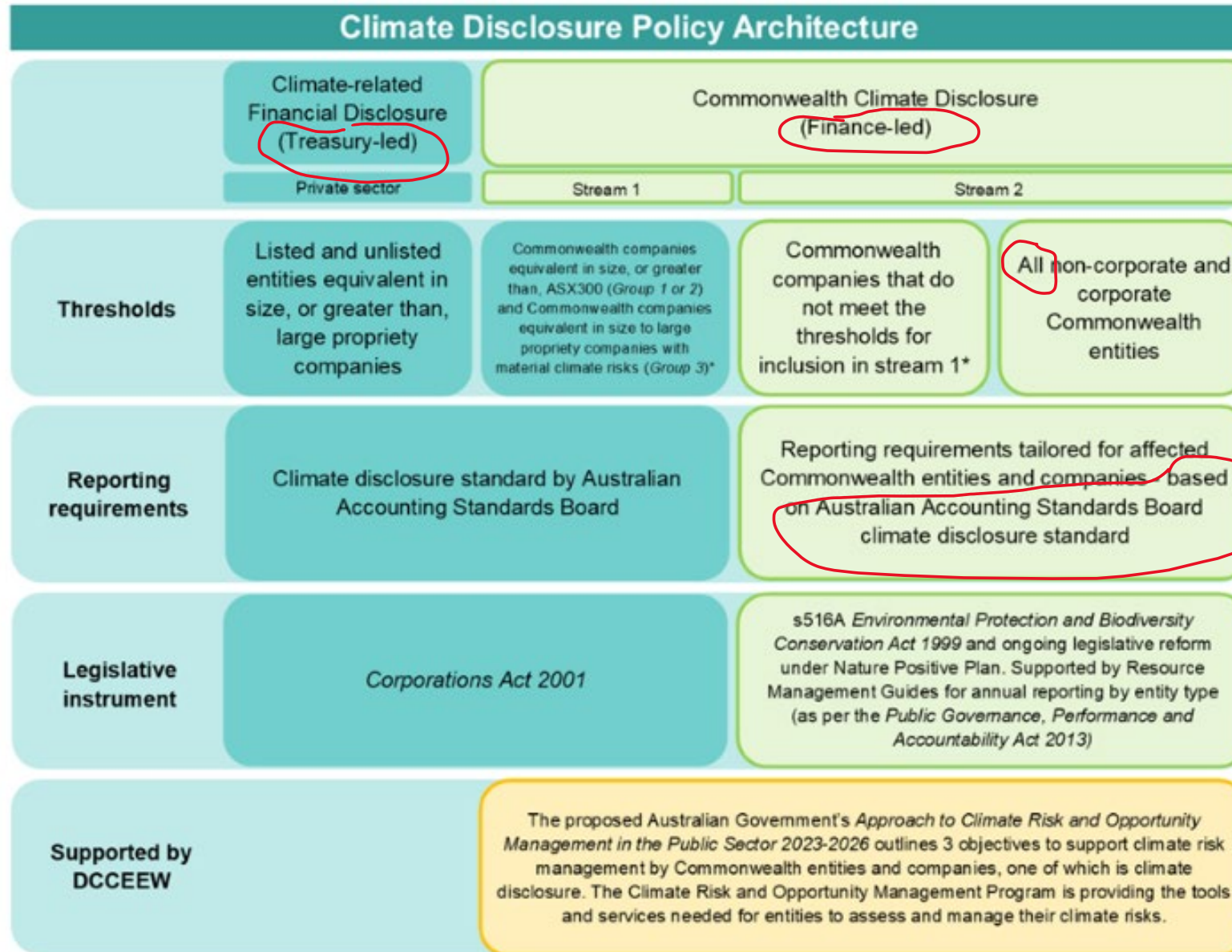
Companies

The three phases of mandatory reporting

Group	Financial reporting periods commencing on/after	Category				
		Meets two or more of these thresholds			National Greenhouse and Energy Reporting (NGER) reporters	Registered schemes, RSEs and retail CCIVs (asset owners)
		Employees	Consolidated assets	Consolidated revenue		
1	1 January 2025*	More than 500	\$1 billion or more	\$500 million or more	Above NGER publication threshold	Scoped out of Group 1
2	1 July 2026	More than 250	\$500 million or more	\$200 million or more	All other NGER reporters	\$5 billion assets or more
3	1 July 2027	More than 100	\$25 million or more	\$50 million or more	N/A	Consistent with other reporting thresholds (see left)

*Subject to passage of legislation prior to 2 December 2024

Gov



Based on AASB climate stds...

<https://www.finance.gov.au/government/climate-action-government-operations/commonwealth-climate-disclosure>

*Commonwealth companies that fall in Group 3 of the Treasury-led reform disclose their climate risks in FY2026-27 under stream 2. For those companies that are identified as having material climate risks, subsequent disclosures are made following the Treasury-led reform. All other Commonwealth companies that meet the threshold for Group 3 inclusion, but don't have material climate risks, would continue to make climate disclosures under stream 2, alongside Commonwealth companies that do not meet prescribed thresholds for inclusion in the Treasury-led reform.

STEPS in the sustainability reporting process

Note: steps are
not necessarily
linear and
sequential –
need to revisit
steps





STEP 1: Sustainability reporting within overall risk management process

- Overall mission, vision, strategies
- Risk appetite (set by the Board for key risk areas)
- Risk tolerance
- Risk culture
- Risk response (in line with risk appetite of Board, which can differ by type of risk)
 - Avoid
 - Reduce
 - Accept
 - Transfer
- Internal controls – preventative, detective, corrective



STEP 2: Consider your context

- I. Your overall mission, vision, strategies
- II. Mandatory reporting requirements (Corporation's Act, Treasury, listing rules, Modern Slavery Act etc.)
- III. Legislative compliance environment e.g. environmental laws, employee laws, NGERs – data already collected for other purposes
- IV. Overall gut instinct of the impact of the organisation on society and environment – is E.S.G. aspects already or expected to be a big risk / opportunity?
- V. Pressures on ESG practices and reporting – investors, Board, NGOs, buyers, customers
- VI. Appetite for voluntary reporting
- VII. Risk of law suits (may reduce voluntary reporting?)
- VIII. Current processes - your team, Board and management awareness, skills and support, your policies, your processes, existing risk management process
- IX. Your position and relationships in your supply chain and value chain

STEP 3: Consider your resources

- I. Guidelines/stds : GRI 1, 2 and 3, topic and sector stds; AASB ED SR1 (based on IFRS S2/S1 and TCFD); UN SDGs, TNFD, Modern Slavery Act, ASX listing rules and Corporate Governance Principles.
- II. Other companies' reporting in Australia and globally
- III. Webinars and reports e.g. BDO <https://www.bdo.com.au/en-au/insights/esg-sustainability/sustainability-webinar-series>, CA ANZ Sustainability micro-courses and study guides in library, IFRS resources, KPMG Sustainability reporting survey <https://assets.kpmg.com/content/dam/kpmg/se/pdf/komm/2022/Global-Survey-of-Sustainability-Reporting-2022.pdf>
- IV. Consultants
- V. In-house resources
- VI. Existing risk management process, policies and documentation
- VII. Your network - buyers / suppliers / customers / supply chain / value chain
- VIII. Groups / COPS / industry organisations – you are not alone!
- IX. Government programs / guidance

STEP 4: Considering sustainability practices and reporting **as a whole - Think 'Four pillars'** (AASB ED SR1, IFRS S1,S2, TCFD, TNFD)

- I. **Governance** – how are we going to govern the sustainability practice and reporting process? Board awareness/skills? Committee? Responsibility?
- II. **Strategy** – how do sustainability issues and reporting fit into our overall strategy? Overall are we taking a compliance approach or competitive advantage approach? Which sustainability issues do we strategically need/want to focus on?
- III. **Risk Management** – how do sustainability issues and reporting fit into our overall risk management process? How can we include them? Do we need a sub-process for ESG reporting?
- IV. **Metrics and Targets** – we need to determine what to measure and then put systems in place (specifics come later)

STEP 5: Identify, assess (likelihood and impact) and prioritise the material sustainability topics (GRI 1,2,3 and sector stds)

- I. Engage with internal and external **stakeholders**
- II. Consider your mission, vision, strategy
- III. Part of the overall risk management process
- IV. **Use double materiality** (consider impact and financial materiality)
- V. Climate-related aspects is a global focus (nature, human capital)
- VI. Consider topics in industry-based standards

STEP 6: For each material issue prioritised consider the Four Pillars and the GRI topic standards

E.g. Food safety

- I. Governance – how are we going to govern food safety? Who is responsible?
- II. Strategy – what are our strategies to deal with food safety? What systems and processes do we need?
- III. Risk Management – how are we managing food safety risk as part of our risk management process?
- IV. Metrics and Targets – what targets should be set and what metrics should we use to measure food safety performance?



STEP 7: Implementation, communication, monitoring

STEP 8: Reporting

STEP 9: Start at 1 again and repeat!

#CONTINUOUS IMPROVEMENT
#WORKING TOGETHER
#PROGRESS OVER PERFECTION
#MATERIALITY
#USEFUL INFORMATION



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