ESG in Executive Remuneration

June 2023

KPMG.com.au

Contents

01	Introduction	3
02	Overview of market practice	4
03	Australian market practice	5
04	Comparisons to other markets	9
05	Proxy and investor views	10
06	Linking ESG and executive pay - key considerations	11
07	Key accounting considerations	13
08	Sustainability reporting - implications for remuneration	19
09	Contacts	20

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Introduction

It goes without saying that ESG has climbed up the Australian corporate agenda in recent years, amidst growing stakeholder pressure and increased recognition that an effective ESG strategy is important to the generation of sustainable, long-term value for shareholders.

As a result, we have seen a continued focus on the interaction between ESG and executive remuneration in Australia, with several companies looking to incorporate 'E' and 'S' measures into their incentive arrangements.

In this publication, we explore:

- market practice in Australia around the link between ESG and executive pay amongst ASX listed companies (as compared to countries like the UK and US);
- views of key proxy advisors and investors in Australia on the adoption of ESG measures;
- key considerations for Remuneration Committees and Boards who are looking to adopt these measures;
- guidance on the accounting implications of ESG measures; and
- our views on the impact that mandatory sustainability reporting (and eventually assurance over the reporting) may have on the use and structure of ESG measures in executive remuneration arrangements.

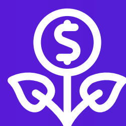
KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Overview of market practice



ASX market practice

Amongst ASX listed companies:

- ‘E’ measures are generally incorporated within short-term incentive (STI) plans and are most commonly found in traditionally carbon-intensive industries (e.g., materials, energy, utilities). There are only a handful of companies with ‘E’ measures under their long-term incentive (LTI) plans.
- In contrast, ‘S’ measures (e.g., diversity, culture, reputation, safety etc) are common across all industries under STI plans (although they are also less common under LTI plans).

US / UK market practice

Generally speaking, ASX companies are less progressed when it comes to incorporating ESG measures into incentive arrangements compared to listed companies in the US and UK. In these overseas markets:

- there is a greater use of carbon measures outside of traditionally carbon intensive industries; and
- it is more common to look beyond gender (which is typically the focus of diversity measures in Australia) to other underrepresented groups – including based on ethnicity, age, neurodiversity and LGTBQIA+ status.

External reaction

The views of proxy advisors and investors differ in respect of ESG measures. CGI[1] is generally supportive where there is a compelling reason for the use of the measure, ISS[1] and Ownership Matters will assess measures on a case-by-case basis and ACSI[1] has expressed that they will support these measures where they are ‘objective, transparent and truly at risk’.

1. CGI Glass Lewis (CGI), Institutional Shareholder Services (ISS), Australian Council of Superannuation Investors (ACSI).

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.
Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Australian market practice

What is the current market practice in Australia with respect to the incorporation of ESG measures into incentive arrangements?

Environmental measures

In Australia, 'E' measures are generally incorporated within STI plans and are most commonly found in traditionally carbon-intensive industries. Almost all ASX100 companies within the materials, utilities, energy, and real-estate sectors have incorporated 'E' measures with a 5-15% weighting within their STIs.

The types of 'E' measures vary between organisations but may include, for example, emissions reduction targets, reductions in environmental incidents, rehabilitation objectives or goals relating to broader environmental priorities such as waste and water management.

With more companies committing to net-zero targets, we are starting to see companies outside of these sectors looking to introduce or increase the weighting on measures relating to green-house gas emissions within their STI or annual scorecards under their variable plans. This includes companies within financial services, telecommunications, and health care.

It is less common for ASX companies to incorporate climate measures within their LTI plans - there are currently only a handful of ASX100 companies with these measures under their long-term arrangements. These measures are typically observed within carbon intensive industries (with some exceptions) and a weighting of 10-25% is typically applied. Approaches to the choice of measure, target setting, and disclosure vary.

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liablity limited by a scheme approved under Professional Standards Legislation.

Australian market practice

Social measures

‘S’ measures are already common under STI plans across all industries in the ASX100 and often include objectives relating to workforce diversity, culture, safety, reputation, strategic community investment, and collaboration on other community initiatives.

However, similarly to ‘E’ measures, it is less common to see these measures under LTI plans, although there are examples of companies who have adopted (or flagged the adoption) of measures such as reputation, responsible business practices and culture. These measures typically have a weighting of no more than 30%.

For those companies that do not currently consider diversity at all under their incentive arrangements, the recent passing of the Workplace Gender Equality Amendment (Closing the Gender Pay Gap) Bill 2023 may encourage greater focus on bridging gender pay gaps within organisations and the inclusion of such measures within incentive plans[2].

< 30% weighting

‘S’ measures typically have a weighting of no more than 30% under LTI plans

Governance measures

While the adoption of ‘E’ and ‘S’ measures has attracted most of the focus, governance measures should also be kept in mind. ‘G’ measures typically include risk and risk culture measures and are common within the financial services sector.

2 From early 2024, employers with 100 or more workers will be required to publish their gender pay gap on the Workplace Gender Equality Agency (**WGEA**) Website and WGEA will report on this at an organisation level. From 2024, WGEA will actively report on the gender pay gap within each organisation (and in future years this will mean that may show specific employers whose gender pay gap has improved or widened), making this information available for greater public scrutiny.

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Australian market practice

ESG modifiers, underpins and gateways

In addition to stand-alone measures, some companies have introduced broader ESG gateways, modifiers and underpins within their incentive plans. While ESG gateways must be achieved in order for any vesting under the incentive plan to occur, underpin conditions are minimum levels of performance which, if not achieved, trigger the Board to consider the exercise of discretion (including reducing the level of vesting). ESG modifiers are essentially a qualitative Board assessment where vesting may be reduced (including to zero) where there has been material underperformance against key ESG objectives.

ESG gateways

Gateway must be achieved in order for any vesting under the incentive plan to occur.

For example, an ASX100 company will consider ESG risks under its STI and LTI gateway.

Modifiers

Qualitative Board assessment where vesting may be reduced (including to zero) where there has been material underperformance against key ESG objectives.

For example, an ASX100 company will consider whether there have been any significant safety or environmental issues during the year and may reduce vesting under its STI plan as a result.

Underpins

Minimum levels of ESG performance which, if not achieved, trigger the Board to consider the exercise of discretion in relation to vesting outcomes.

For example, an ASX100 company has underpin conditions under its LTI based on its key sustainability indicators. Where a minimum level performance is not achieved against those indicators, vesting may be reduced.

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Comparison to other markets

How does market practice in Australia compare to the US and UK?

Generally speaking, ASX companies are less progressed when it comes to incorporating ESG measures into executive pay compared to listed companies in the US and UK.

There is a greater use of ‘E’ measures outside of traditionally carbon intensive industries in the US and UK. For example, ‘E’ measures (such as emissions reductions targets, renewable energy targets and green financing) are common within the financial services sector in the UK (including amongst the big four banks). A similar trend can be observed within the US technology and consumer staples industries. However, given that a large number of Australian companies have committed to a net-zero target, we may see ASX listed companies follow the lead of the US and UK in coming years.

Some overseas markets are also further advanced in incorporating key ‘S’ measures into executive pay. This includes looking beyond gender diversity (the most common measure in Australia) and considering other underrepresented groups – including ethnicity, age, neurodiversity and LGTBQIA+ status. Further work is required to bring Australia in line with its international peers. Whilst already common in the UK, it is becoming increasingly common to see US companies use diversity related measures under their LTI programs.

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Proxy and investor views

What are the key views of proxies and investors with respect to ESG measures within incentive arrangements?

Discussions regarding ESG are fast becoming the principal agenda item and the key focus area for some proxy advisors and investor groups. One of the major proxy advisors have indicated that they are spending 50% of their time on ESG, 25% on remuneration and the balance on other matters.

Given its increased importance, it is not surprising that investors place a premium on how companies manage their ESG issues. Investors tend to lend support for those companies who appropriately manage these issues, and desert or withdraw support from companies that fail to approach ESG in accordance with investor expectations.

Whilst showing overall support for the inclusion of ESG measures in incentive arrangements for senior executives, the key views of proxies and investors differ.

- **CGI** is supportive of relevant ESG measures being included in remuneration. Whilst they had previously indicated that they would only support non-financial / ESG LTI measures up to 25% without a compelling reason, in light of *APRA's Prudential Standard CPS 511 Remuneration* (CPS 511), they have now indicated consideration of non-financial / ESG measures up to 50% of the LTI. They also recognise the potential for companies to use CPS 511 as an opportunity to adopt innovative approaches to non-financial LTI measures.

- **ISS** has disclosed they will consider all ESG proposals and measures on a case-by-case basis.

- Similarly to ISS, **Ownership Matters** will consider the measures on a case-by-case basis with a focus on how they support the long-term value of the company.

- **ACSI** has expressed that they support the use of non-financial measures including ESG measures where they are 'objective, transparent and truly at risk'. A recent focus from ACSI has been diversity on Boards. While not specifically related to remuneration, this does provide a clear indication of their priorities.

A number of institutional investors have also flagged that they expect a balance of financial and non-financial measures to be included in executive scorecards, including consideration of how ESG is managed.

50% on ESG

One major proxy advisor indicated that they are spending 50% of their time on ESG, 25% on remuneration and the balance on other matters

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Linking ESG and executive pay – key considerations

The focus on green-washing is an important reminder for Remuneration Committees and Boards that they should avoid simply following the market trend of adopting ESG measures without having regarding to the following considerations.

Is ESG currently part of the company's overarching strategy?

Before ESG measures are incorporated into any incentive programs, it is important that:

- Addressing key ESG issues is part of the company's overall strategy first;
- A roadmap and programmes of work have been established to address those issues; and
- Ways to track and measure progress against the issues that are pertinent to the business are established that can be transparently disclosed. ESG measures that are measurable and quantifiable are most likely to be accepted externally under incentive plans.

Remuneration Committees and Boards also need to consider what ESG issues are most important to their business, as measures linked to these most important issues are the ones that should be prioritised within incentive plans.

Should ESG measures be incorporated into STI or LTI arrangements?

Currently, ESG measures are more commonly incorporated into STI arrangements. However, where ESG considerations are central to the company and its delivery of sustainable value to shareholders (e.g., within the resource sector), it may be appropriate to tie the ESG measure to the company's LTI.

A relevant factor when determining whether to incorporate ESG measures into the STI or LTI is how well a company can forecast performance against the measure (i.e., can targets be set over the long-term e.g., three to four year period, or can they only practically be set over the short-term?).

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.
Document Classification: KPMG Public
Liability limited by a scheme approved under Professional Standards Legislation.

Linking ESG and executive pay – key considerations

What weight is to be given to the ESG measure?

If ESG is important enough for the company to incorporate into remuneration, then its weighting should be sufficiently meaningful to influence executive behaviour. The most common weighting for ESG measures is 10-30%, though this is dependent on the organisation in question and its desired goals.

It is important to strike a balance: a high enough weighting is necessary to signal the importance of ESG to the company's executives, but too high a weighting has the potential to attract scrutiny from external stakeholders (particularly where a compelling rationale for the measure has not been articulated, the measure is not seen as sufficiently challenging or the weighting on financial measures has been significantly reduced to facilitate the ESG measure).

How will the company communicate this measure externally?

In selecting the appropriate ESG measures to incorporate into executive remuneration arrangements, a compelling case should be able to be built for its inclusion and the company should be able to articulate why the measure is important to the creation of long-term value for shareholders.

Where the measure is disclosed within the company's Remuneration Report, Notice of Meeting or other external communications, its relationship to long-term value for shareholders should be emphasised and a link should be drawn to other disclosures regarding the company's ESG strategy.

10 - 30%

Most common weighting for ESG metrics

We have seen a continued focus on the interaction between ESG and executive remuneration in Australia. However, the external focus on green-washing is an important reminder for Remuneration Committees and Boards that they should avoid simply following the market trend of adopting ESG measures without having regard to key considerations. Before ESG measures are incorporated into any incentive programs, it is important that: (1) addressing key ESG issues is part of the organisation's overall strategy first; (2) a roadmap and programmes of work have been established to address those issues; and (3) ways to track and measure progress against the pertinent ESG issues have been established."

Rachel Tucker, Director, Performance & Reward

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.
Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Key accounting considerations

What are the key accounting considerations?

Share-based payments

(1) Where ESG measure reflects the company's own operations or activities it will generally be considered a non-market performance condition. Such conditions are not taken into account when determining the fair value of the awards granted. In this case the expense for the award is reversed if the ESG measure is not achieved.

(2) Where ESG is not a non-market performance condition, then it would be considered a non-vesting condition. Non-vesting conditions are taken into account when determining the fair value of the awards granted. In this case, the expense is not reversed if the ESG measure is not achieved.

(3) Measures involving Scope 3 emissions in particular require careful evaluation as to whether they are non-market performance conditions or non-vesting conditions.

(4) Grant date, which is the date the fair value of award is measured may be delayed where ESG measures are not finalised, processes for assessing achievement not well formed or subject to discretion.

Employee benefits

The uncertainty of whether the ESG measure will be achieved or not in an employee benefit is included in the measurement of the liability for the employee benefit.

The accounting for executive remuneration generally depends on whether these arrangements are considered share-based payments or employee benefits.

Share-based payments are remuneration arrangements in which the employee is awarded equity instruments (e.g., shares, options, rights) of the company or cash based on the share price of the company's equity instruments in return for services. Share-based payment arrangements are accounted for using AASB 2 *Share-based Payment*. LTIs are typically share-based payment arrangements.

Remuneration arrangements that are not share-based payments and meet the definition of employee benefits - all forms of consideration given by a company in exchange for services rendered - are accounted for using AASB 119 *Employee Benefits*. STIs[3] are typically employee benefit arrangements.

3 Deferred equity components of STIs would generally be considered share-based payments.

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Key accounting considerations

Share-based payments

What type of condition is an ESG measure? And why does it matter.

An ESG measure is most likely to be a non-market performance condition[4] or a non-vesting condition[5]. The classification is important because it impacts how the ESG measure is incorporated into the share-based payment.

- If the measure is considered a non-market performance condition it is not taken into account when determining the fair value of the awards granted, but instead it is reflected when estimating the number of awards that are expected to vest. In this case the expense for the award is reversed if the ESG measure is not achieved.
- If the measure is considered a non-vesting condition, it is taken into account when determining the fair value of the awards granted. In this case the expense is not reversed if the ESG measure is not achieved.

4 Is a performance target defined by reference to the company's own operations (or activities) or the operations or activities of another company in the same group.
5 Any condition that does not meet the definition of a vesting condition.

KPMG
©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.
Document Classification: KPMG Public
Liability limited by a scheme approved under Professional Standards Legislation.

Key accounting considerations

Share-based payments (cont'd)

Significant judgement may be involved in classifying an ESG measure that reflects performance by both the company and other parties outside the company. For example, where the ESG measure relates to an emissions reduction target that includes emissions generated outside the company (e.g., reductions related to employee commuting or third-party supplier emissions). Scope 3 emission reduction targets may meet the definition of a non-market performance condition where the company undertook actions to reduce the emissions type identified. However, the extent of action and the impact of their actions on the emissions reductions will require judgement.

Therefore, careful evaluation of the ESG measure, assessing the extent the measure reflects the company's own operations or activities will be crucial.

ESG measures considered non-market performance vesting conditions seen in practice:

Achieving material progress on climate change strategic measure over X years

Division x achieving climate neutrality in X years (with carbon neutrality defined)

Reduction in Scope 1 emissions by X% by X year

The classification of ESG measures as non-market performance conditions or non-vesting conditions will affect the amount and timing of remuneration expense. The key determining factor will be the extent the ESG measure reflect the company's own operations or activities."

Kim Heng, Partner, Audit & Assurance

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Key accounting considerations

Grant date achieved?

When evaluating an ESG measure, companies consider its level of specificity and whether it is subject to any future discretion to determine whether grant date has been established.

'Grant date' is the date at which the company and the employee agree to a share-based payment arrangement and requires the company and the employee to have a shared understanding of the terms and conditions of the arrangement. Grant date is the date the fair value of the share-based payment arrangement is measured.

In the case of ESG measures, it will be important that companies have sufficiently robust processes in place to measure the target to have a shared understanding. Executives need to have an understanding of how these ESG targets will be measured and how their performance against the target assessed for the grant date to be achieved.

For example, if the ESG measure is a Scope 3 emission reduction target – a company may not yet have in place processes for identifying the emissions within each category of Scope 3 emissions, measuring those emissions, obtaining data from third parties or implementing a reliable process for calculating emissions. Where processes are not yet established, this may indicate there is not yet shared understanding because the information is not yet available for executives to make an objective assessment of the terms of the arrangement.

To “fix” the amount that will be expensed for grants of equity instruments like shares, options or rights, the company needs to achieve “grant date”. This requires the executive and the company to have a shared understanding of the ESG measure, how performance will be measured, assessed and for the share-based payment to not be subject to Remuneration Committee or Board discretion. This could be difficult to achieve in the early stages of a company’s ESG strategic journey.”

Kim Heng, Partner, Audit & Assurance

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

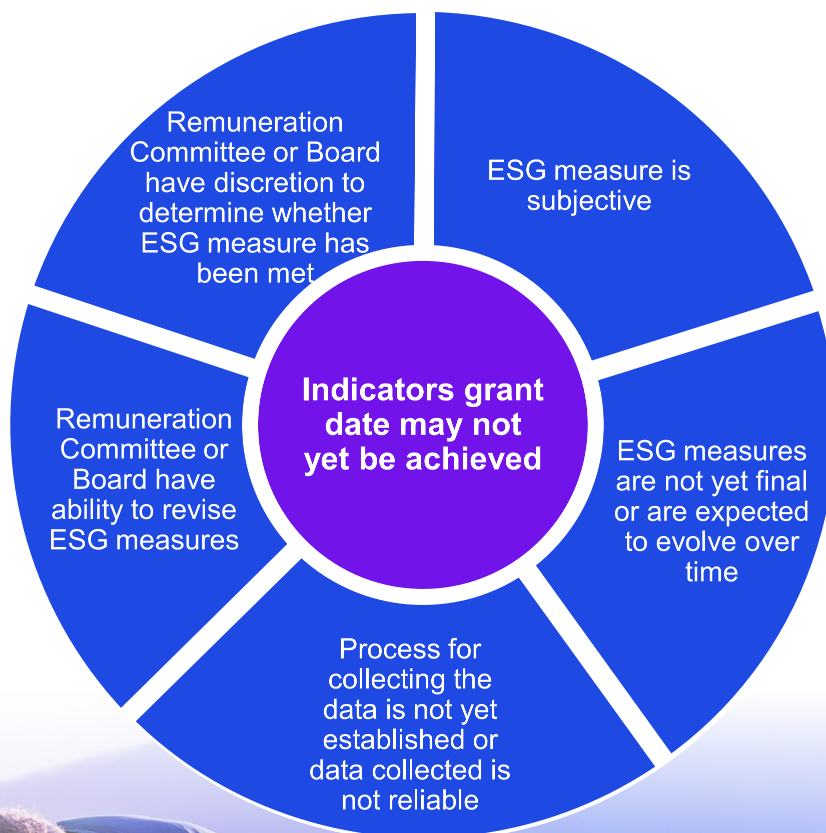
Liability limited by a scheme approved under Professional Standards Legislation.

Key accounting considerations

Grant date achieved? (cont'd)

Care should be exercised if discretion is given to the Remuneration Committee or Board to determine whether the ESG measure has been met or if the arrangement includes terms that allow the company to revise the ESG measure. Also, be mindful if the calculation process for measuring performance against the ESG measure is not finalised and subject to evolution.

Further, where achievement of an ESG measure is subjective, such as progress against strategic milestones, where the assessment process is not well defined and allows the Remuneration Committee or Board significant discretion in the assessment, grant date may also be delayed.



Deferral of the grant date can lead to increased volatility in the profit and loss as the fair value of the award will need to be remeasured until grant date is achieved. However, it is important to remember that grant date is only a measurement date and a company is required to recognise expenses from the date services begin. Therefore, even if grant date is deferred a company will still be required to make an estimate of the fair value of the award and recognise an expense as services are delivered.

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.
Document Classification: KPMG Public
Liability limited by a scheme approved under Professional Standards Legislation.

Key accounting considerations

Employee benefits

We expect that the accounting considerations for ESG measures included in employee benefits should be more straight-forward than those related to share-based payments.

If the employee benefit is expected to be settled wholly before 12 months after the annual reporting date in which the employees render the related service, it will be classified as a short-term employee benefit. Short-term employee benefits are accounted for on an accrual basis and measured as the best estimate of the undiscounted amount that the company expects to pay.

If the employee benefit does not meet the definition of short-term benefit it will be classified as an other long-term benefit (e.g., if ESG measures relates to a multi-year period). In this case a liability is recognised as the services are provided and remeasured through profit and loss at each reporting date. The liability is measured on a present value basis and takes into account the uncertainty with regards to whether the ESG hurdle will be achieved.

Depending on the type of ESG measure, we believe the following are acceptable approaches to incorporating the uncertainty of whether the ESG measure will be achieved or not:

- **Expected value** - sum of the probability-weighted amounts in a range of possible amounts. This approach may be appropriate when there is a large number of possible outcomes, for example, when achievement of the ESG measure is pro-rated depending on the outcomes.
- **Most likely amount** - single most likely amount in a range of possible amounts. This approach may be appropriate when there are only two possible outcomes, for example when achievement is at either 0% or 100%.

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Sustainability reporting in Australia - implications for remuneration

Will mandatory sustainability reporting (and eventually assurance over the reporting) have an impact on the use and structure of ESG measures in executive remuneration arrangements?

At present, sustainability reporting in Australia is undertaken on a voluntary basis. This may be set to change.

Dec 22

Treasury released two consultations that are striving to mandate sustainability reporting in Australia. Treasury is seeking to achieve consistency in sustainability reporting, by aiming to provide a baseline to track progress against and comparable disclosures between companies.

Jun 23

The International Sustainability Standards Board (ISSB) expects to release the final version of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 Climate-related *Disclosures.*

1 Jan 24

ISSB expects IFRS S1 and IFRS S2 standards to be effective.

2024

We expect the Australian Accounting Standards Board (AASB) to release the standard for climate-related financial disclosures.

30 Jun 25

At present, it is expected that it will be in place for certain companies with 30 June 2025 year ends, such as large listed entities, large financial institutions and potentially large entities (that are not listed or considered financial institutions).

For this to be a requirement, legislation needs to be enacted in Australia adopting sustainability disclosure standards.

In our view, mandatory sustainability reporting may serve as guidance for organisations struggling to set quantifiable and measurable ESG measures (potentially resulting in greater uptake of ESG measures within these companies). It may also enhance the quality of disclosures more broadly, including improving processes within the company for capturing data to provide these disclosures and assess performance.

KPMG

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public

Liability limited by a scheme approved under Professional Standards Legislation.

Contacts

Kim Heng
Partner, Audit & Assurance
+61 2 9455 9120
kheng@kpmg.com.au

Ben Travers
Partner,
Performance & Reward
+61 3 9288 5279
btravers1@kpmg.com.au

Anita Pozo-Jones
Director, Audit & Assurance
+61 2 9335 7201
apozojones1@kpmg.com.au

Rachel Tucker
Director,
Performance & Reward
+61 3 9288 5732
rtucker1@kpmg.com.au

Anastasia Psaras
Consultant,
Performance and Reward
+61 3 9288 6745
apsaras1@kpmg.com.au

KPMG.com.au

©2023 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

Liability limited by a scheme approved under Professional Standards Legislation.

Document Classification: KPMG Public