ESG - Environmental, Social, and Governance



Introduction:

ESG is a broad framework that businesses and governments use to evaluate their sustainability and societal impact. It consists of three core pillars:

- Environmental: This refers to how businesses manage their impact on the planet, including carbon emissions, waste, water usage, and energy consumption.
- Social: This refers to how businesses manage relationships with employees, suppliers, customers, and the communities where they operate.
- Governance: This focuses on the leadership, corporate ethics, transparency, and compliance with regulations.

The Environmental aspect of ESG ties directly into both Clean Energy Audits and the Carbon Farming Initiative, as these initiatives help businesses reduce their carbon footprint, manage waste, and contribute to sustainability goals.

Clean Energy Audit

- A Clean Energy Audit is a process in which an organization's energy usage is reviewed to identify opportunities to reduce consumption, increase efficiency, and transition to renewable energy sources. This audit provides a clear picture of energy inefficiencies, waste, and potential carbon emission reductions.
- The results of a Clean Energy Audit can be aligned with ESG goals by identifying areas where the business can improve its environmental performance-leading to reduced carbon emissions, better resource management, and an overall improvement in the company's environmental footprint.
- The audit also often helps in planning for carbon credits or eligible activities under carbon farming methodologies, ensuring that businesses not only reduce their environmental impact but also potentially earn financial incentives or rewards through carbon offset programs.

Carbon Farming Initiative (CFI) :

- The Carbon Farming Initiative (CFI) is an Australian government initiative that supports agricultural, industrial, and waste management sectors in reducing greenhouse gas emissions. Under this initiative, businesses and farmers can engage in carbon sequestration activities, such as planting trees or improving soil carbon content, and earn carbon credits.
- Domestic, Commercial, and Industrial Wastewater Methodology Determination (2015) is a part of the CFI. It outlines how businesses in the wastewater management sector can reduce emissions and generate carbon credits by implementing methods such as improved treatment processes or adopting technologies that reduce methane emissions from wastewater.
- The CFI methodology provides clear guidelines on how entities can measure, report, and verify reductions in emissions resulting from wastewater treatment. This directly connects to ESG goals, as it encourages businesses to adopt cleaner and more sustainable practices for wastewater management, reducing their environmental impact (the "E" in ESG).

Inference:

- ESG, Clean Energy Audits, and Carbon Farming (CFI) are interconnected in their shared goal of reducing carbon emissions and promoting sustainable environmental practices.
- While ESG provides a strategic framework for businesses to improve their sustainability, Clean Energy Audits give them the tools to identify energy inefficiencies, and the CFI's wastewater methodology offers specific guidelines to reduce emissions and earn carbon credits.
- Together, they align corporate practices with broader environmental goals and contribute to climate change mitigation.



Australian Sustainability Reporting Standards (ASRS)

Australian Sustainability Reporting Standards aim to provide a structured framework for companies to disclose information about their environmental impact, social contributions, and governance practices. These standards are designed to enhance transparency, support sustainable practices, and help businesses meet the increasing demand from investors, regulators, and stakeholders for reliable and comparable sustainability data.

The first Australian Sustainability Reporting Standards (ASRS) were discussed by the Australian Accounting Standards Board (AASB) on 26 August 2024 with a view to finalize. The first ASRS comprise:

- AASB S1 - General Requirements for Disclosure of Sustainability-related Financial Information - a voluntary standard
- AASB S2 - Climate-related Disclosures - a mandatory standard

AASB S1 and AASB S2 are based on IFRS Sustainability Disclosure Standards. This standards were applicable from January 2025.

Frameworks and Standards for Reporting

In Australia, companies have the option to follow several key frameworks and standards when preparing their sustainability reports. These frameworks provide guidelines for ensuring that sustainability disclosures are clear, consistent, and comparable across industries.

1. **Global Reporting Initiative (GRI):**

GRI Standards are the most widely used global framework for sustainability reporting. While they are international, Australian companies often adopt GRI standards due to their comprehensive approach. The GRI framework encourages companies to disclose their impacts on the environment, society, and the economy, helping stakeholders understand how businesses contribute to or mitigate global challenges like climate change and inequality.

2. **Australian Government's National Greenhouse and Energy Reporting (NGER):**

The NGER Act mandates that Australian businesses that meet certain thresholds report on their greenhouse gas emissions, energy consumption, and energy production. The NGER framework provides a standardized way for large companies to disclose their carbon footprint, supporting the government's climate action initiatives.

3. The Australian Stock Exchange (ASX) Corporate Governance Principles:
For listed companies, the ASX Corporate Governance Principles and Recommendations are key for sustainability reporting. These guidelines, which include environmental and social factors, aim to promote responsible and ethical business practices, transparency, and accountability. The ASX's Principle 7 encourages companies to disclose their sustainability practices and how they address material ESG risks.

4. Task Force on Climate-related Financial Disclosures (TCFD):
The TCFD Recommendations are gaining traction in Australia, especially in the context of climate-related reporting. The TCFD framework focuses on the financial risks and opportunities that arise from climate change, urging companies to disclose how they assess and manage climate-related risks in their governance, strategy, and risk management processes. Australian companies in finance, energy, and other sectors are increasingly adopting these recommendations.

5. Sustainability Accounting Standards Board (SASB):
The SASB Standards provide an industry-specific approach to sustainability reporting. These standards focus on ESG factors that are financially material to businesses within specific sectors, helping investors make informed decisions. While SASB is a U.S.-based standard, Australian companies in global markets or those with international investors often align their reporting with SASB's criteria.

AASB S1: General Requirements for Disclosure of Sustainability-related Financial Information

1. Purpose:

Enhances transparency in sustainability-related financial disclosures.

Aligns with international standards (TCFD, ISSB).

2. Key Disclosures:

Governance: Structure for managing sustainability risks.

Strategy: How sustainability risks and opportunities are integrated into the business strategy.

Risk Management: Identification and management of sustainability-related risks.

Metrics & Targets: Reporting on sustainability metrics and progress toward goals.





3. **Materiality Focus**:
Emphasis on issues material to financial performance.
Forward-looking information for long-term resilience.

4. **Integration with Financial Reporting**:
Sustainability data must be integrated with financial statements.
Provides a holistic view of company performance.

5. **Regulatory and Investor Demand**:
Meets increasing regulatory requirements and investor expectations for transparent ESG disclosures.

AASB S2: Climate-related Disclosures

1. Objective:
Ensure transparency in climate-related financial disclosures.
Align with **TCFD** recommendations and international standards.

2. Key Disclosure Areas:
Governance: Board and senior management oversight of climate risks.
Strategy: Impact of climate risks on business strategy and financial planning.
Risk Management: Identification and management of physical and transition risks.
Metrics & Targets: Reporting on GHG emissions, energy use, and climate goals.



3. Climate Risks:
Physical Risks: Direct impacts like extreme weather events (e.g., floods, drought).
Transition Risks: Risks related to regulatory changes, market shifts, and technologies.

4. Scenario Analysis:
Assess climate impacts under different global warming scenarios (e.g., 1.5°C, 2°C).

5. Materiality Focus:
Disclose material climate risks affecting financial performance.

6. Significance:
Enhances investor confidence.
Supports Australia's climate goals and global net-zero targets.

Thankyou!