JANUARY 2025 ESG POLICY UPDATE—AUSTRALIA

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Australia Environmental Social Governance (ESG) Alert

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AUSTRALIAN UPDATE

Mandatory Climate-Related Financial Disclosures Come Into Effect

The first phase of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (Cth) (Bill) commenced on and from 1 January 2025. The Bill amends the *Corporations Act 2001* (Cth) to mandate that sustainability reporting be included in annual reports.

The first phase requires Group 1 entities to disclose climate-related risks and emissions across their entire value chain. Group 2 entities will need to comply from 2026, followed by Group 3 entities from 2027.

First Annual Reporting Period Commences on	**Reporting Entities Which Meet *Two out of Three* of the Following Reporting Criteria**			**National Greenhouse and Energy Reporting (NGER) Reporters**	**Asset Owners**
	Consolidated Revenue for Fiscal Year	**Consolidated Gross Assets at End of Fiscal Year**	**Full-time Equivalent (FTE) Employees at End of Fiscal Year**		
1 Jan 2025 (Group 1)	AU$500 million or more.	AU$1 billion or more	500 or more.	Above the NGERs publication threshold.	N/A
1 July 2026 (Group 2)	AU$200 million or more.	AU$500 million or more.	250 or more.	All NGER reporters.	AU$5 billion or more of the assets under management.
1 July 2027 (Group 3)	AU$50 million or more.	AU$25 million or more.	100 or more.	N/A	N/A

Mandatory reporting will initially consist only of climate statements and applicable notes before expanding to include other sustainability topics, including nature and biodiversity when the relevant International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards are issued by the International Sustainability Standards Board (ISSB).

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Entities are also not required to report Scope 3 emissions, being those generated from an entity's supply chain, until the second year of reporting. Further, there is a limited immunity period of three years for Scope 3 emissions in which actions in respect of statements made may only be commenced by the Australian Securities and Investments Commission (ASIC) or where such statements are criminal in nature.

Further information on the mandatory climate-related disclosures can be found here.

New Vehicle Efficiency Standard Comes into Effect

On 1 January 2025, the New Vehicle Efficiency Standard (NVES) came into effect.

The NVES aims for cleaner and cheaper cars to be sold in Australia and to cut climate pollution produced by new cars by more than 50%. The NVES aims to prevent 20 million tonnes of climate pollution by 2030.

Under the NVES, car suppliers may continue to sell any vehicle type they choose but will be required to sell more fuel-efficient models to offset any less efficient models they sell. Car suppliers will receive credits if they meet or beat their fuel efficiency targets.

However, if a supplier sells more polluting cars than their target, they will have two years to trade credits with a different supplier or generate credits themselves before a penalty becomes payable.

The NVES aims to bring Australia in line with the majority of the world's vehicle markets, and global manufacturers will need to comply with Australia's laws. This means that car suppliers will need to provide Australians with cars that use the same advanced fuel-efficient technology provided to other countries.

For Australians who cannot afford an electric vehicle, it is hoped the NVES will encourage car companies to introduce more inexpensive options. There are approximately 150 electric and plug-in hybrids available in the US, but less than 100 on the market in Australia. There are also currently only a handful of battery electric vehicles in Australia that regularly retail for under AU$40,000.

Inaugural Australian Anti-Slavery Commissioner Appointed

On 2 December 2024, Mr Chris Evans commenced a five-year term as the inaugural Australian Anti-Slavery Commissioner (Commissioner), having been appointed in November 2024.

Mr Chris Evans previously served as CEO of Walk Free's Global Freedom Network "Walk Free". He and Walk Free played a significant role in campaigning for the introduction of the *Modern Slavery Act 2018* (Cth) (Modern Slavery Act).

Prior to his time at Walk Free, Mr Evans was a Senator representing Western Australia, serving for two decades.

The Australian Government has committed AU$8 million over the forward estimates to support the establishment and operations of the Commissioner.

Among other functions, the Commissioner is to promote business compliance with the Modern Slavery Act, address modern slavery concerns in the Australian business community and support victims of modern slavery. We expect the Commissioner will take a pro-active role in implementing the McMillan Report's recommendations for reform of the Modern Slavery Act supported by the Australian Government including penalties on reporting companies who fail to submit modern slavery statements on time and in full and the Commissioner's disclosure of locations, sectors and products considered to be high-risk for modern slavery.

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For more information on the role of the Commissioner, you can read our June 2024 ESG Policy Update – Australia.

VIEW FROM ABROAD

Trump Administration Provides Early Insight Into Their Position on ESG-Related Regulations

On 20 January 2025, shortly after new US President Donald Trump was inaugurated, the White House published the America First Priorities (Priorities). Several of these priorities are relevant to ESG-related policies and have been incorporated into Executive Orders and Memoranda issued by President Trump.

These Priorities, Executive Orders and Memoranda provide an insight into the new administration's position on ESG-related regulations and include the following:

- Reviewing for rescission numerous regulations that impose burdens on energy production and use, including mining and processing of non-fuel minerals;
- Empowering consumer choice in vehicles, showerheads, toilets, washing machines, lightbulbs and dishwashers;
- Declaring an "energy emergency" and using all necessary resources to build critical infrastructure;
- Prioritising economic efficiency, American prosperity, consumer choice and fiscal restraint in all foreign engagements that concern energy policy;
- Withdrawing from the Paris Climate Accord;
- Withdrawing from any agreement or commitment under the UN Framework Convention on Climate Change and revoking any financial commitment made under the Convention;
- Revoking and rescinding the US International Climate Finance Plan and policies implemented to advance the US International Climate Finance Plan;
- Freezing bureaucrat hiring except in essential areas; and
- Ordering those officials tasked with overseeing diversity, equity and inclusion (DEI) efforts across federal agencies be placed on administrative leave and halting DEI initiatives taking place within the government.

It is expected that the Trump administration will continue to prioritise economic growth over the perceived costs of ESG-related initiatives. Corporate ESG obligations may decrease, potentially creating short-term reporting relief and less shareholder pressure on companies to adopt ESG-focused policies.

Any relaxation of ESG-related regulations in the US may have extra-territorial effects on other jurisdictions as they determine whether to pause, roll-back or expand their reform programs in response. Multinational enterprises may find it difficult to navigate these potentially increasingly divergent national regimes.

UK Accounting Watchdog Recommends Sustainability Reporting Standards

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On 18 December 2024, the Financial Reporting Council, as secretariat to the UK Sustainability Disclosure Technical Advisory Committee (TAC), recommended the UK Government adopt International Sustainability Standards Board reporting standards, IFRS S1 (Sustainability-related financial information) and IFRS S2 (Climate-related disclosures) (the Standards).

The purpose of these Standards is to provide useful information for primary users of general financial reports. Broadly:

- IFRS S1 provides a global framework for *sustainability-related financial disclosures* and addresses emissions, waste management and environmental risks; and
- IFRS S2 focuses on *climate risks and opportunities*.

Adopting these Standards in tandem ensures that companies account for their full environmental impact. TAC has also recommended minor amendments to the Standards for better suitability to the UK's regulatory landscape. For example, extending the 'climate-first' reporting relief in IFRS S1 will allow entities to delay reporting sustainability-related information, by up to two years. This will allow companies to prioritise climate-related reporting.

This endorsement comes after the TAC was commissioned by the previous government to provide advice on whether the UK Government should endorse the international reporting Standards. Sally Duckworth, chair of TAC, stated that the adoption of these reporting standards is "a crucial step in aligning UK businesses with global reporting practices, promoting transparency and supporting the transition to a sustainable economy".

With more than 30 jurisdictions representing 57% of global GDP having already adopted the Standards, the introduction of these Standards in the UK will align UK companies with international reporting standards and provide greater transparency and accountability, which is important for achieving sustainability goals and setting strategies going forward.

Sustainable Investing Spotlight for 2025

Whilst Europe has dominated the sustainable investing charge with regulators prioritising disclosure and reporting initiatives, 2025 is set to be a challenging year with the Trump administration expected to reorder priorities in the US that are likely to impact the sustainability landscape going forward. Investment data analytics from Morningstar predicts that there will be six themes that will shape the coming year:

Regulations

The US Securities and Exchange Commission (SEC) may reverse rules requiring public companies in the US to disclose greenhouse gas emissions and climate-related risks and roll back a number of other sustainability related initiatives. This is at odds with the European Union and a number of other jurisdictions globally who are focusing on rolling out climate and sustainability disclosures.

Funds Landscape

Fund-naming guidelines that have been introduced by the European Securities and Markets Authority will see a large number of sustainable investment funds across the EU rebrand, which is likely to reshape the landscape. Off the back of the de-regulation occurring in the U.S., there is an expectation that the number of sustainable investment funds will shrink. It will be interesting to see how the market responds and what investor appetite for these products across the rest of the world, will be.

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Transition Investing

Investors will look to invest in opportunities arising out of the energy transition. Institutional investment is vital to meet targets, with focus predicted to be on renewable energy and battery production.

Sustainable Bonds

It is predicted that sustainability related bonds will outstrip US$1 trillion once again. Institutional investors have been targeting sustainability related bonds to aid their net zero efforts. Global players like the EU are poised to play a critical role in the global energy transition and boost the sustainability bond markets by implementing regulatory frameworks to encourage investment.

Biodiversity Finance

Nature will increasingly be recognised as an asset class, thanks to global initiatives aimed at correcting the flawed pricing signals that have contributed to biodiversity loss. These efforts seek to acknowledge the true value of nature and address the ongoing degradation of biodiversity. There is an appetite for nature-based investment, but regulatory uncertainty and uncharted pathways remain a deterrent.

Artificial Intelligence

This prominent investment theme in 2024 is likely to continue well into this year. However, there are risks associated with this asset class. The rapid adoption and volatile regulations are proving costly, along with the immense amount of energy generation required to run artificial intelligence fuelled data centres.

Canada Releases First Sustainability Disclosure Standards in Alignment with ISSB Global Framework

The Canadian Sustainability Standards Board (CSSB) has released its first Canadian Sustainability Disclosure Standards (CSDS), which align closely with IFRS Sustainability Disclosure Standards whilst also addressing considerations specific to Canada.

Broadly, and similar to IFRS Sustainability Disclosure Standards:

- CSDS 1 establishes general requirements for the disclosure of material sustainability-related financial information; and
- CSDS 2 focuses on disclosures of material information on critical climate-related risks and opportunities.

The CSSB has also introduced the Criteria for Modification Framework which outlines the criteria under which the IFRS Sustainability Disclosure Standards developed by the ISSB may be modified for Canadian entities.

CSSB Interim Chair, Bruce Marchand has stated that the introduction of these standards "signifies our commitment to advancing sustainability reporting that aligns with international baseline standards – while reflecting the Canadian context. These standards set the stage for high-quality and consistent sustainability disclosures, essential for informed decision-making and public trust".

Other features of the CSDS include:

- Transition relief through extended timelines for adoption;
- Its voluntary adoption by entities, unless mandated by governments or regulators in the future; and

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- Its role in being the first part of a multi-year strategic plan by the CSSB which includes building partnerships with First Nations, Métis and Inuit Peoples to ensure Indigenous perspectives are integrated into sustainability-related standards.

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