AUSTRALIAN SUSTAINABILITY REPORTING STANDARDS (ASRS)

Lessons from the frontline of mandatory climate disclosure preparation

Consolidated insights from our experts

Contents

ERM acknowledges Traditional Owners of Country throughout Australia and recognises their continuing connection to lands, waters and communities. We pay our respect to Aboriginal and Torres Strait Islander cultures; and to Elders past and present.

Welcome to ERM's lessons from the frontline of ASRS guide

From laying the foundations to delivering value

As we move into 2026, the Australian Sustainability Reporting Standards (ASRS) landscape is shifting from theoretical preparation to tangible reality. At ERM, we're actively supporting businesses of all sizes on their Australian Accounting Standards Board (AASB) S2 disclosure journey. There's been valuable lessons learnt as the first tranche of Group 1 reporters prepare to release their inaugural ASRS-aligned financial reports.

If 2025 was the year of laying the foundations – where finance and sustainability teams focused on establishing robust data architecture, fortifying climate governance frameworks, and reshaping internal responsibilities – then 2026 is the year for delivery.

We expect the release of the first mandatory climate reports (anticipated from mid-March) to provide a 'light at the end of the tunnel' For those still feeling in the dark about what to prepare. These disclosures will offer the market a clearer view of what 'good' looks like, revealing where challenges remain and how reporting processes can be strengthened. Furthermore, with the Government having announced Australia's 2035 emissions reduction target late last year, we anticipate a renewed focus on how businesses navigate investment and transition decisions against a clearer national trajectory.

The inaugural AASB S2 reports of 2026 will set a new baseline for corporate transparency in Australia. For Group 2 reporters, there's a unique opportunity to analyse these reports and take valuable insights from them to kick-start preparations. By screening for climate risks, defining materiality and building data infrastructure today, you can avoid the rush tomorrow. Use this time to observe the Group 1 releases, learn from their challenges, and build a reporting process that delivers value beyond compliance.

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About this guide: This guide aggregates our latest thought leadership and front-line insights to help you understand more about navigating the complexities of transition planning, financial quantification, and assurance.

Lessons from the front line: Bridging the gap between ambition and action

We're witnessing a clear divergence in readiness among reporting organisations. Some are still calibrating their disclosure appetite, while others are executing advanced strategies to embed sustainability into core operations. For Group 1 reporters sprinting to the finish line, and Group 2 and 3 reporters still determining where to start, three practical lessons have emerged from the front line.

- **Start with on a deep dive on known gaps:** Organisations with existing emissions inventories and decarbonisation plans can accelerate progress by targeting the highest-priority gaps in governance, risk assessment, scenario analysis and transition planning. Addressing these key areas first helps align current work with ASRS requirements without getting bogged down in comprehensive gap analyses.
- **Blend internal effort with external support:** Most organisations don't have the in-house resources do it alone, but implementation doesn't have to look like a huge team of consultants or hiring a lots of new employees. We're seeing a mixed model being used to create maximum leverage. There are many organisations benefiting from combining in-house expertise with external ASRS and sustainability experts, using co-development or "critical friend" review to strengthen processes, draft disclosures, and uplift internal capability.
- **Shift the mindset from 'compliance checklists' to operational integration:** Organisations that integrate ASRS requirements into core strategy and operations, rather than treating reporting as a standalone task, achieve deeper insights, greater internal buy-in, and a stronger foundation for first-year disclosures and future reporting cycles.

The most effective reports will demonstrate how climate strategy is actually shaping business decisions, rather than just reporting on them.

Turning disclosure into insight

It's clear that success hinges not just on data, but on how well organisations are operationalizing climate strategy. ERM's client experience shows that those who are taking an integrated approach to ASRS (rather than trying to run it as a standalone compliance exercise) are getting the insights and buy-in they need to navigate year-1 disclosure and set themselves up for success.

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Driving an efficient and value-adding ASRS assurance process

As organisations prepare for first-year ASRS climate disclosures, many are feeling uncertain about how the assurance process will unfold – particularly where disclosures are new and subjective judgement is involved. The companies that are progressing efficiently are those proactively guiding auditors through a clear basis of preparation and a coherent disclosure narrative, rather than treating assurance as a box-ticking exercise. Early engagement with auditors and starting with the outcome in mind helps set alignment on key assumptions and reduces rework during the assurance process.

Practical conversations with auditors should focus on agreeing the fundamental elements that underpin disclosures. These include confirming the organisation's boundaries and key assumptions, aligning on the board's capability to oversee climate reporting, and confirming that climate scenarios used to assess risks and opportunities are credible. It's also important to align on how materiality is defined for climate-related risks, and how climate risks will be considered in the context of the broader financial audit to ensure consistency between climate and other financial disclosures.

Organisations should be transparent about any missing information – explaining how gaps will be addressed in future reporting – and discuss complex or sector-specific aspects of their reporting with auditors early, including ensuring audit team capability or specialist support where needed. Framing these discussions constructively, with information presented clearly and in a way that supports "yes" responses, helps drive a more productive assurance process and can deliver real value from ASRS disclosures.

Engage auditors early: streamlining the process and avoiding costly reworks

Early and proactive engagement with your auditor is also essential. You need to agree the basis of the key commercial decisions that underpin your disclosure from the outset, to limit the amount of work, and potential reworks in data, that you might otherwise need to undertake to satisfy the auditor that your Sustainability Report is compliant.

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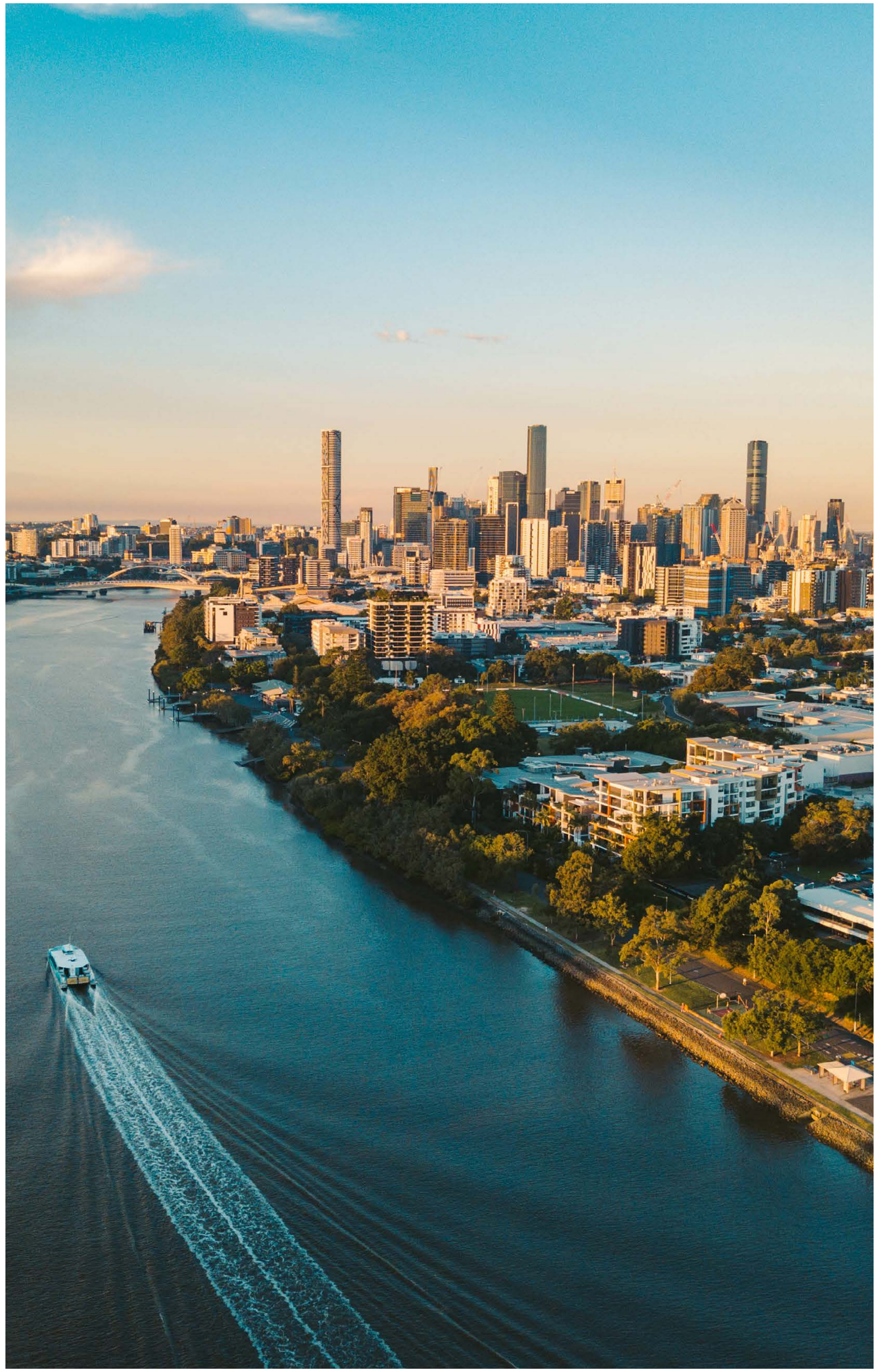

Navigating legal pitfalls: Building a report that stands up to scrutiny

The shift to mandatory reporting increases liability risk. To mitigate this, organisations must ensure that their "green" claims are substantiated by data and that their forward-looking statements are framed with appropriate cautionary language.

Strong climate governance starts with clear accountability and verification frameworks that demonstrate how climate related risks and opportunities are identified and reported. Boards and senior leaders need to exercise care and diligence to ensure disclosures present a true and fair view of the entity's financial position and prospects. This includes upskilling those with oversight responsibilities and preparing verification packs that link data owners to reported information to support assurance.

Cross functional collaboration is crucial. Effective climate reporting integrates legal, finance and sustainability teams into existing governance and risk management structures rather than creating siloed processes. Aligning sustainability materiality with financial materiality and enterprise risk frameworks – and agreeing these approaches with auditors and legal advisers early – helps reduce legal risk and clarifies the basis for disclosure decisions.

Proportionality matters, with regulatory expectations varying by organisational scale and prior disclosure experience; legal advice can help tailor effort appropriately. Forward looking statements, especially around Scope 3 emissions and transition plans, pose particular legal risk in relation to greenwashing and misleading or deceptive conduct. Organisations should ensure any claims made outside of the formal sustainability report can be substantiated with evidence.

Transparency builds credibility

Given the inherent uncertainty in climate assumptions and methodologies, transparency about assumptions, unknowns and limitations in reporting is essential. Communicating these clearly both internally and externally supports credibility, reduces legal exposure, and positions disclosures as a strategic asset rather than a regulatory burden.

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Transition planning: The strategic pivot, moving beyond targets

Australian businesses preparing for climate-related financial disclosures under AASB S2 are facing a growing gap between high-level climate commitments and credible, actionable transition planning. While AASB S2 does not mandate the publication of a formal climate transition plan, investor, regulator and stakeholder expectations are rapidly converging on the need for clear, decision-useful pathways that demonstrate how organisations intend to transition to a lower-carbon economy while remaining resilient and financially viable.

Effective transition planning is increasingly being seen as a core strategic capability rather than a compliance exercise. Credible plans link climate targets to funded actions, governance, metrics and operational decision-making, and address both decarbonisation and adaptation to physical climate risks. However, many organisations continue to struggle with inconsistent definitions, fragmented approaches to climate risk, and limited data and resourcing to translate ambition into execution.

Best practice for the development of climate transition plans is still evolving, informed by emerging guidance from Australian and international bodies. A consistent theme across this guidance is the expectation that transition plans are feasible, credible and resilient, demonstrating how climate considerations are embedded within core business strategy, capital allocation and risk management, and how organisations can perform under different transition pathways.

What businesses should do next: Close the planning gap

The next phase of climate implementation represents a critical opportunity for Australian organisations to move beyond minimum compliance. Forward-looking businesses use transition planning to strengthen long-term competitiveness, build investor confidence and support more informed strategic decisions in an increasingly uncertain climate and regulatory landscape.

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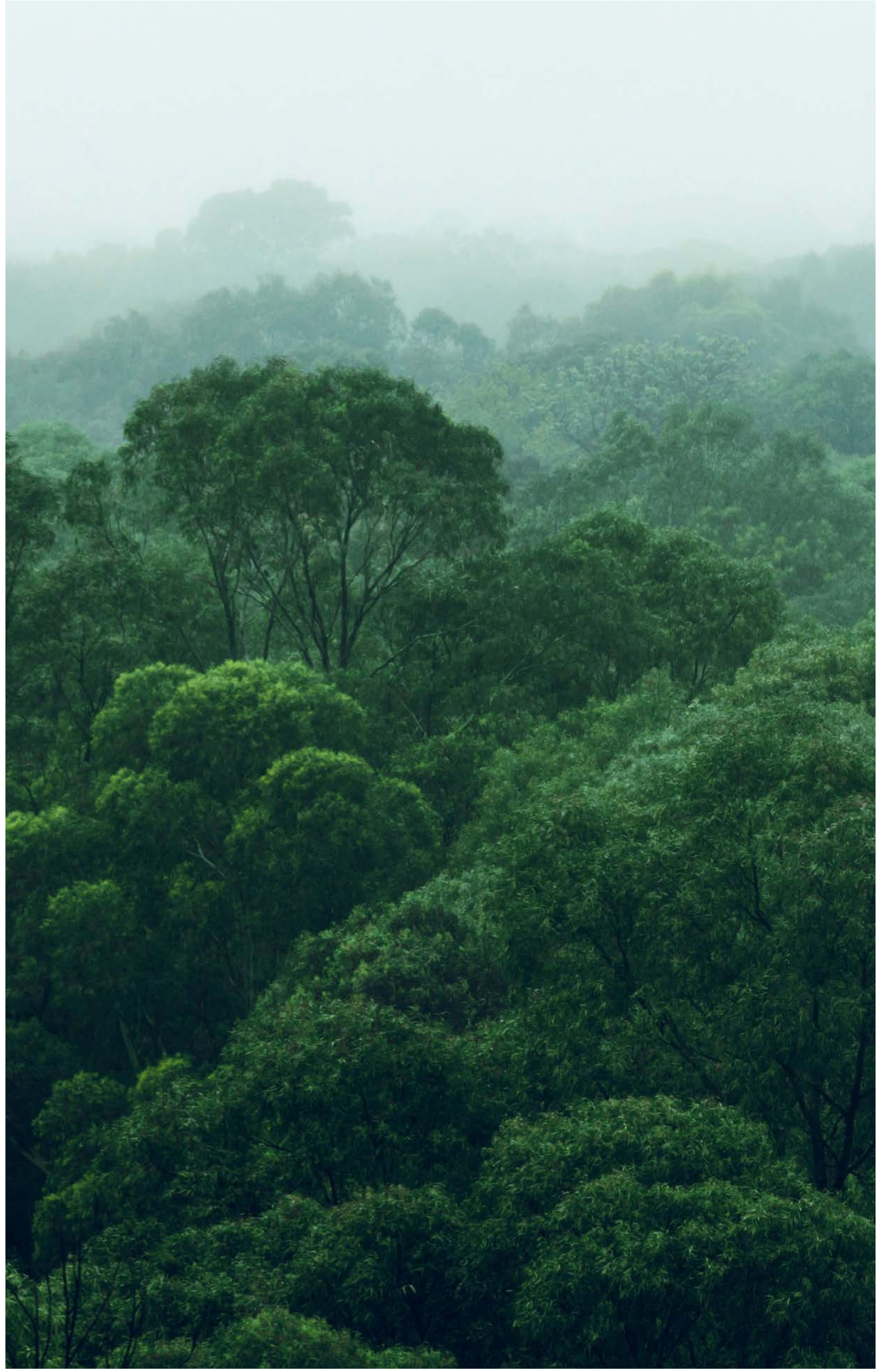

Financial quantification: Cutting through the complexity of the last puzzle piece

For many, the biggest AASB S2 challenge is quantifying the financial impacts of material climate risks and opportunities and linking them directly to financial statements. This shift means moving beyond qualitative descriptions to demonstrating how climate assumptions affect key financial line items, and where quantification isn't currently feasible, transparent explanations and plans to build capability over time are expected.

There is no one-size-fits-all methodology for financial quantification; robust approaches must be tailored to available data and business context, ensure explainability and decision usefulness, and avoid opaque 'black box' models. Organisations are encouraged to integrate climate risk drivers into existing financial models or develop purpose-built approaches that support governance, audit trails and transparent disclosures. Whilst there are 'off the shelf' models, there are risks arising from their application, including a lack of audit trail, challenges with data quality and relevance issues, and lack of robustness / flexibility.

What's challenging reporters

Perhaps the most challenging requirement is the explicit link to financial statements. AASB S2 expects reporters to highlight where climate-related assumptions have influenced or are anticipated to influence, including:

- Asset valuations and impairments
- Useful life estimates and depreciation
- Provisions for decommissioning or litigation
- Contingent liabilities and ongoing concern assessments.

Many organisations find this challenging, due to limitations in climate and internal data, methodological complexity and the need for close collaboration between finance and sustainability teams.

What should reporters do to prepare?

Entities should begin by mapping financial exposures to identify which line items could be materially affected by climate-related risks and opportunities. This should be followed by developing a fit-for-purpose quantification approach that prioritises risks and opportunities that can be measured today, while setting a roadmap to improve data quality and coverage over time. Building robust scenario analysis capability – either internally or with external support – is critical to produce financially meaningful and decision-useful outputs. Early and ongoing engagement with the finance function ensures that climate considerations are aligned with accounting judgements, assumptions and controls.

A practical approach involves selecting which risks to quantify based on materiality, data availability, and methodological feasibility, while remaining transparent where quantification is not yet possible. Organisations should establish a clear workflow, either by embedding climate drivers into existing financial models or developing standalone models with appropriate governance, and translate climate data into financial impacts using relevant metrics such as cash flow, asset value, or provisions.

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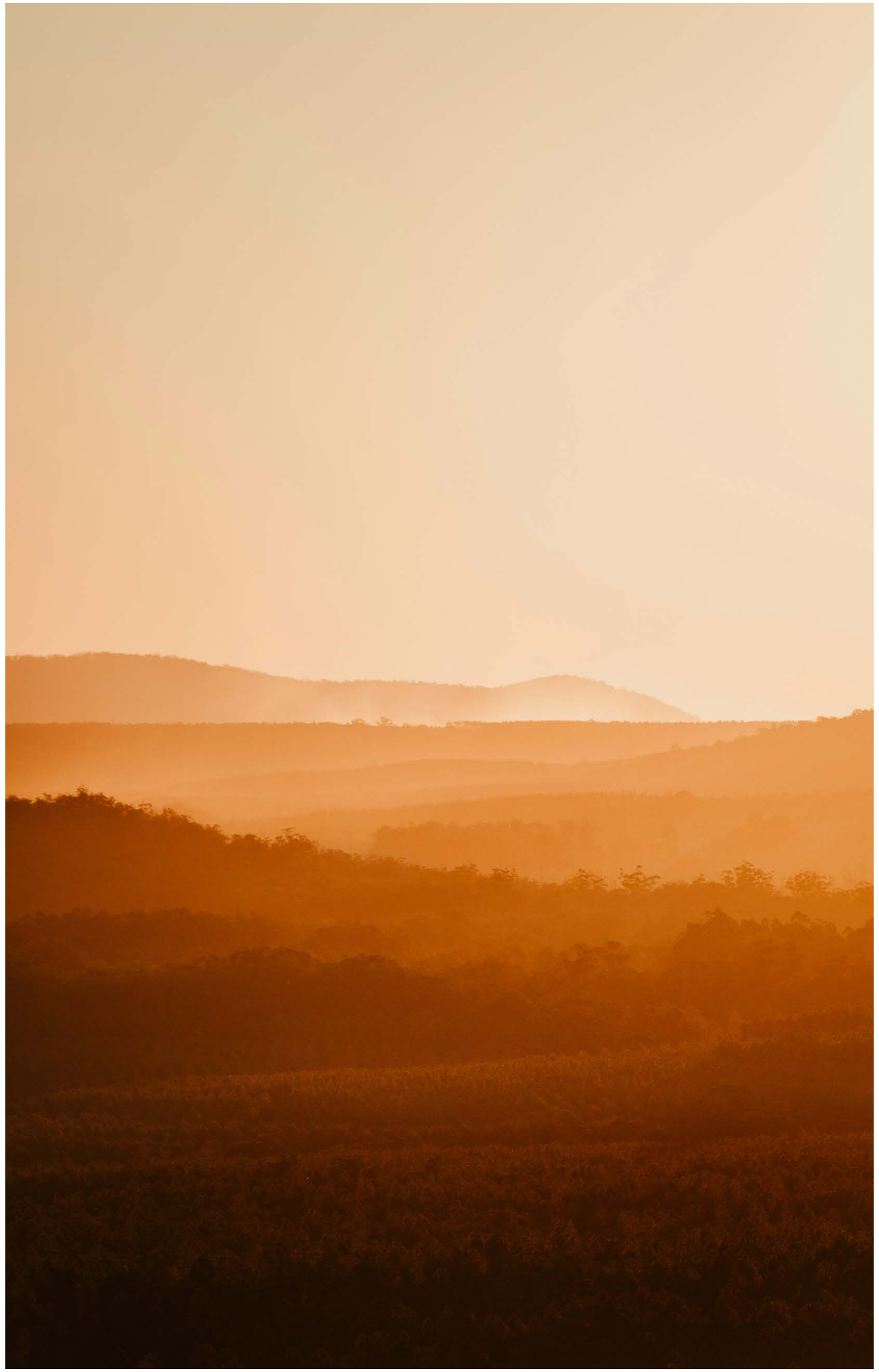
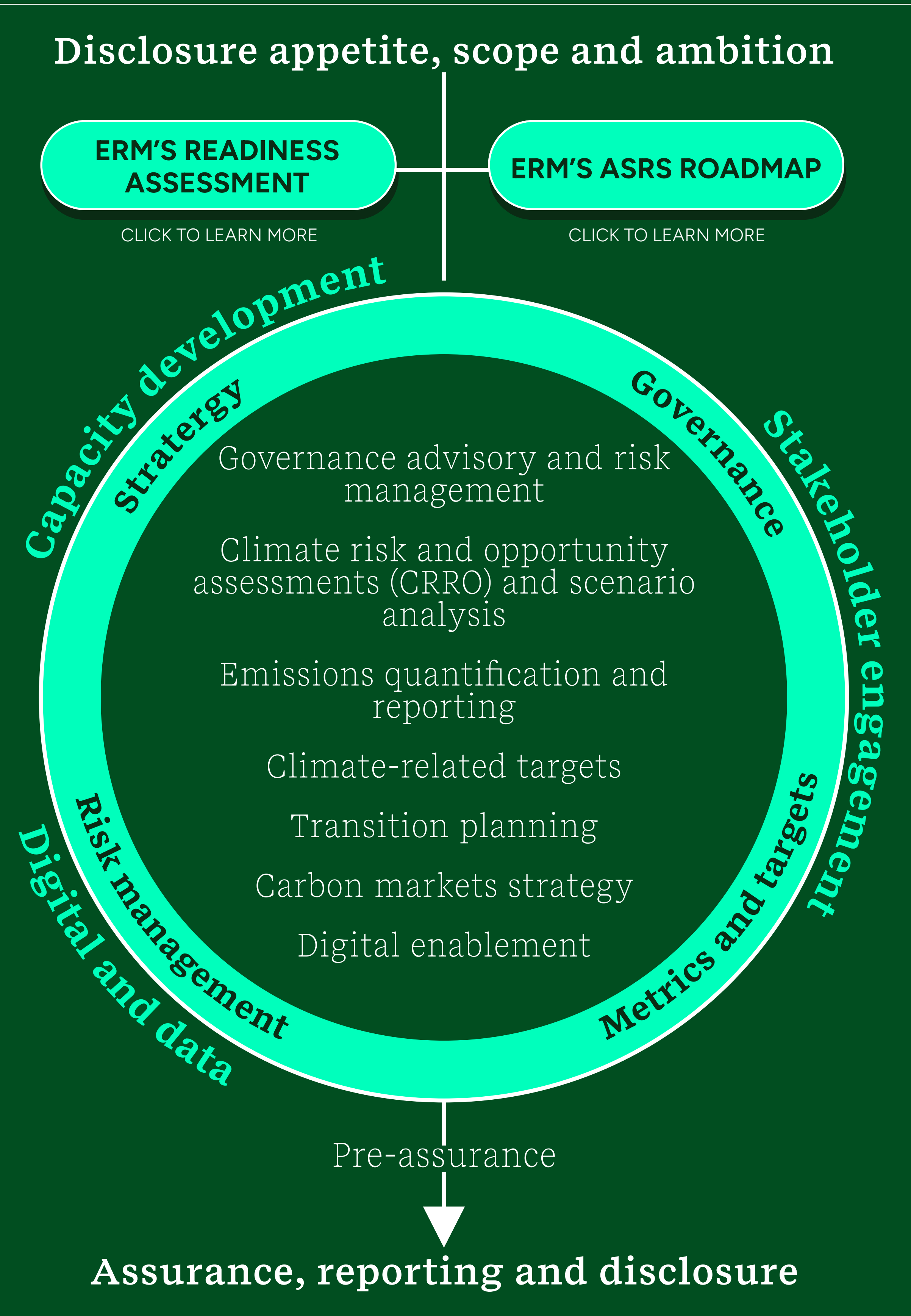


End-to-end service offering with experience across all aspects of ASRS

How ERM can help

With modular offerings, ERM can support the entire ASRS process or provide targeted thematic support, ensuring every organisation receives the right level of guidance to confidently navigate their first reports and build long-term reporting capability.



The ERM difference

We're climate risk and energy transition specialists, helping organisations cut through complexity and turn compliance into competitive advantage. Getting this right requires embedding climate into core reporting processes, building internal confidence, and ensuring disclosures are robust, decision-useful, and audit-ready.

We integrate compliance data into business operations

While others focus solely on disclosure compliance, we embed climate data into enterprise risk and business strategy to drive real value. This means our clients aren't just meeting ASRS requirements; they're using climate insights to inform capital planning, operational decision-making, and strategy.

We provide end-to-end and modular service offerings

Our integrated services cover the full ASRS journey: from initial readiness and materiality assessments, financial quantification and scenario analysis, to assurance preparation, we do it all. Our integrated approach sets us apart from competitors but also enables us to offer modular services for organisations that need targeted support. Whether you're starting from scratch or refining your disclosures, we have the expertise and flexibility to meet your needs.

We have local and global experience across all sectors

ERM has supported clients across sectors in voluntary and mandatory regimes globally, including IFRS and CSRD. In Australia, we leverage this experience to help clients enhance readiness for AASB S2 reporting, enabling them to meet regulatory expectations, satisfy investor scrutiny, and unlock operational value. We work efficiently but we don't provide templated advice or narrow input, we bring deep sector knowledge that helps drive strategic value.

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Seek advice from our experts

ERM has deep expertise developed over years of climate risk and net zero advisory experience – from capturing and managing relevant data, to building an inventory of greenhouse gas emissions, setting a strategy and targets for decarbonisation, identifying and managing your climate risks (and opportunities), and putting together a report on the outcomes that has been assured to the level required under ASRS for your company size.

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