



Project:	Sustainability Reporting	Meeting	AASB May 2022 (M187)
Topic:	Update on international and jurisdictional perspectives	Agenda Item:	6.3
		Date:	2 May 2022
Contact(s):	Helena Simkova hsimkova@aasb.gov.au Siobhan Hammond shammond@aasb.gov.au Nikole Gyles ngyles@aasb.gov.au	Project Priority:	High
		Decision-Making:	None
		Project Status:	Consider draft project plan

Objective

- 1 The objective of this paper is to inform Board members of international developments in sustainability reporting, focussing on:
 - (a) beta version of the nature-related risk management and disclosure framework published for public consultation by [Taskforce on Nature-related Financial Disclosures](#) (TNFD) in March 2022;
 - (b) the United States Securities and Exchange Commission's (US SEC) proposed climate change disclosure rules ([The Enhancement and Standardization of Climate-Related Disclosures for Investors](#)), which would require US registrants to provide certain climate-related information; and
 - (c) update on the sustainability-related work in selected jurisdictions (New Zealand, European Union, United Kingdom and Canada).
- 2 This paper is for information purposes only and does not ask the Board to make any decisions.

Structure

- 3 This paper is structured as follows:
 - (a) Update on international developments (paragraphs 4 – 12)
 - (b) TNFD (paragraphs 13 – 20)
 - (c) US SEC proposed climate change disclosure rules (paragraphs 21 – 24)
 - (d) Update on sustainability reporting progress of selected jurisdictions (paragraphs 25 – 36).

Update on international developments

- 4 At its February 2022 Board meeting, the AASB staff provided the Board with an overview of international and jurisdictional perspectives on sustainability reporting.¹ This paper provides an update on those perspectives since the Board's meeting in February 2022.

The International Sustainability Standards Board (ISSB)

- 5 In March 2022, the ISSB and Global Reporting Initiative (GRI) announced a collaboration agreement to ensure compatibility of sustainability information.
- 6 On 31 March 2022, the ISSB issued [Exposure Draft on \[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) and [Exposure Draft on \[Draft\] IFRS S2 Climate-related Disclosures](#). The exposure drafts build upon the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from Sustainability Accounting Standard Board (SASB) Standards. The consultation period closes on 29 July 2022.
- 7 The ISSB also communicated plans for embedding SASB's industry-based development approach into the ISSB's standards development process.
- 8 In April 2022, the ISSB established a working group of jurisdictional representatives to enhance compatibility between the ISSB's exposure drafts and ongoing jurisdictional initiatives on sustainability disclosures. The working group consists of representatives from Chinese Ministry of Finance, European Commission, EFRAG, Japanese Financial Services Authority, Sustainability Standards Board of Japan Preparation Committee, UK Financial Conduct Authority and US SEC.
- 9 The ISSB will further establish the Sustainability Standards Advisory Forum in Q2 2022 to facilitate regular dialogue with a broad set of jurisdictions.

Other organisations

- 10 In January 2022, the World Bank issued a report [Sovereign Climate and Nature Reporting](#), which highlights the importance of advancing sustainability reporting in the public sector. The report emphasises that climate and ecosystem changes have a material impact on public finances, and raise the cost of capital for climate-vulnerable countries.
- 11 In March 2022, the IPSASB approved a global consultation to develop a public sector sustainability reporting framework. The consultation is planned to start in May 2022.
- 12 There have been two major documents recently issued by international bodies: the beta version of the recommendations of the TNFD and the draft of climate change disclosure rules issued by US SEC.

Taskforce on Nature-related Financial Disclosure (TNFD)

- 13 Consistent with the TCFD, the TNFD is an international initiative seeking to develop a risk management and disclosure framework for organisations to report and act on evolving nature-related risks. The TNFD was formally launched in June 2021 and consists of 34

¹ See February 2022 (M185) Agenda Papers [3.2 Background to global sustainability reporting](#) and [3.3 Australian and selected jurisdictional perspectives](#).

individual [taskforce members](#) representing a broad range of industries, sectors and capital market participants.

- 14 The TNFD does not develop new standard but creates an integrated framework that builds on existing standards, metrics and data. The TNFD’s work builds on seven principles: market usability, science-based, nature-related risks, purpose-driven, integrated & adaptive, climate-nature nexus and globally inclusive.
- 15 In March 2022, the TNFD published the [beta version of its recommendations](#) for public consultation. The recommendations are based on the TCFD Recommendations and, as such, are predominantly consistent with those recommendations. The beta version of the recommendations of the TNFD depart from the TCFD Recommendations in a single instance, being the recommended disclosures in the thematic area of metrics and targets which are still under development and have not yet been published for public consultation.² The final recommendations are expected in late 2023.
- 16 The beta version of the recommendations of the TNFD includes three core components:
 - (a) fundamental concepts and definitions for understanding nature;
 - (b) the TNFD’s draft disclosure recommendations for nature-related risks; and
 - (c) guidance for organisations to undertake nature-related risk and opportunity assessment.
- 17 The beta version of the recommendations of the TNFD also includes four general requirements that disclosures should be based on:
 - (a) assessment of nature-related dependencies and nature impacts;
 - (b) consideration of location;
 - (c) consideration of capabilities for nature-related risk, opportunity assessment and management; and
 - (d) a statement of the scope of disclosures and what will be covered in future disclosures.
- 18 The beta version of the recommendations of the TNFD consists of 12 suggested disclosures (see Table 1).
- 19 The TNFD voluntary guidance is intended to support risk and opportunity assessment, and involves four core phases of analytic activity – Locate, Evaluate, Assess, Prepare – LEAP approach (see Appendix A, Table 1).

² That is, the beta version of the TNFD Recommendations excludes references to metrics and targets that are specific to climate-related financial disclosure being the recommendation to disclose Scope 1, 2 and 3 greenhouse gas emissions.

Table 1: TNFD Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose an organisation's governance around nature-related risks and opportunities.	Disclose the actual and potential impacts of nature-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses and manages nature-related risks.	Disclose the metrics and targets used to assess and manage relevant nature-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of nature-related risks and opportunities.	a) Describe the nature-related risks and opportunities the organisation has identified over the short, medium and long term.	a) Describe the organisation's processes for identifying and assessing nature-related risks.	a) Disclose the metrics used by the organisation to assess nature-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing nature-related risks and opportunities.	b) Describe the impact of nature-related risks and opportunities on the organisation's businesses, strategy and financial planning.	b) Describe the organisation's processes for managing nature-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. Adaptation under consideration by the TNFD.
	c) Describe the resilience of the organisation's strategy, taking into consideration different scenarios.	c) Describe how processes for identifying, assessing and managing nature-related risks are integrated into the organisation's overall risk management.	c) Describe the targets used by the organisation to manage nature-related risks and opportunities, and performance against targets.
	d) Describe the organisation's interactions with low integrity		

	ecosystems, high importance ecosystems or areas of water stress.		
--	--	--	--

US SEC’s Climate Change Disclosure Rule

21 On 21 March 2022, the US SEC published a proposal that would enhance and standardise the climate-related disclosures provided by public companies in the US (US registrants).

22 The proposed rules would include:

- (a) a phase-in period for all registrants, with the compliance date dependent on the registrant’s filer status, and an additional phase-in period for Scope 3 emissions disclosure;
- (b) a phase-in period for the assurance requirement, and the level of assurance required for accelerated filers and large accelerated filers;
- (c) a safe harbor for liability for Scope 3 emissions disclosure; and
- (d) an exemption from the Scope 3 emissions disclosure requirement for smaller registrants (for example, small-to-medium sized registrants).

23 Certain aspects of the proposed disclosures are similar to recommendations of the TCFD (and should therefore be similar to the proposals in the ISSB’s *Exposure Draft on [Draft] IFRS S2 Climate-related Disclosures*) and the Greenhouse Gas Protocol.³

24 Under the proposed rules, US registrants would be required to provide the following disclosures:

Financial statements disclosures	<ul style="list-style-type: none"> • The impact on financial statement line items related to severe weather events and other natural conditions (e.g. impairment charges, increased loss reserves) and transition activities (e.g. changes in salvage values or useful lives of assets) if such amount exceeds 1 percent of the related line item. • The expenditures related to mitigating the risk of severe weather events and other natural conditions and transition activities if such amount exceeds 1 percent of the total amount expensed or capitalized. • How severe weather events and other natural conditions and transition activities affected estimates and assumptions reflected in the financial statements.
GHG emission disclosures	<ul style="list-style-type: none"> • Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions, which would need to be separately disclosed on a disaggregated (by each GHG) and aggregated basis. This disclosure would be required on a gross basis (before consideration of any offsets). • Scope 3 GHG emissions (i.e. from indirect upstream and downstream activities) in gross terms (before consideration of any offsets) and relative to intensity, if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions or if Scope 3 emissions are material. <p>Scope 3 GHG emission disclosures would be subject to securities law safe harbor provisions.</p>

³ GHG Protocol establishes comprehensive global standardised frameworks to measure and manage greenhouse gas emissions from private and public sector operations, value chains and mitigation actions.

<p>Qualitative disclosures</p>	<ul style="list-style-type: none"> • How climate-related risks have: <ul style="list-style-type: none"> (1) had or are likely to have a material impact on the business and its financial statements as well as (2) affected or are likely to affect the registrant’s strategy, business model, and outlook. • The registrant’s processes for detecting, evaluating and managing climate-related risks and whether those processes are integrated into the registrant’s broader risk management program. • If the registrant uses a scenario analysis to assess its business in the context of climate-related risks, a description of the scenarios, assumptions and projected financial impacts. • If a registrant has adopted a climate transition plan, a description of such plan as well as relevant targets and metrics. • If the registrant has publicly disclosed climate-related targets or goals: <ul style="list-style-type: none"> ○ The scope of activities encompassed, the time horizon envisioned, and any interim targets established. ○ How the registrant plans to achieve its targets or goals. ○ An update each year of how the registrant is progressing relative to its targets or goals and how such progress has been achieved. ○ If carbon offsets or renewable energy certificates (RECs) have been used as part of the plan to achieve climate-related targets or goals, information about the carbon offsets or RECs, including how much of the progress made is attributable to offsets or RECs.
<p>Governance disclosures</p>	<p>How the registrant’s board of directors and management oversee climate-related risks, the risk management process and the registrant’s response.</p>
<p>Location, timing and applicability of the required disclosures</p>	<p>Under the proposed rule, a registrant would provide the disclosures in its registration statements as well as its annual reports filed under the Securities Exchange Act of 1934. The disclosures outlined in the financial statements footnote disclosure section would be required in the financial statements, whereas the remaining disclosures, would be required in a newly created section of Form 10-K. The disclosures would be due at the same time as a registrant’s annual report. Smaller reporting companies would be exempt from Scope 3 GHG emission disclosure requirements.</p>
<p>Attestation requirements</p>	<p>The financial statement footnote disclosures would be subject to existing financial statement audit requirements. The Scope 1 and Scope 2 GHG emission disclosures would be subject to limited assurance during a phase-in period, followed by reasonable assurance.</p>
<p>Phase-in period of the proposed rule</p>	<p>If the proposed rule’s requirements become effective in December 2022, the mandatory compliance date for their adoption for a registrant with a calendar year-end would be as follows:</p>

	Registrant Type	All Disclosures Except Scope 3 GHG Emission Disclosures	Scope 3 GHG Emission Disclosures	Attestation on Scope 1 and Scope 2 GHG Emission Disclosures
	Large accelerated filer	2023	2024	Limited assurance — 2024 Reasonable assurance — 2026
	Accelerated filer	2024	2025	Limited assurance — 2025 Reasonable assurance — 2027
	Non-accelerated filer	2024	2025	Not required

Update on selected jurisdictional perspectives

New Zealand

- 25 AASB staff have previously noted that in October 2021, the New Zealand External Reporting Board (XRB) published the public consultation document [Climate-related Disclosures: Governance and Risk Management](#).⁴ The [feedback](#) received indicated strong support for the approach taken by the XRB, in particular support for the principles-based approach and the alignment with TCFD Recommendations.
- 26 In March 2022, the XRB launched its second consultation document [Climate-related Disclosures: Strategy, and Metrics and Targets](#). This document focuses on the proposed Strategy, and Metrics and Targets sections. The consultation period closed 2 May 2022.
- 27 The XRB intends to issue the following:
- (a) Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1) – main disclosure standard based on the recommendations of the TCFD;
 - (b) Aotearoa New Zealand Climate Standard 2: *Adoption of Climate-related Disclosures* (NZ CS 2) – adoption standard; and
 - (c) Aotearoa New Zealand *Climate-related Disclosures Concepts* (NZ CRDC) – authoritative notice containing key concepts (e.g. materiality).
- 28 The XRB expects to publish an exposure draft of NZ CS 1 in July 2022. The final standard is expected to be issued by December 2022, with the effective date for accounting periods starting on or after 1 January 2023.

European Union

⁴ See February 2022 (M185) Agenda Paper [3.3 Australian and selected jurisdictional perspectives](#).

- 29 In March 2022, EFRAG General Assembly appointed the members of the EFRAG Sustainability Reporting Board, which represents European Stakeholders, National Organisations and Civil Society Organisations.⁵
- 30 In April 2022, the EFRAG Sustainability Reporting Board appointed members of the EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG), which completed the main steps of integrating the EFRAG Sustainability Reporting Pillar into the EFRAG structure.
- 31 During February and March 2022, EFRAG made publicly available additional sets of working papers for the development of the European Sustainability Reporting Standards (ESRS). These working papers are:
- a) [\[Draft\] ESRS 1 General Provisions](#) and its [cover note](#), and
 - b) [\[Draft\] ESRS E2 Pollution](#);
 - c) [\[Draft\] ESRS E3 Water and marine resources](#);
 - d) [\[Draft\] ESRS E4 Biodiversity and ecosystems](#);
 - e) [\[Draft\] ESRS E5 Resource use and circular economy](#);
 - f) [\[Draft\] ESRS SEC1 Sector Classification Standard](#);
 - g) [\[Draft\] ESRS P1 Sustainability Statements](#);
 - h) [\[Draft\] ESRS S1 Own workforce – General](#);
 - i) [\[Draft\] ESRS S2 Own Workforce-Working Conditions](#);
 - j) [\[Draft\] ESRS S3 Own Workforce- Equal opportunities](#);
 - k) [\[Draft\] ESRS S4 Own workforce – Other work-related rights](#);
 - l) [\[Draft\] ESRS S5 Workers in the value chain](#);
 - m) [\[Draft\] ESRS S6 Affected communities](#);
 - n) [\[Draft\] ESRS S7 End-users / consumers](#);
 - o) [\[Draft\] ESRS G1 Governance, risk management and internal control](#);
 - p) [\[Draft\] ESRS G2 Products and services, management and quality of relationships with business partners](#); and
 - q) [\[Draft\] ESRS G3 Business conduct](#).

United Kingdom

- 32 In November 2021, the Financial Conduct Authority (FCA) issued the Discussion Paper [Sustainability Disclosure Requirements \(SDR\) and investment labels](#), in which the FCA sought initial views on SDR disclosure requirements for asset managers and certain FCA-regulated asset owners.
- 33 The comment period closed in January 2022 and the FCA will consult on resulting proposed rules to implement SDR disclosure requirements in Q2 2022.
- 34 At this stage, AASB staff note that the UK Government has not formally appointed responsibility of sustainability reporting to any single government body (or group of bodies).

Canada

⁵ <https://www.efrag.org/News/Public-341/EFRAG-welcomes-its-new-Sustainability-Reporting-Board>

- 35 At the February 2022 meeting, AASB staff informed the Board that The Independent Review Committee on Standard Setting in Canada had published a Consultation Paper to conduct a review of the governance and structure for establishing Canadian accounting and assurance standards, and to identify what might be needed for the future—including sustainability standards.⁶ The consultation period closed 31 March 2022.
- 36 The Committee recommended the formation of a separate Canadian Sustainability Standards Board that would support the adoption of future ISSB.⁷ The Committee is expected to issue its final recommendations in Q3 2022 after considering the feedback on its Consultation Paper.

Question to Board members

Question to Board members

Q1: Do Board members have any questions about the information provided in this paper?

⁶ <https://www.ircscanada.ca/en/consultation-paper>

⁷ <https://www.frascanada.ca/en/sustainability>

Appendix A

Table 1: TNFD LEAP approach guidance

LEAP is voluntary guidance, not a disclosure recommendation. As such, not everything that is identified, assessed and evaluated using the LEAP approach needs to be disclosed.

LOCATE Interface with nature		EVALUATE Dependencies & Impacts		ASSESS Material risks & opportunities		PREPARE To respond and report	
L1 Business footprint	Where are our direct assets and operations, and our related value chain (upstream and downstream) activities?	E1 Identification of relevant environmental assets and ecosystem services	What are our business processes and activities at each priority location? What environmental assets and ecosystem services do we have a dependency or impact on at each priority location?	A1 Risk identification & assessment	What are the corresponding risks for our organisation?	Strategy and resource allocation	
L2 Nature interface	Which biomes and ecosystems do these activities interface with?	E2 Identification of dependencies and impacts	What are our nature-related dependencies and impacts across our business at	A2 Existing risks mitigation & management	What existing risk mitigation and management approaches are we already applying?		

	What is the current integrity and importance of the ecosystems at each location?		each priority location?			P2 Performance measurement	How will we set targets and define and measure progress?
L3 Priority location identification	At which locations is our organisation interfacing with ecosystems assessed as being low integrity, high biodiversity importance and/or areas of water stress?	E3 Dependency analysis	What is the size and scale of our dependencies on nature in each priority location?	A3 Additional risks mitigation & management	What additional risk mitigation and management actions should we consider?	Disclosure actions	
L4 Sector identification	What sectors, business units, value chains or asset classes are interfacing with nature in these priority locations?	E4 Impact analysis	What is the size and scale of our nature impacts in each priority location?	A4 Materiality assessment	Which risks are material & should be disclosed in line with the TNFD disclosure recommendations?	P3 Reporting	What will we disclose in line with the TNFD disclosure recommendations?
				A5 Opportunity identification & assessment	What nature-related opportunities does this assessment identify for our business?	P4 Presentation	Where and how do we present our nature-related disclosures?

