Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosure**	**Meeting:**	19 and 22 July 2024 (M206)
Topic:	**Statement expressly permitting voluntary disclosures (SMC 6)**	**Agenda Item:**	4.1.5
		Date:	12 July 2024
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objective

1 The purpose of this paper is to:

(a) summarise the stakeholder feedback received on SMC 6 in ED SR1; and

(b) decide whether the Board should proceed with the proposal described in SMC 6 for the purpose of finalising the ASRS Standards.[1]

Summary of staff recommendations

2 Staff recommend the Board **maintain alignment** with the IFRS Sustainability Disclosure Standards baseline and make **no amendments** for the proposal described in SMC 6 when finalising the ASRS Standards.

3 As SMC 6 was only proposed due to changes related to SMC 4 and 5, staff believe that the addition of an Aus paragraph to the [draft] ASRS Standards explicitly stating that an entity may provide voluntary disclosures based on other relevant frameworks or pronouncements is unnecessary.

Structure

4 This paper is structured as follows:

(a) Section One: Background

[1] As explained in the Cover Memo accompanying this staff paper, the staff recommendations in this paper are made in the context of the body of ASRS 2 or the proposed Australian-specific appendix (or equivalently-named item) to ASRS 2 only. They are not related to a non-mandatory ('voluntary') equivalent of IFRS S1 that would cover sustainability-related financial disclosures.

(b) Section Two: Stakeholder feedback summary

(c) Section Three: Staff analysis and recommendations

Section One: Background

5 As part of ED SR1, the AASB proposed:[2]

(a) omitting references to both the SASB Standards and IFRS S2 *Industry-based Guidance* in the [draft] ASRS Standards (i.e. SMC 4); and

(b) entities that voluntarily choose to make industry-based disclosures *shall* refer to and consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in an industry, as classified in *ANZSIC* (i.e. SMC 5).

6 Considering the above-mentioned proposals, the AASB recognised that some entities might want to provide additional voluntary disclosures using other frameworks, such as the SASB Standards.[3] Therefore, SMC 6 was included in ED SR1 as an opportunity to obtain stakeholder feedback on whether the AASB should expressly permit an entity to provide voluntary disclosures based on other relevant frameworks or pronouncements.

7 ED SR1 did not specify the exact wording the AASB proposed to use in the [draft] ASRS Standards. The central elements of the proposed statement were included in SMC 6—which is reproduced below—but the proposed statement itself *was not* incorporated into the body of the [draft] ASRS Standards.[4]

8 The IFRS Sustainability Disclosure standards do not contain a blanket statement that permits voluntary disclosures based on other relevant frameworks or pronouncements. Instead, IFRS S1 establishes a framework to explain when additional disclosures are permissible. This framework can be summarised as follows:

(a) for an identified sustainability-related risk or opportunity within the scope of IFRS S1, the entity is required to first apply the IFRS Sustainability Disclosure Standard that applies to that risk or opportunity, and, in the absence of a relevant IFRS Sustainability Disclosure Standard, apply the sources of guidance as set out in IFRS S1 Appendix C, so long as the entity does not obscure material information required by IFRS Sustainability Disclosure Standards;[5] and

(b) an entity shall disclose additional information when compliance with the specifically applicable requirements in an IFRS Sustainability Disclosure Standard is insufficient to enable users of the

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2 Refer to Agenda Item 4.1.4.

3 See BC 37(a) and BC 41 in ED SR1.

4 Staff note other related issues—such as whether the statement should identify specific frameworks and/or pronouncements and the location of the Aus paragraph in the ASRS Standards—would also need to be resolved if the Board decided to incorporate this proposal into the Standards.

5 Paragraphs 56-58 of IFRS S1 identify various sources of guidance that an entity shall or may refer to and consider when identifying applicable disclosure requirements about *sustainability-related* risks and opportunities *in the absence of an IFRS Sustainability Disclosure Standard* that specifically applies to a sustainability-related risk or opportunity (i.e. a topic-based Standard). IFRS S2 is a topic-based IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk and opportunity (i.e. climate-related disclosures).

GPFR to understand the effects of the sustainability-related risk or opportunity on the entity's prospects.[6]

9 In other words, the IFRS Sustainability Disclosure Standard specifically applicable to a sustainability-related risk or opportunity establishes the minimum disclosures required to comply with the Standard, and an entity may need to exceed the minimum disclosure requirements to meet the objectives of the Standard.

10 Additionally, other information that is not within the scope of the IFRS Sustainability Disclosure Standards, but is disclosed to meet other requirements, may be presented, provided that the sustainability-related financial disclosures are clearly identifiable and not obscured by the other information.[7]

11 It is also important to recognise since the publication of ED SR1, the Board has decided to prepare a non-mandatory ('voluntary') equivalent of IFRS S1 that would cover sustainability-related financial disclosures.[8] This non-mandatory ('voluntary') Standard will provide a basis for entities to make sustainability-related financial disclosures beyond climate on a voluntary basis.

Section Two: Stakeholder feedback summary

12 SMC 6 of ED SR1 asked stakeholders the following question:

> Do you consider that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards)? Entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures. Please provide reasons to support your view.

13 A summary of the quantitative and qualitative feedback for this SMC is presented in the following two sections of this paper.

Quantitative feedback summary

14 The AASB received a total of 117 comment letters and 289 survey responses for ED SR1. Of these, 49 comment letters and 84 survey respondents clearly expressed a view on SMC 6.

15 The following table summarises the responses received on SMC 6 (rounded to the nearest %).

	Agree	Partially agree	Disagree
Out of the 49 comment letters that expressed a clear view on SMC 6[9]	86%	4%	10%
Out of the 84 survey responses that commented on SMC 6[10]	86%	0%	14%

6 IFRS S1 paragraph B26.
7 IFRS S1 paragraphs 62, B27 and B30.
8 Refer to AASB Action Alert (Issue No: 231).
9 Some respondents did not clearly express their agreement, partial agreement or disagreement with a proposal in their comment letters. Accordingly, staff applied judgement in categorising the overall comments expressed in the comment letters. An overview of stakeholder feedback expressed in the comment letters is presented as Agenda Paper 4.1.8 for the Board's reference.
10 The survey responses have been provided separately for the Board's reference.

16 The quantitative results summarised above indicate that most respondents supported the AASB's proposal to expressly permit an entity to provide voluntary disclosures based on other relevant frameworks or pronouncements, provided those additional disclosures do not obscure or conflict with required disclosures.

Qualitative feedback summary[11]

17 Most respondents agreed with the AASB's proposal that ASRS Standards should expressly permit an entity to provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards) provided that they do not obscure or conflict with required disclosures.

18 Stakeholders identified a range of benefits associated with this proposal, including that it:

(a) can improve the transparency, completeness, and quality of information available to GPFR users and other stakeholders;[12]

(b) encourages disclosures based on other frameworks[13] and this information may help to supplement or enhance disclosures made under ASRS Standards;[14]

(c) provides entities that may wish to voluntarily report on sustainability topics beyond climate with additional clarity on the status of these kinds of disclosures;[15]

(d) will help to support entities with international and jurisdictional reporting obligations and/or entities that rely on information issued by foreign parent companies;[16]

(e) allows for flexibility based on the reporting entity's circumstances and encourages innovation in disclosures;[17] and

(f) represents a useful addition to the IFRS Sustainability Disclosure Standards baseline.[18]

19 A few respondents agreed with the proposed amendment but emphasised that voluntary disclosures should only be made when they do not obscure or conflict with the required disclosures in ASRS Standards.[19]

20 A few respondents agreed with the proposal but suggested that voluntary disclosures should be clearly marked as such and separated from mandatory disclosures required under ASRS Standards.[20]

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11 Roundtable participants were mixed in their support for SMC 6, although broadly speaking, they were more likely to support the proposal than not. Stakeholder feedback that supports (or opposes) different options has been integrated into this paper.

12 For example, comment letters 1, 18, 20, 42, 64, 68, 74, 77, 86 and Geelong roundtable.

13 For example, the SASB Standards, the Global Reporting Initiative (GRI) Standards, or the International Organization for Standardization (ISO) Standards.

14 For example, comment letters 11, 15, 34, 54, 81, 88, 92, 103, 104, survey responses S3, S101, S190, and Melbourne roundtable 1, Perth roundtable 1 and Canberra roundtable 2.

15 For example, comment letter 110, survey response S75 and virtual roundtable 1.

16 For example, comment letters 20, 35, 38, 44, 65, and virtual roundtable 2.

17 For example, comment letters 9, 43, 70, 75, 83, and survey responses S31, and S116.

18 For example, comment letter 55.

19 For example, comment letters 7, 11, 70, and 86.

20 For example, comment letters 41, 108, and survey responses S211, S217, and S264.

21 One respondent agreed with the proposal but encouraged the AASB to include indicative examples of appropriate frameworks and/or pronouncements.[21]

22 A few respondents either agreed or partially agreed with the proposal but noted that their support for this SMC was influenced by their support for the SASB Standards.[22,23]

23 Some respondents disagreed with the AASB's proposal related to SMC 6. Reasons against the proposal included that:

(a) the statement is unnecessary because it is already implicit that an entity can provide voluntary disclosures as they choose fit;[24]

(b) voluntary disclosures may be based on frameworks that have not been through the AASB's due process;[25]

(c) there may be audit-related challenges associated with assuring voluntary information—even when scoped out of the engagement—because users may be unable to differentiate between the disclosures that have (or have not) been subject to assurance;[26] and

(d) voluntary disclosures may confuse users and facilitate greenwashing.[27]

24 One participant who disagreed with the proposal suggested changing the wording to "optional" rather than "voluntary", although this comment was specifically in relation to the SASB Standards.[28]

Section Three: Staff analysis and recommendations

25 Staff note that the AASB prioritises alignment with the baseline of IFRS Sustainability Disclosure Standards and only makes amendments where necessary to meet the needs of Australian stakeholders based on the AASB *Sustainability Reporting Standard-Setting Framework*.[29]

26 The analysis presented in the following table focuses on feedback that is supportive of the proposal (i.e., in favour of a deviation from the IFRS Sustainability Disclosure Standards baseline).

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21 For example, comment letter 95.

22 That is, they supported this proposal based on the assumption that elements of the preceding proposals (SMC 5 and SMC 6) would remain unchanged in the final ASRS Standards.

23 For example, comment letters 21, 104, and survey responses 101, 107, and 109.

24 For example, comment letters 12, 49, survey responses S28, S109 and Perth roundtable 2.

25 For example, comment letter 37.

26 For example, comment letter 37, Hobart roundtable, and Melbourne roundtable 3.

27 For example, survey response S130, Adelaide roundtable, and Hobart roundtable.

28 For example, comment letter 40.

29 *AASB Sustainability Reporting Standard-Setting Framework*, paragraph 10.

STAKEHOLDER FEEDBACK	STAFF COMMENT
The statement can improve the transparency, completeness, and quality of information available to GPFR users and other stakeholders	Consistent with the IFRS Sustainability Disclosure Standards, the ASRS Standards establish the *minimum* disclosure requirements necessary to meet the Standards' objectives. Given this, such a statement may be considered unnecessary because (a) it is already implicit, (b) there are disclosure objectives that need to be met; (c) there is no equivalent statement in IFRS Sustainability Disclosure Standards, and (d) there is no equivalent requirement in Australian Accounting Standards. Thus, staff do not consider it appropriate to include such a statement in the mandatory aspects of the ASRS Standards.[30]
The statement encourages disclosures based on other frameworks and this information may help to supplement or enhance disclosures made under ASRS Standards	As noted above, staff consider that the ASRS Standards establish the minimum disclosure requirements necessary to meet the Standards' objectives. The ASRS Standards do not prohibit an entity from voluntarily choosing to disclose additional information. While it is implicit that an entity can provide additional voluntary disclosures, explicitly encouraging this via an amendment in the mandatory aspects of the ASRS Standards poses risks. For example: • such a statement could be taken to mean that the ASRS Standards are incomplete and do not provide an adequate basis for climate-related financial disclosures; • encouraging reporting based on frameworks or pronouncements that have not gone through the AASB's own due process could be seen as an endorsement of that content; and • any identification of frameworks could become a de facto list of frameworks, which could unintentionally constrain information.
The statement provides entities that may wish to voluntarily report on sustainability topics beyond climate with additional clarity on the status of these kinds of disclosures	Staff recognise that certain entities may want to report on broader sustainability topics beyond climate. However, staff note that the ASRS Standards do not prohibit an entity from reporting on sustainability topics beyond climate. The Board recently recognised the potential for this and decided to publish a non-mandatory ('voluntary') equivalent of IFRS S1.[31] This non-mandatory ('voluntary') Standard will provide entities the opportunity to make additional voluntary disclosures via a framework that complements ASRS 2.
The statement will help to support entities with international and jurisdictional reporting obligations and/or entities that rely on information issued by foreign parent companies	Staff recognise that certain entities required to comply with the ASRS Standards will have reporting obligations in other jurisdictions. This factor is one of the reasons why the ASRS Standards aim to align, in so far as possible, with the IFRS Sustainability Disclosure Standards baseline. This approach will minimise duplicative reporting requirements that entities may have in other jurisdictions aligning with or adopting IFRS S1 and/or IFRS S2.[32] For entities that may have reporting obligations in jurisdictions based on alternative reporting frameworks, such as the European Sustainability Reporting Standards (ESRS) and/or Global Reporting Initiative (GRI) Standards, the IFRS Foundation has published (or committed to publishing)

30 The potential for an equivalent statement to be included in non-mandatory guidance or education content accompanying the ASRS Standards is something the Board could consider at a later date.

31 Refer to AASB Action Alert (Issue No: 231).

32 Examples of jurisdictions that have had (or are currently having) consultations on aligning with or adopting IFRS Sustainability Disclosure Standards include Canada, China, Japan, Malaysia, Singapore, South Korea, and the United Kingdom.

STAKEHOLDER FEEDBACK	STAFF COMMENT
	interoperability guidance based on these frameworks, which will assist with minimising duplicative reporting requirements.[33]
The statement allows for flexibility based on the reporting entity's circumstances and encourages innovation in disclosures	Flexibility and innovation would be permitted regardless of whether the statement was included, as it is implicit that an entity may provide additional voluntary disclosures, provided they meet the framework provided in IFRS S1 as noted above.
The statement represents a useful addition to the IFRS Sustainability Disclosure Standards baseline	Staff acknowledge that while IFRS S1 does not *explicitly* state that an entity can provide additional disclosures based on other relevant frameworks or pronouncements, this is nevertheless implicit. The addition of an Aus paragraph in the ASRS Standards on this matter is unnecessary.

27 Staff acknowledge that there was support among most respondents for incorporating the statement described in SMC 6 into the ASRS Standards via an Aus paragraph. However, as explained earlier in this paper, it is important to recognise that support for SMC 6 may have been predicated on the proposals in SMC 4 and SMC 5. SMC 4 and SMC 5 proposed amending the IFRS Sustainability Disclosure Standards baseline and received less support from respondents.

28 Considered altogether, staff believe that the addition of an Aus paragraph to the ASRS Standards explicitly stating that an entity may provide voluntary disclosures based on other relevant frameworks or pronouncements is unnecessary because:

(a) the proposal presented in SMC 6 was incorporated into ED SR1 because of proposed changes related to SMC 4 and SMC 5—it was not due to perceived shortcomings in the IFRS Sustainability Disclosure Standards or contextual factors in Australia that warranted departure;

(b) the IFRS Sustainability Disclosure Standards baseline already establishes the minimum disclosure requirements and disclosure objectives—and already provide that an entity can provide more information than required by the minimum disclosure requirements to meet the Standards' disclosure objectives, provided they do not obscure material information;[34]

(c) the Board has recently decided to publish a non-mandatory ('voluntary') equivalent of IFRS S1—signalling that an entity can provide additional voluntary disclosures via a framework that will be complementary to ASRS 2;

(d) specifying that additional voluntary disclosures can be provided may have unintended consequences, such as complicating the ASRS Standards for preparers, auditors, regulators and primary users; and

(e) explicitly stating that additional disclosures may be provided may create the perception that the minimum disclosure requirements are inadequate.

29 Consequently, staff recommend that the Board make no amendments to the IFRS Sustainability Disclosure baseline for the proposal described in SMC 6.

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33 See ESRS—ISSB Standards Interoperability Guidance; see also News article: "GRI and IFRS Foundation collaboration to deliver full interoperability that enables seamless sustainability reporting" (24 May 2024).

34 The Board could decide to include an equivalent statement in non-mandatory guidance or education content accompanying the ASRS Standards, but staff do not believe it is necessary to include this in the Standards.

Section Four: Questions to Board members

Q1. Do Board members have any questions about the summary of stakeholder feedback or staff analysis and recommendations concerning SMC 6?

Q2. Do Board members agree with the staff recommendation identified in paragraph 2929 regarding SMC 6? If not, what alternative approaches would you recommend?