Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	19 and 22 July 2024 (M206)
Topic:	**Modifications to the objective of [draft] ASRS 2 for NFP entities (SMCs 23-24)**	**Agenda Item:**	4.2.1
		Date:	12 July 2024
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		Decision-Making:	High
		Project Status:	Consider ED Feedback

Objective of this paper

1 The objectives of this paper are for the AASB to:

(a) consider feedback from stakeholders on the proposed modifications to the baseline objective of IFRS S2 for NFP entities to disclose information about "climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, **and its ability to further its objectives**, over the short, medium and long term" (SMCs 23–24); and

(b) decide on any changes to be made to [draft] ASRS 2.

Summary of staff recommendations

2 Staff recommend:

(a) omitting paragraph Aus2.2 from [draft] ASRS 2 and all proposed modifications relating to adding the phrase "ability to further its objectives" in describing the objective of the Standard and related key concepts. That is, incorporating IFRS S2's text without modifications; and

(b) adding mandatory guidance in an Australian-specific appendix to ASRS 2 to clarify the objective of the Standard in an NFP context, using existing NFP guidance in the *Framework for the Preparation and Presentation of Financial Statements*.

Structure

3 The paper is structured as follows:

(a) Section 1: Background – The AASB's decisions when developing ED SR1

(b) Section 2: Summary of stakeholder feedback

(c) Section 3: Staff analysis

(d) Section 4: Options for progressing ASRS 2

(e) Section 5: Staff recommendations

(f) Appendix A: Work-in-progress draft NFP guidance, for consideration

(g) Appendix B: Extracts of the NFP Conceptual Framework, for reference

(h) Appendix C: NFP modifications proposed in [draft] ASRS 1 and [draft] ASRS 2, for reference

Section 1: Background – The AASB's decisions when developing ED SR1

4 Since the IFRS Sustainability Disclosure Standards were developed for for-profit entities, the AASB proposed modifications to certain concepts of IFRS S1 and IFRS S2 when developing [draft] ASRS 1 and [draft] ASRS 2 to better support sector-neutral Australian climate-related financial disclosure requirements (ED SR1 paragraph BC28–BC33).

5 In respect to the objective of IFRS S2, paragraph 2 of IFRS S2 states:

> This Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

6 In ED SR1, the Board proposed to substitute that paragraph with paragraph Aus2.2 of [draft] ASRS 2, which states (modifications made to the baseline wording are marked in underlined text):[1]

> This [draft] Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect:
>
> (a) <u>in respect of a for-profit entity,</u> the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and
>
> (b) <u>in respect of a not-for-profit entity</u>, the entity's cash flows, access to finance or cost of capital, <u>and its ability to further its objectives</u>, over the short, medium or long term.
>
> For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

7 The Board also proposed:

(a) NFP modifications to certain paragraphs in IFRS S1 and IFRS S2 to propose that an NFP entity should consider climate-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, access to finance or cost of capital as well as "its ability to further its objectives" in applying the principles of [draft] ASRS 1 and [draft] ASRS 2;

(b) adding paragraph AusA1 to [draft] ASRS 1 and paragraph AusA2 to [draft] ASRS 2 to modify certain defined terms for NFP entities by referring to the descriptions in the *Framework for the Preparation and Presentation of Financial Statements* (NFP Conceptual Framework) [quoted in paragraph 8]; and

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1 The Board also added paragraph Aus3.1(b) to [draft] ASRS 1, which states:

"This [draft] Standard requires:

(a) a for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and

(b) a not-for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'."

(c) guidance on the users of NFP entities' GPFR and their expectations, as set out in paragraphs AusB14.1 and AusB15.1 of [draft] ASRS 1 (quoted in Appendix C), based on the NFP Conceptual Framework.

8 Paragraph AusA2 of [draft] ASRS 2 states:

> The following terms are defined in the *Conceptual Framework for Financial Reporting,* as identified in [draft] ASRS 101, for for-profit entities and in the *Framework for the Preparation and Presentation of Financial Statements,* as identified in [draft] ASRS 101, for not-for-profit entities, and are used in this [draft] Standard with the meanings specified in those conceptual frameworks:
>
> (a) general purpose financial reports;
>
> (b) material information;
>
> (c) primary users of general purpose financial reports (primary users, users of general purpose financial reports, users); and
>
> (d) reporting entity.

9 There were also consequential modifications to Appendix B *Application Guidance* of [draft] ASRS 1 as a result. A full list of the proposed modifications in [draft] ASRS 1 and [draft] ASRS 2 related to the objective of the Standard for NFP entities is contained in Appendix C to this paper, for Board members' reference.

Section 2: Summary of stakeholder feedback

10 SMC 23 asked stakeholders:

"Do you agree with paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 that the objective of a not-for-profit entity would be to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term? Please provide reasons to support your view."

SMC 24 asked stakeholders:

"Is there additional guidance that you consider would be helpful in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures? If so, please provide details of that guidance and explain why you think it would be helpful."

11 Of the 117 comment letters and 289 survey responses received, 27 and 59 stakeholders, respectively, provided responses to SMC 23 and SMC 24. The following table provides an overview of the responses received on SMC 23 and SMC 24 (rounded to the nearest %).

	Agree	Partially agree	Disagree
Out of the 27 comment letters that commented on SMC 23 and SMC 24[2]	48%	33%	19%
Out of the 59 survey responses that commented on SMC 23 and SMC 24[3]	71%	14%	15%

2 An overview of stakeholder feedback expressed in the comment letters is presented in Agenda Paper 4.2.5 for the Board's reference. Staff applied judgement to categorise the overall comments expressed in the letters. Regardless of how staff categorised the feedback, the reasons provided by the respondents for supporting their position were considered as a part of the staff analysis.

3 The survey responses have been provided separately for the Board's reference.

12 The majority of stakeholders agreed with the proposed modified objective for NFP entities. However, many stakeholders provided comments that indicated queries regarding the practical application of the proposed modifications, including:

(a) concerns that the proposed disclosure requirements did not adequately consider the circumstances of the range of NFP entities that would apply the proposed modifications;

(b) concerns about how the modified objective would apply to public sector entities; and

(c) desire for clear guidance, including example disclosures or similar, to enable entities to practically apply the proposed modifications.

13 Multiple stakeholders commented that the NFP entities likely within the scope of the Treasury proposals, particularly in the first two groups of entities required to report, would be of significant size and operating in the same market as FP entities. Many stakeholders were of the view that these large NFP entities should not have different reporting requirements from FP entities. They commented that:

(a) "We consider that, to the extent not-for-profit entities with insurance activities in Australia are operating in the same markets as for-profit insurers, they should be the subject of the same climate-related disclosure requirements as for-profit insurers. This is because it would help provide an overall climate-related picture of the Australian insurance industry. In particular, in relation to the insurance industry, we note that two of the five largest Private Health insurers operating in Australia are not-for-profit entities."[4]

(b) "NFPs that fall into the parameters of staff and budgets outlined in the ASRS should be required to provide fully detailed and transparent reporting. They have big budgets and staff numbers and should be as compliant as for profit companies."[5]

(c) "This is all fair when an NFP is an organisation of small size and its main activity is serving the community in a need that cannot be or is not fulfilled by big business or governments. Where an NFP is an incorporated association or similar organisation at large scale (e.g. RSL, NRL/AFL leagues club/surf club with pokies, entertainment etc.) for-profit considerations should apply, given they would have the material resources to compile this information. As well as large scale organisations of any form have large scale environmental, social and governance footprints, for-profit or non-for-profit."[6]

(d) "There is a wide scale of NFP's [sic]...You could have different requirements for different types. A local soccer club is totally different from a multimillion dollar charity."[7]

(e) "The NFP industry is viewing it as something they have to do that would be additional to the reporting requirements for FP entities and question why they have to [meet] additional requirements when compared with FP entities."[8]

14 A number of stakeholders were concerned that the modifications to the objectives of the Standards were creating a different basis of reporting for NFP entities, compared to FP entities, either narrowing or widening the scope of climate-related risks and opportunities to be considered. They commented that:

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4 Comment letter 11
5 Survey respondent 5
6 Survey respondent 217
7 Survey respondent 214
8 Verbal feedback from discussion with stakeholders

(a) the proposal to consider an entity's "ability to further its objectives" implied the potential for a double materiality (impact materiality as well as financial materiality) approach, as opposed to the financial materiality approach in IFRS S1 and IFRS S2;[9] and

(b) the requirement to consider its "ability to further its objectives" may be interpreted by some entities to mean that NFP entities have a narrower scope in identifying potential climate-related risks and opportunities, which may lead to larger NFP entities thinking that they have a reduced reporting obligation relative to FP entities.[10]

15 Additionally, multiple stakeholders considered the phrase "ability to further its objectives" is confusing to apply practically:

(a) some of those stakeholders commented that the proposed amendment to the objective of the Standard is confusing and has reduced the understandability of the [draft] ASRS Standards as a result. They requested the AASB provide guidance to explain the application of identifying climate-related risks and opportunities in an NFP context;[11] and

(b) other stakeholders recommended the AASB not to modify the objective of the Standard as set out in the IFRS S2 baseline, and instead develop supplementary application guidance to address the needs of NFP entities.[12]

Section 3: Staff analysis

16 Staff observe that the proposals in the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill* 2024 will not apply to entities registered with the ACNC, even if the large NFP entity is registered under the NGER Scheme. Consequently, the NFP entities that are required by legislation to prepare a sustainability report in accordance with ASRS Standards will be of a significant size and often acting in a market alongside FP entities.

17 Staff note the following observations.

(a) When developing ED SR1, the Board proposed that an NFP entity needs to consider climate-related risks and opportunities that could reasonably be expected to affect "its ability to further its objectives" without explaining this phrase or providing guidance on how this phrase would apply in preparing GPFR. This was because:

(i) the Board was of the view that NFP stakeholders would be familiar with this phrase since the phrase would have been applied by NFP entities in preparing GPFS in periods beginning on or after 1 January 2005, which is the mandatory application date of the NFP Conceptual Framework; and

(ii) the Board modified the definition of "primary users of GPFR" for NFP entities. Paragraph AusA2(c) of [draft] ASRS 2 (quoted in paragraph 8) stated that the term primary users of GPFR used in Standards for NFP entities have the same meaning specified in the NFP Conceptual Framework.

(b) Feedback from stakeholders indicated that, without further explanations, the proposed paragraph Aus2.2 of [draft] ASRS 2 might create a different threshold for climate-related

9 For example, comment letter 26
10 For example, comment letter 11
11 For example, comment letter 60
12 For example, comment letters 60, 65

risks and opportunities of NFP entities, compared to FP entities. There appear to be at least two contrasting perspectives among respondents:

(i) because the current wording in paragraph Aus2.2 requires a two-limb test, it may theoretically narrow the scope of climate-related risks and opportunities an NFP entity would be required to disclose material information about; and

(ii) the addition of the words "and its ability to further its objectives" implies an NFP entity would need to disclose information relating to climate-related risks and opportunities beyond that which could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital.

(c) In respect to the stakeholder feedback described in point (b), the Board's intention in referring to "and its ability to further its objectives" was to convey that the relative significance of risks and opportunities identified by an FP entity may differ in some respects from those identified by an NFP entity. For example, an opportunity for service delivery that involves a net cost may be relevant to an NFP entity, but be of limited or no relevance to a FP entity. The Board did not intend for NFP entities to have a narrower scope of climate-related risks and opportunities than FP entities. However, the Board's intention was not made clear in the Basis for Conclusions to ED SR1.

(d) Arguably a climate-related risk or opportunity that would affect the cash flows, access to finance or cost of capital of an NFP entity, would also affect an NFP entity's ability to further its objectives, echoing one stakeholder's comment that "NFPs require money to operate, and climate-related risks and opportunities have potential to influence their access to money and the cost of their operations".[13]

(e) The amount of stakeholder feedback requesting additional guidance on the meaning of "ability to further its objectives" indicated that paragraph Aus2.2 of [draft] ASRS 2 is inadequate in clarifying the objective of the Standard for NFP stakeholders. Although the language of "ability to further its objectives" is consistent with the language used in other NFP-specific accounting standards, such as AASB 1058 *Income of Not-for-Profit Entities*, it appears that some stakeholders are not familiar with applying this phrase in other forms of GPFR and did not consider the entity's "ability to further its objectives" to be a meaningful criterion to identify climate-related risks or opportunities without additional guidance materials.

18 Based on the feedback received, staff considered whether any NFP modifications in ASRS 2 would be needed in terms of clarifying the objective of the Standard for the NFP sector. Staff observed that:

(a) as mentioned by some stakeholders, a climate-related risk or opportunity would in most cases affect the cash flows, access to finance or cost of capital of an NFP entity; therefore, the proposed inclusion of the phrase "ability to further its objectives" may not be needed;

(b) IFRS S2 defined "primary users of GPFR" as "existing and potential investors, lenders and other creditors". That definition is narrower than the primary users of an NFP entity's GPFR described in the NFP Conceptual Framework. Staff consider that it would be important to refer to the users and the users' resource allocation decision considerations described in the NFP Conceptual Framework (for example, paragraphs AusOB2.1, AusOB3.1 and AusB18.1 outlined in Appendix B) to provide clarity on how ASRS 2 should be applied in an NFP context; and

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13 Comment letter 43

(c) the Board has committed to developing a sustainability reporting standard to be sector neutral, and some stakeholders might expect guidance on how the IFRS S2's concepts of "the entity's prospects" and "business model" (which directly relates to the objective of the Standard) apply in an NFP context.

IPSASB's project on Climate-Related Disclosures

19 The IPSASB is developing an Exposure Draft that would propose climate-related financial disclosure requirements for NFP public sector entities. That Exposure Draft is expected to be published in October 2024 with a 120-day comment period.

20 At its May and June 2024 meetings, the IPSASB discussed the proposed objective of its forthcoming Standard. Its discussions included whether the objective should be to require an NFP public sector entity to disclose material information about the climate-related risks and opportunities that could reasonably be expected to **affect the long-term fiscal sustainability of an entity**.

21 That is, it appears the IPSASB is considering incorporating the concept of "long-term fiscal sustainability" in defining the objective of its Standard for NFP public sector entities, instead of the IFRS S2's concept of "the entity's cash flows, access to finance or cost of capital over the short, medium or long term." Long-term fiscal sustainability is defined in IPSASB RPG 1 as "the ability of an entity to meet service delivery and financial commitments both now and in the future."[14]

22 Unlike the IPSASB, the AASB has not defined "long-term fiscal sustainability" (or related terms) in any pronouncements. Therefore, if the Board were to consider incorporating this phrase in ASRS 2, it would need to decide on a definition for that phrase or provide explanatory guidance.

Section 4: Options for progressing ASRS 2

23 In respect to the stated objective of the Standard, staff have identified three main options that the Board can proceed with in finalising ASRS 2:

(a) Option 1: Finalise ASRS 2 without any NFP modifications relating to the objective of the Standard. That is, omit paragraph Aus2.2 of [draft] ASRS 2 and all proposed modifications outlined in Appendix C to this paper from the Standard, and incorporate IFRS S2's text without modifications for both FP and NFP entities;

(b) Option 2: Same as Option 1, plus adding mandatory guidance in an Australian-specific appendix to ASRS 2 to clarify the objective of the Standard in an NFP context. Staff include an example of draft NFP application guidance in Appendix A for the Board's consideration; or

(c) Option 3: Incorporate Aus paragraphs within ASRS 2 to add the phrase "ability to further its objectives" in certain key concepts related to the objective of the Standard, as proposed in ED SR1 or with any changes to those Aus paragraphs as agreed by the Board (since, as noted in the table in paragraph 11, most stakeholders agreed with the proposed modified objective).

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14 IPSASB Recommended Practice Guideline 1 *Reporting on the Long-Term Sustainability of an Entity's Finances*.

24 The staff observations below might be useful in assisting Board members' consideration of the options. Staff observed that:

(a) based on the feedback from stakeholders, NFP guidance might not be needed urgently for NFP entities expected to be in Group 1 of the proposed legislation;

(b) an NFP entity can draw on existing guidance in the NFP Conceptual Framework on how for-profit concepts in a pronouncement can be applied in an NFP context (see extracts of the NFP Conceptual Framework outlined in Appendix B). Therefore, there might not be a need to incorporate the contents of that Framework in ASRS 2;

(c) if the Board decides to develop mandatory guidance to be added to ASRS 2 (i.e. Option 2), staff consider that, at the present time, the NFP Conceptual Framework is the best source of NFP concepts for climate-related financial disclosures. However, the Board is currently undertaking a project to consider extending the application of the *Conceptual Framework for Financial Reporting* (the Revised Conceptual Framework) with possible NFP entity modifications. Therefore, any guidance developed based on the NFP Conceptual Framework might require changes after the conclusion of that project;

(d) stakeholders, including NFP public sector stakeholders (see also Agenda Paper 4.2.4), have requested the Board to consider providing 'practical guidance' on how the requirements in the Standard should be applied in an NFP context more broadly, and not only requesting guidance on the objective of the Standard. The Board decided at its August 2023 meeting to defer work on developing additional Australian-specific guidance until after the Standards have been issued. Therefore, there is argument to support deferring the consideration of any NFP guidance until the Standards are finalised;

(e) the Board has (to date) not sought to perform the work that would be needed to enable useful NFP or public sector guidance to be prepared in the same timeframe as ASRS 1 and ASRS 2; and

(f) there is the prospect of the IPSASB project on climate-related disclosures providing useful input to any NFP guidance that the Board might develop.

Section 5: Staff recommendations

25 Notwithstanding that some of the points noted in paragraph 24 indicate that there are disadvantages to progressing with Option 2, staff recommend the Board proceed with that option—to not modify the objective of the Standard as set out in IFRS S2 but to clarify the objective in an NFP context by adding mandatory guidance in an Australian-specific appendix to ASRS 2. This is because:

(a) as mentioned in paragraph 18(c), the Board has committed to developing a sustainability reporting standard to be sector neutral, and some stakeholders might expect guidance on how the key concepts in IFRS S2 that directly relate to the objective of the Standard apply in an NFP context. Therefore, Option 1 might not be appropriate;

(b) as mentioned in paragraph 17(e), the amount of stakeholder feedback requesting additional guidance on the meaning of "ability to further its objectives" indicated that paragraph Aus2.2 of [draft] ASRS 2 and the related proposed modifications outlined in Appendix C are inadequate in clarifying the objective of ASRS 2 for NFP stakeholders. Therefore, Option 3 might not be appropriate, unless further guidance is developed on how the phrase "ability to further its objectives" is to be applied in the context of ASRS 2;

(c) as mentioned in paragraph 18(b), IFRS S2 defined “primary users of GPFR” as “existing and potential investors, lenders and other creditors”, which is narrower than the primary users of an NFP entity’s GPFR described in the NFP Conceptual Framework. Staff consider that it would be important for NFP entities to consider the relevant users of GPFR in determining the disclosures needed to satisfy the objective of ASRS 2—to disclose information about its climate-related risks and opportunities that is useful to primary users of GPFR in making decisions relating to providing resources to the entity (IFRS S2 paragraph 1). The best place to clarify such requirement is to include mandatory application guidance within ASRS 2;

(d) staff contemplated whether additional guidance is needed in ASRS 2 since NFP entities can refer to the NFP Conceptual Framework. Staff consider that NFP entities would benefit from having guidance that would illustrate how existing NFP concepts in the NFP Conceptual Framework could be applied in considering the overall objective of ASRS 2. Staff’s work-in-progress draft guidance in Appendix A has been developed using concepts in the NFP Conceptual Framework;

(e) the NFP guidance related to the objective of ASRS 2 that the Board might develop under Option 2 could be subject to future amendments resulting from the Board's project on the Revised Conceptual Framework (described in paragraph 24(c)) and the IPSASB's Climate-Related Disclosures project. However, staff consider that any future amendments would likely be clarifications rather than substantive changes to the current NFP concepts outlined in the NFP Conceptual Framework. Therefore, such future amendments would be unlikely to cause significant adverse effects on NFP entities; and

(f) preparing ASRS 2 under Option 2, would mean that the core text of the Standard would align with IFRS S2 (subject to decisions the Board might make on other issues) with NFP-specific guidance being contained in an Australian-specific appendix. This approach is consistent with how the Board has developed Accounting Standards.

Questions for Board members

Q1: Do Board members support proceeding with Option 2 described in paragraph 23, which is to not modify the objective of the Standard as set out in IFRS S2 but to clarify the objective in an NFP context by adding mandatory guidance in an Australian-specific appendix to ASRS 2? If not, which approach do Board members prefer?

Q2: If the Board proceeds with Option 3, are there any changes to paragraph Aus2.2 of [draft] ASRS 2 and the proposed modifications outlined in Appendix C to this paper that Board members wish to make?

Questions 3 and 4 are relevant only if the Board decides to proceed with Option 2.

In respect to the work-in-progress draft NFP guidance contained in Appendix A:

Q3: Do Board members agree with developing NFP guidance on the IFRS S2’s concepts of “primary users of GPFR”, “the entity’s prospects”, “business model” and “value chain”? Are there any other concepts in IFRS S2 relating to the objective of ASRS 2 in which Board members consider NFP guidance needs to be developed?

Q4: Do Board members have any comments on the explanations of how the IFRS S2’s concepts can be applied in an NFP context set out in the work-in-progress draft guidance?

Appendix A: Work-in-progress draft NFP guidance

A1 If the Board proceeds with Option 2 to develop mandatory guidance to be added to ASRS 2, staff observed that the Aus paragraphs included in the NFP Conceptual Framework (outlined in Appendix B) provide useful explanations on how certain for-profit concepts in a pronouncement can be applied in an NFP context.

A2 To assist the Board's consideration of whether to develop mandatory guidance, staff have prepared work-in-progress draft NFP guidance (in the below box) to demonstrate how the following IFRS S2 concepts could be explained in an NFP context by adapting existing guidance in the NFP Conceptual Framework:

(a) primary users of GPFR;

(b) the entity's prospects; and

(c) business model and value chain.

Appendix X [work-in-progress draft for discussion only]

Australian implementation guidance for not-for-profit entities

This appendix is an integral part of [draft] ASRS 2 and has the same authority as other parts of the Standard. The appendix applies only to not-for-profit entities.

Introduction

X1 [Draft] ASRS 2 incorporates IFRS Sustainability Disclosure Standard IFRS S2 *Climate-related Disclosures*, issued by the International Sustainability Standards Board. Consequently, the text of [draft] ASRS 2 is generally expressed from the perspective of for-profit entities. The AASB prepared this appendix to explain and illustrate the principles in the Standard from the perspective of not-for-profit entities. The appendix does not apply to for-profit entities or affect their application of [draft] ASRS 2.

X2 This appendix should be read in conjunction with the requirements of [draft] ASRS 2.

X3 This appendix provides guidance to assist not-for-profit entities in identifying information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions to providing resources to the entity.

Primary users of general purpose financial reports

X4 Paragraph 18 of [draft] ASRS 1 *General Requirements for Disclosure of Sustainability-related Financial Information* explains that in the context of climate-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.

X5 'General purpose financial reports' is defined in Appendix A as reports that provide financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions are about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources. Primary users of general purpose financial reports are defined as existing and potential investors, lenders and other creditors.

X6 As noted in the *Framework for the Preparation and Presentation of Financial Statements*, among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament).[15] Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph X5. Examples of resource allocation decisions may include, but are not limited to:

(a) parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity;

(b) taxpayers decide who should represent them in government;

(c) donors decide whether to donate resources to an entity, and

(d) recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers.

X7 In relation to not-for-profit entities, where pertinent, all references in this Standard to 'primary users' (and related terms) should be read as a reference to this broader range of users.

The entity's prospects

X8 Paragraph 2 of the Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

X9 As noted in paragraph 2 of [draft] ASRS 1, information about climate-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain.

X10 Since not-for-profit entities do not have the generation of profit as a principal objective, the provision of goods and services may not result in net cash inflows to the entities as the recipients of the goods and services may not transfer cash or other benefits to the entities in exchange.[16] Primary users of a not-for-profit entity's general purpose financial reports (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows. Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future.[17]

X11 Consequently, for the purposes of this Standard, information about climate-related risks and opportunities that could reasonably be expected to affect a not-for-profit entity's cash flows, access to finance, or cost of capital includes the capability of the entity's resources to provide goods and services over the short, medium or long term. This may include, but is not limited to, information that is useful for assessing whether income from taxpayers, donors and other sources is likely to remain sufficient, to meet the cost of a given volume and quality of goods and services the entity provides.[18]

X12 Accordingly, in relation to not-for-profit entities, where pertinent, references in this Standard to 'the entity's prospects' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in paragraphs X10–X11.[19]

Business model and value chain

X13 Appendix A of the Standard defines:

(a) business model as an entity's system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value

15 Adapted from NFP Conceptual Framework paragraph AusOB2.1.
16 Adapted from NFP Conceptual Framework paragraph Aus54.1.
17 Adapted from NFP Conceptual Framework paragraph AusOB3.1.
18 Adapted from NFP Conceptual Framework paragraph AusOB18.1.
19 Adapted from NFP Conceptual Framework paragraph AusOB3.1.

for the entity and hence generate cash flows over the short, medium and long term; and

(b) value chain as the full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

X14 The provision of goods and services in accordance with a not-for-profit entity's objectives includes those that have the capacity to satisfy human wants and needs.[20] The fact that not-for-profit entities do not charge, or do not charge fully, their beneficiaries or customers for the goods and services they provide does not deprive those outputs of utility or value; nor does it preclude the entities from fulfilling the entities' strategic purposes and creating value for the entity.[21]

X15 Accordingly, for the purposes of this Standard, in respect to not-for-profit entities, business model includes transforming inputs through its activities into outputs and outcomes used to provide goods and services in accordance with an entity' objectives, and value chain of an entity also encompasses the interactions, resources and relationships an entity uses and depends upon to provide goods and services in accordance with the entity's objectives.[22]

20 Adapted from NFP Conceptual Framework paragraph Aus49.1.
21 Adapted from NFP Conceptual Framework paragraph Aus54.2.
22 Adapted from NFP Conceptual Framework paragraph Aus54.1.

Appendix B: Extracts of the NFP Conceptual Framework

B1 This appendix outlines the Aus paragraphs in the *Framework for the Preparation and Presentation of Financial Statements* that staff consider useful guidance on how certain for-profit concepts in a pronouncement can be applied in an NFP context.

Aus49.1 In respect of not-for-profit entities in the public or private sector, in pursuing their objectives, goods and services are provided that have the capacity to satisfy human wants and needs. Assets provide a means for entities to achieve their objectives. Future economic benefits or service potential is the essence of assets. Future economic benefits is synonymous with the notion of service potential, and is used in this *Framework* as a reference also to service potential. Future economic benefits can be described as the scarce capacity to provide benefits to the entities that use them, and is common to all assets irrespective of their physical or other form.

Aus54.1 In respect of not-for-profit entities, whether in the public or private sector, the future economic benefits are also used to provide goods and services in accordance with the entities' objectives. However, since the entities do not have the generation of profit as a principal objective, the provision of goods and services may not result in net cash inflows to the entities as the recipients of the goods and services may not transfer cash or other benefits to the entities in exchange.

Aus54.2 In respect of not-for-profit entities, the fact that they do not charge, or do not charge fully, their beneficiaries or customers for the goods and services they provide does not deprive those outputs of utility or value; nor does it preclude the entities from benefiting from the assets used to provide the goods and services. For example, assets such as monuments, museums, cathedrals and historical treasures provide needed or desired services to beneficiaries, typically at little or no direct cost to the beneficiaries. These assets benefit the entities by enabling them to meet their objectives of providing needed services to beneficiaries.

AusOB2.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph OB2. For example, parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity, taxpayers decide who should represent them in government, donors decide whether to donate resources to an entity, and recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers. In relation to not-for-profit entities, where pertinent, all references in this *Framework* to 'existing and potential investors, lenders and other creditors' (and related terms) should be read as a reference to this broader range of users.

AusOB3.1 In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows. Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, references in this *Framework* to 'assessing prospects for future net cash inflows' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph.

AusOB18.1 In respect of not-for-profit entities, information useful for assessing an entity's past and future ability to generate net cash inflows through its operations is, in turn, useful for assessing whether income from taxpayers, donors and other sources was sufficient, and is likely to remain sufficient, to meet the cost of a given volume and quality of goods and services the entity provides.

Appendix C: NFP modifications proposed in [draft] ASRS 1 and [draft] ASRS 2

In ED SR1, the AASB proposed NFP modifications to certain paragraphs in IFRS S1, particularly in IFRS S1's Appendix B *Application Guidance*, to provide guidance on how the concept of "a climate-related risk or opportunity that could reasonably be expected to affect an entity's cash flows, access to finance or cost of capital" could be applied in an NFP context. There were also consequential modifications to the IFRS S2's defined terms as a result. The following table summarises all the NFP modifications made to [draft] ASRS 1 and [draft] ASRS 2 in ED SR1 in relation to this concept.

IFRS S1	**[Draft] ASRS 1 (where relevant, modifications made to the baseline wording are marked in underlined text)**
Objective	
IFRS S1 paragraph 3 This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.	**[Draft] ASRS 1 paragraph Aus3.1** This [draft] Standard requires: (a) a for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and (b) a not-for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term. For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.
Fair presentation	
IFRS S1 paragraph 15 Fair presentation also requires an entity: (a) to disclose information that is comparable, verifiable, timely and understandable; and (b) to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities	**[Draft] ASRS 1 paragraph Aus15.1** Further to paragraph Aus13.1, fair presentation also requires: (a) in respect to for-profit entities, an entity to disclose additional information if compliance with the specific requirements in Australian Sustainability Reporting Standards is insufficient to enable users of general purpose financial reports to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital over the short, medium and long term; and (b) in respect of not-for-profit entities, an entity to disclose additional information if compliance with the specific requirements in Australian Sustainability Reporting Standards is insufficient to enable users of general purpose financial reports to

IFRS S1	**[Draft] ASRS 1 (where relevant, modifications made to the baseline wording are marked in underlined text)**
	understand the effects of <u>climate-related</u> risks and opportunities on the entity's cash flows, access to finance and cost of capital, <u>and its ability to further its objectives</u>, over the short, medium and long term.
Business model	
Appendix A of IFRS S1 and IFRS S2 An entity's system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term.	**[Draft] ASRS 1 Appendix A** <u>In respect of a for-profit entity,</u> an entity's business model is the system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term. <u>In respect of a not-for-profit entity,</u> an entity's business model is the system of transforming inputs through its activities into outputs and outcomes <u>that aims to further the entity's objectives</u> over the short, medium and long term.
Sustainability-related financial disclosures	
Appendix A of IFRS S1 and IFRS S2 A particular form of general purpose financial reports that provide information about the reporting entity's sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.	**[Draft] ASRS 1 Appendix A** <u>In respect of a for-profit entity, climate-related financial disclosures are</u> a particular form of general purpose financial report that provides information about the reporting entity's <u>climate-related</u> risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets. <u>In respect of a not-for-profit entity, climate-related</u> financial disclosures are a particular form of general purpose financial report that provides information about the reporting entity's climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, <u>and its ability to further its objectives,</u> over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.
Sustainability-related risks and opportunities	
IFRS S1 paragraph B1 This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term	**[Draft] ASRS 1 paragraph AusB1.1** Further to paragraph Aus13.1, fair presentation also requires: (a) <u>in respect to for-profit entities</u>, an entity to disclose additional information if compliance with the specific requirements in <u>Australian Sustainability Reporting</u>

IFRS S1	[Draft] ASRS 1 (where relevant, modifications made to the baseline wording are marked in underlined text)
(referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects') (see paragraph 3).	Standards is insufficient to enable users of general purpose financial reports to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital over the short, medium and long term; and (b) in respect of not-for-profit entities, an entity to disclose additional information if compliance with the specific requirements in Australian Sustainability Reporting Standards is insufficient to enable users of general purpose financial reports to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital, and its ability to further its objectives, over the short, medium and long term.
Materiality	
IFRS S1 paragraph B13 Paragraph 17 requires an entity to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Materiality of information is judged in relation to whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports, which provide information about a specific reporting entity.	**[Draft] ASRS 1 paragraph B13 (no NFP modification)** Paragraph 17 requires an entity to disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Materiality of information is judged in relation to whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports, which provide information about a specific reporting entity.
IFRS S1 paragraph B14 The decisions of primary users relate to providing resources to the entity and involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.	**[Draft] ASRS 1 paragraph B14 (same as IFRS S1)** The decisions of primary users relate to providing resources to the entity and involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources. **[Draft] ASRS 1 paragraph AusB14.1** In respect of a not-for-profit entity, the following are examples of decisions of primary users relating to providing resources to an entity: (a) parliaments deciding on behalf of constituents whether to fund particular programmes for delivery by an entity; (b) taxpayers deciding who should represent them in government; (c) donors deciding whether to donate resources to an entity; and

IFRS S1	[Draft] ASRS 1 (where relevant, modifications made to the baseline wording are marked in underlined text)
	(d) recipients of goods and services deciding whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers.
IFRS S1 paragraph B15 The decisions described in paragraph B14 depend on primary users' expectations about returns, for example, dividends, principal and interest payments or market price increases. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).	**[Draft] ASRS 1 paragraph AusB15.1** The decisions described in paragraphs B14 and AusB14.1 depend on primary users' expectations about returns, for example dividends, principal and interest payments, market price increases and a not-for-profit entity's ability to continue providing goods or services. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).
Identifying material information	
IFRS S1 paragraph B22 In some cases, IFRS Sustainability Disclosure Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider: (a) the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'); and (b) the range of possible outcomes and the likelihood of the possible outcomes within that range.	**[Draft] ASRS 1 paragraph AusB22.1** In some cases, Australian Sustainability Reporting Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material: (a) a for-profit entity shall consider the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'), and the range of possible outcomes and the likelihood of the possible outcomes within that range; and (b) a not-for-profit entity shall consider the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows and ability to further its objectives over the short, medium and long term (referred to as 'the possible outcome'), and the range of possible outcomes and the likelihood of the possible outcomes within that range.
IFRS S1 paragraph B26 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 general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.	**[Draft] ASRS 1 paragraph AusB26.1** An entity shall disclose additional information when compliance with the specifically applicable requirements in an Australian Sustainability Reporting Standard is insufficient to enable users of general purpose financial reports of: (a) a for-profit entity to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital over the short, medium and long term; or

IFRS S1	[Draft] ASRS 1 (where relevant, modifications made to the baseline wording are marked in underlined text)
	(b) a not-for-profit entity to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital, and its ability to further its objectives, over the short, medium and long term.
Reporting entity	
IFRS S1 paragraph B38 Paragraph 20 requires that sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with IFRS Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's sustainability-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the sustainability-related risks and opportunities on the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries.	**[Draft] ASRS 1 paragraph AusB38.1** Paragraph 20 requires climate-related financial disclosures to be made for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with Australian Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's climate-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the climate-related risks and opportunities on: (a) in respect to a for-profit consolidated group, the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries; and (b) in respect to a not-for-profit consolidated group, the cash flows, access to finance and cost of capital, and the ability to further their objectives, over the short, medium and long term for the parent and its subsidiaries

IFRS S2	[Draft] ASRS 2 (where relevant, modifications made to the baseline wording are marked in underlined text)
Objective	
IFRS S2 paragraph 2 This Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.	**[Draft] ASRS 2 paragraph Aus2.2** This [draft] Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect: (a) in respect of a for-profit entity, the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and (b) in respect of a not-for-profit entity, the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term. For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Climate-related physical risks	
Appendix A of IFRS S2 Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.	**[Draft] ASRS 2 Appendix A** Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. A for-profit entity's financial performance and a not-for-profit entity's ability to further its objectives could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.
Climate-related transition risks	
IFRS S2 Appendix A Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.	**[Draft] ASRS 2 Appendix A** Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. A for-profit entity's financial performance and a not-for-profit entity's ability to further its objectives could also be affected by shifting demands from recipients of its goods and services (e.g. consumers) and the development and deployment of new technology.