



<b>Project:</b>	<b>Climate-related Financial Disclosures</b>	<b>Meeting:</b>	AASB 26 June 2024 (M205)
<b>Topic:</b>	<b>Cross-industry remuneration disclosure (SMC 13)</b>	<b>Agenda Item:</b>	4.2
		<b>Date:</b>	11 June 2024
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider ED feedback

## Objectives of this paper

- 1 In respect to the proposed requirement to disclose information relevant to the cross-industry remuneration metric set out in paragraphs 29(g) and Aus29.1 of [draft] ASRS 2, the objectives of this paper are for the AASB to:
  - (a) consider feedback from stakeholders on SMC 13 of ED SR1; and
  - (b) decide on any changes required to be made to the proposed disclosure requirements for the purposes of finalising the Standard.

## Abbreviations

- 2 The abbreviations used in this paper are outlined in Appendix A of Agenda Paper 4.0.

## Executive summary

- 3 Paragraphs 29(g) and Aus29.1 of [draft] ASRS 2, which are related to cross-industry executive remuneration metric disclosures, are reproduced below.

<b>Climate-related metrics</b>	
29	An entity shall disclose information relevant to the cross-industry metric categories of: <ol style="list-style-type: none"><li>(a) ...</li><li>(g) remuneration—the entity shall disclose:<ol style="list-style-type: none"><li>(i) a description of whether and how climate-related considerations are factored into executive remuneration (see also [draft] ASRS 1 paragraph 27(a)(v)); and</li><li>(ii) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.</li></ol></li></ol>
Aus29.1	For the purposes of paragraph 29(g), “executive” and “executive management” has the same meaning as “key management personnel” and “remuneration” has the same meaning as “compensation”, both as defined in AASB 124 <i>Related Party Disclosures</i> .

- 4 Most stakeholders who responded to SMC 13 considered the proposed disclosures would provide useful information to users. Almost all of those stakeholders agreed with the proposed requirement set out in paragraph 29(g)(i) of [draft] ASRS 2. However, some stakeholders have significant concerns with:
- (a) the proposed disclosure set out in paragraph 29(g)(ii) of [draft] ASRS 2; and
  - (b) the proposed paragraph Aus29.1 in [draft] ASRS 2 to specifically refer to AASB 124.
- 5 Considering stakeholders' concerns, staff recommend:
- (a) amending paragraph Aus29.1 of [draft] ASRS 2 so that it refers to the key management personnel definition, but not the compensation definition, in AASB 124;
  - (b) retaining the requirement set out in paragraph 29(g)(i) to require disclosure of a description of whether and how climate-related considerations are factored into remuneration;
  - (c) re-expressing the requirement set out in paragraph 29(g)(ii) to require disclosure of information that conveys the extent to which management remuneration recognised in the current period is linked to the management of climate-related risks and opportunities, such information can be expressed the in form of a percentage, amount, range or description; and
  - (d) clarifying that the requirements described in points (b) and (c) can be met by cross-referencing to an entity's remuneration report prepared in accordance with Australian legislation, if the conditions in paragraphs B45–B47 of IFRS S1 are met.

## Structure

- 6 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 and staff analysis
    - (i) [2.1](#): Overview of stakeholder feedback
    - (ii) [2.2](#): Stakeholders' reasons for supporting the proposal
    - (iii) [2.3](#): Summary of stakeholders' concerns and staff analysis
    - (iv) [2.4](#): Staff recommendations
  - (c) [Appendix](#): Summary of stakeholders' reasons for supporting executive remuneration disclosures

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

- 7 When developing ED SR1, AASB members formed two views regarding whether to propose that Australian entities disclose the information required by IFRS S2 paragraph 29(g) (reproduced in paragraph 3).
- 8 As noted in paragraph BC60 of ED SR1, a minority of AASB members considered that the requirements of IFRS S2 paragraph 29(g) should not be incorporated in [draft] ASRS 2, because:
  - (a) even if those requirements are not incorporated in [draft] ASRS 2, in accordance with the *Corporations Act 2001* applicable entities would be required to disclose the information outlined in sub-paragraphs (a) and (b) of paragraph 29(g) in their GPFR, although that information would be prepared for the entity’s key management personnel (which includes executives and non-executives) and not limited to its executives; and
  - (b) for entities that do not currently have climate-related considerations linked to their executive remuneration policies, those AASB members were concerned that incorporating in [draft] ASRS 2 the requirement to disclose the information outlined in paragraph 29(g) might inadvertently (and at significant cost to those entities) compel those entities to re-negotiate executive remuneration to factor in climate-related considerations.
- 9 The majority of AASB members concluded that the perceived benefits of aligning to the baseline of IFRS S2 outweigh the potential unintended consequences of introducing remuneration reporting requirements outside existing regulatory requirements. This is because:
  - (a) a few AASB members observed examples where executive remuneration of some Australian entities is linked to climate-related considerations and that, in their view, this information would be important to users;
  - (b) further to point (a), if this information is important to users, then the absence of a link to climate-related considerations in an entity’s executive remuneration policy might also be considered important information to users; and
  - (c) if an entity’s executive remuneration policy does not factor in climate-related considerations, the entity would simply need to disclose this fact to comply with the requirements.
- 10 On balance, the AASB decided to incorporate in [draft] ASRS 2 the requirements of IFRS S2 paragraph 29(g), and to include SMC 13 to seek further input from stakeholders.
- 11 Because [s300A of the Corporations Act 2001](#) and [s2M.3.03 of the Corporations Regulations 2001](#) set out disclosure requirements on the remuneration of key management personnel (KMP – as defined in AASB 124) for ASX-listed entities, the AASB added paragraph Aus29.1 to [draft] ASRS 2 (reproduced in paragraph 3) to avoid:
  - (a) potential conflicts with existing regulatory requirements; and
  - (b) entities attempting to define which of their key management personnel is considered an ‘executive’ or ‘executive management’ for the purpose of disclosing the information required under paragraph 29(g) of IFRS S2.
- 12 KMP is defined in paragraph 9 of AASB 124 as “... those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (**whether executive or otherwise**) of that entity”. [emphasis added]

## Section 2: Summary of stakeholder feedback and staff analysis

### 2.1 Overview of stakeholder feedback

13 SMC 13 of ED SR1 asked stakeholders whether they agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1, and whether, in their opinion, this requirement will result in information useful to users.

14 Because there are two parts to SMC 13, staff have analysed the comment letters and the survey responses as SMC 13(a) and SMC 13(b) in this paper:

(a) SMC 13(a): Do you agree with the proposed disclosure requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1?

(b) SMC 13(b): In your opinion, will the proposed disclosure requirement in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 result in information useful to users?

15 Of the 117 comment letters and 289 survey responses received, 61 and 67 respectively, provided a response to SMC 13(a). The following table provides a high-level overview of the responses received (rounded to the nearest %).

	Agree	Partially agree	Disagree	No clear view
Out of the 61 comment letters that commented on SMC 13(a) <sup>1</sup>	59%	15%	18%	8%
Out of the 67 survey responses that commented on SMC 13(a) <sup>2</sup>	72%	15%	13%	N/A

16 Of the 117 comment letters and 289 survey responses received, 50 and 66 respectively, provided a response to SMC 13(b). The following table provides a high-level overview of the responses received (rounded to the nearest %).

	Agree	Partially agree	Disagree	No clear view
Out of the 50 comment letters that commented on SMC 13(b) <sup>1</sup>	72%	6%	14%	8%
Out of the 66 survey responses that commented on SMC 13(b) <sup>2</sup>	74%	0%	26%	N/A

17 Based on staff's judgement on the overall comments expressed in the comment letters and responses from survey respondents, a large majority of respondents were supportive of the proposed executive remuneration disclosures because they would result in information useful to users.

18 Most of those stakeholders mentioned in paragraph 17 agreed with the proposed requirement set out in paragraph 29(g)(i) of [draft] ASRS 2 to disclose a description of whether and how climate-

1 In some comment letters, the respondents did not clearly mention whether they agree, disagree, or partially agree with the proposal. In some cases, where a respondent disagreed with the proposal, they did not specifically mention whether their disagreement was in relation to SMC 13(a), SMC 13(b) or both. In such cases, staff applied judgement to categorise the overall comments expressed in the letters. However, 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. An overview of stakeholder feedback expressed in the comment letters is presented as Agenda Paper 5.9 for the 6–7 June 2024 meeting for the Board's reference.

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

related considerations are factored into executive remuneration. However, some stakeholders have significant concerns with:

- (a) the proposed disclosure set out in paragraph 29(g)(ii) of [draft] ASRS 2 to disclose the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations; and
- (b) the proposed paragraph Aus29.1 in [draft] ASRS 2 to refer to AASB 124, in particular, the reference to the compensation definition in AASB 124.

19 Roundtable participants also expressed mixed views regarding the proposal. An overview of roundtable discussions has been provided separately for the Board's reference.

## 2.2 Stakeholders' reasons for supporting the proposal

20 A majority of stakeholders who responded to SMC 13 supported the proposal to require disclosure of executive remuneration.

21 A summary of stakeholders' reasons for supporting the proposal is included in the [Appendix](#) for the Board's consideration.

## 2.3 Summary of stakeholders' concerns and staff analysis

22 Stakeholders' main concerns regarding the proposed requirements set out in paragraphs 29 and Aus29.1 of [draft] ASRS 2 can broadly be categorised into three issues:

- (a) Issue 1: The proposed disclosures may potentially cause misalignment with existing legislative requirements, and the prescriptive requirement in IFRS S2 to calculate a percentage, and the implied link to accounting recognition may be unworkable
- (b) Issue 2: IFRS S2's remuneration disclosure requirements appear to be limited to executives and executive management, adding paragraph Aus29.1 to [draft] ASRS 2 may inadvertently extend the scope of the requirements to cover non-executive directors which may be a departure of IFRS S2; and
- (c) Issue 3: The proposed remuneration disclosures may have unintended consequences.

23 The three issues are discussed in turn in this Section.

### ***Issue 1: The proposed disclosures may potentially cause misalignment with existing legislative requirements, and the percentage disclosure requirement in IFRS S2 and the implied link to accounting recognition may be unworkable***

24 Consistent with the concerns of some AASB members who disagreed with adding the proposed remuneration disclosures in ED SR1, some stakeholders commented that the proposed disclosures set out in paragraph 29(g) of [draft] ASRS 2 may potentially cause misalignment with existing legislative requirements to disclose executive remuneration for ASX-listed entities and APRA-regulated entities.<sup>3</sup>

25 Two stakeholders commented that where an entity is required by other legislation to include a remuneration report in its annual report, all remuneration disclosures should be made in that remuneration report. Information about any climate-related-linked consideration could be disclosed

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3 For example, comment letter: 53

by referencing the remuneration report. The proposed disclosures set out in paragraph 29(g) of IFRS S2 should only be imposed on entities that are not required to prepare remuneration report as part of its annual report.<sup>4</sup>

- 26 The requirement in paragraph 29(g)(ii) of IFRS S2 to disclose the percentage of executive management remuneration **recognised in the current period** that is linked to climate-related considerations—appears to require disclosure of the proportion of remuneration recognised under Accounting Standards that is linked to climate-related considerations. Paragraph Aus29.1 of [draft] ASRS 2, which states that “remuneration” in paragraph 29(g) of IFRS S2 has the same meaning as “compensation” in AASB 124, also indicates that the percentage calculation is based on remuneration recognised under Accounting Standards.
- 27 Some stakeholders have concerns with the requirement to calculate percentage of remuneration linked to climate-related considerations based on remuneration recognised under Accounting Standards:
- (a) Some stakeholders commented that executive remuneration measured in accordance with Accounting Standards takes into account prorations for part-year acting key management personnel and one-off payments. Including any of those elements in calculating the percentage required in paragraph 29(g)(ii) of [draft] ASRS 2 would affect the comparability of the resulting disclosure across entities and financial years reported.<sup>5</sup>
  - (b) A few stakeholders commented that share-based payments recognised in accordance with AASB 2 *Share-based Payment* are amortised over the vesting period. That is, a remuneration package may have different accounting values each year depending only on an executive’s length of service. AASB 2 also requires expense reversal for non-market-based conditions. They are of the view that including the current period share-based payment expense in calculating the percentage required in paragraph 29(g)(ii) of [draft] ASRS 2 would skew the proportion of ‘actual’ payments related to climate-linked conditions.<sup>6</sup>
  - (c) A few stakeholders commented that identifying and disclosing the percentage of remuneration linked to climate-related considerations recognised in the current period may not achieve the objective of IFRS S2 to provide information useful to users in making decisions relating to providing resources to the entity since climate-related conditions are medium to long term in nature.<sup>7</sup> A few other stakeholders suggest that remuneration disclosures should not be limited to the current employment period but also extend to future planned remuneration to be received. This approach ensures a long-term commitment to sustainable practices at the highest levels of organisational leadership.<sup>8</sup>
  - (d) Some stakeholders commented that there is a range of intertwined factors in determining executive remuneration, and it would be practically impossible to isolate the portion of an executive's remuneration specifically related to climate-related conditions.<sup>9</sup> The issue will be exacerbated if similar requirements are incorporated into future Standards on other sustainability topics—it would be difficult to link executive remuneration to its performance against every significant sustainability-related risk to which the entity is exposed.<sup>10</sup>

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4 Comment letter: 68 and Survey respondent: 53

5 For example, comment letter: 70

6 For example, comment letters: 51, 66, 70

7 For example, comment letter: 11, 12, 37, 43, 65 and survey respondents: 26,

8 For example, comment letter: 115 and Survey respondents: 52

9 For example, comment letters: 11, 92, 100

10 For example, comment letter: 66

- (e) A few stakeholders commented that it would be difficult to prove or disprove the relative effect of climate-related performance. Therefore, such a requirement may increase the reporting burden for little benefit.<sup>11</sup>
- (f) One stakeholder requested guidance to clarify the components of remuneration to which the cross-industry metric disclosures relate.<sup>12</sup> Another stakeholder commented that guidance should be provided to clarify that these remuneration disclosures are generally relevant only to variable remuneration components.<sup>13</sup>

*Alternative disclosure requirements suggested by stakeholders*

- 28 Instead of the requirement set out in paragraph 29(g)(ii) of [draft] ASRS 2, a few stakeholders suggested alternative disclosure requirements. For example, to require:
- (a) disclosure of the percentage of a contractual target or maximum remuneration that is linked to climate-related considerations;<sup>14</sup>
  - (b) an explanation of how climate-related remuneration targets are set, achieved and balanced with other remuneration consideration factors;<sup>15</sup> or
  - (c) a description of the overall executive performance and remuneration approach—how boards may have applied discretion to the executive team’s management of material climate-related risks and strategy; and the extent to which environmental, social and governance factors have been considered in executives’ performance and remuneration outcomes. This would also support future remuneration disclosure requirements as further standards on other sustainability topics are developed.<sup>16</sup>

*Staff observations regarding Issue 1*

- 29 There are existing legislative requirements to disclose executive remuneration for certain entities. For example:
- (a) [s300A of the Corporations Act 2001](#) (Corporations Act) and [s2M.3.03 of the Corporations Regulations 2001](#) (Corporations Regulations) set out disclosure requirements on the remuneration of KMP for ASX-listed entities; and
  - (b) APRA-regulated entities are required to publicly disclose information on aspects of their remuneration under Prudential Standard [CPS 511 Remuneration](#) for annual periods beginning on or after 1 January 2024.<sup>17</sup>
- 30 Under the Corporations Regulations, ASX-listed entities are required to disclose the percentage of a KMP’s compensation relates to any performance-related bonus paid or vested in the financial year.<sup>18</sup>

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11 For example, comment letter: 43

12 Comment letter: 62

13 Comment letter: 54

14 For example, comment letter: 70

15 For example, comment letter: 92

16 For example, comment letter: 53

17 For example, comment letter: 53

18 Item 12 of [s2M.3.03 of the Corporations Regulations 2001](#)

- 31 Under paragraph 9 of Table 1 of CPS 511, APRA-regulated entities are required to disclose “the proportion (level or range) of variable remuneration that would be impacted by non-financial measures” only if it is possible to define.
- 32 Staff observed that:
- (a) the requirement set out in paragraph 29(g)(i) of IFRS S2—to disclose a description of whether and how climate-related considerations are factored into executive remuneration—is also a reporting requirement under the Corporations Act for ASX-listed entities and under CPS 511 for APRA-regulated entities;
  - (b) the nature of the information required under paragraph 29(g)(ii) of IFRS S2—to disclose the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations—would likely be disclosed in an entity’s remuneration reports prepared in accordance with the Corporations Act or CPS 511, if there is any proportion of variable remuneration linked to climate-related considerations that is material and possible to define (although this information may be expressed as a level or range rather than as a percentage); and
  - (c) under paragraphs 63 and B45–B47 of IFRS S1, ASX-listed entities and APRA-regulated entities are permitted to disclose information required under paragraph 29(g) of [draft] ASRS 2 by cross-referencing to their remuneration reports, if the conditions in paragraphs B45–B47 of IFRS S1 are met.
- 33 Further to the staff observation noted in paragraph 32(b), staff observed that the information IFRS S2 paragraph 29(g)(ii) is trying to capture would already be disclosed as part of the remuneration reports of ASX-listed and APRA-regulated entities (albeit might be expressed as a proportion instead of a percentage in some cases). However, there will be some differences:
- (a) the word ‘percentage’ in IFRS S2 indicates a numerical calculation of the portion of remuneration linked to climate-related considerations, whereas APRA-regulated entities under CPS 511 are permitted to disclose the portion of remuneration linked to climate-related considerations as a level or a range of remuneration;
  - (b) the disclosure requirement under the legislation noted in paragraph 29 specifically relates to performance-related bonus or variable portion of remuneration linked to non-financial measures, whereas IFRS S2 appears to require the percentage of total (variable and fixed) executive remuneration linked to climate-related considerations. Staff consider that, in substance, “percentage of total executive remuneration linked to climate-related considerations” under IFRS S2 may have been intended to mean a percentage of the variable portion of executive management remuneration; and
  - (c) the disclosure requirements under the legislation noted in paragraph 29 requires disclosure of remuneration of each key management person separately, but the remuneration disclosures set out in IFRS S2 paragraph 29(g)(ii) are for executive management as a whole.
- 34 Staff consider that there is merit in modifying the baseline of IFRS S2 to be less prescriptive on the cross-industry remuneration metric disclosures, and to provide more optionality than disclosing a ‘percentage’ of remuneration linked to climate-related considerations. This is because:
- (a) in accordance with IFRS S1, climate-related financial disclosures need to be comparable, verifiable and understandable. In view of the stakeholder feedback summarised in paragraph 26, staff are concerned that requiring an entity to disclose the percentage of executive management remuneration recognised in the current period calculated under



Accounting Standards, in some cases, may inadvertently affect the comparability, verifiability and understandability of remuneration information linked to climate-related conditions; and

- (b) to facilitate APRA-regulated entities to cross-reference to their remuneration reports without undertaking any significant further work.

- 35 Staff observed that the XRB provided more optionality to New Zealand entities in respect to this disclosure. Paragraph 22(h) of NZ CS 1 requires an entity to disclose “management remuneration linked to climate-related risks and opportunities in the current period, expressed as a percentage, weighting, description or amount of overall management remuneration”.
- 36 Staff observed that New Zealand’s approach is consistent with the [Guidance on Metrics, Targets, and Transition Plans](#) (October 2021) published by the TCFD.<sup>19</sup> On page 25 of that guidance, TCFD mentioned that several respondents to their public consultation noted that “... remuneration might be best reported with qualitative language. While the Task Force encourages quantitative disclosure, organizations may include descriptive language on remuneration policies and practices, such as how climate change issues are included in balanced scorecards for executive remuneration.”

#### *Staff conclusion*

- 37 Staff are of the view that there is merit in modifying the baseline of IFRS S2 to be less prescriptive on the cross-industry remuneration metric disclosure requirement set out in paragraph 29(g)(ii). This is because:
- (a) such modification to the baseline would be justified under paragraph 20(d) of the [AASB Sustainability Reporting Standard-Setting Framework](#) (the Standard-setting framework), which notes that one justifiable circumstance in which the AASB contemplates modification to the requirements in an IFRS Sustainability Disclosure Standard might be warranted is when the AASB identifies equivalent or corresponding disclosure requirements in Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards and would result in duplicate disclosure or reporting for Australian entities. Staff consider the information about any proportion of remuneration linked to climate-related considerations that is material would typically be disclosed under the Corporations Act or CPS 511, except that the information may be expressed as a level or range rather than as a percentage; and
  - (b) staff consider that, in principle, the baseline disclosure is about indicating the extent to which remuneration is linked to climate-related risks and opportunities. Providing some flexibility around how that is expressed is likely to result in more useful information than restricting the disclosure to calculating the percentage of remuneration linked to climate-related considerations (even if it is possible to quantify), particularly for ASX-listed and APRA-regulated entities.

#### ***Issue 2: IFRS S2’s remuneration disclosure requirements might be limited to executives and executive management, adding paragraph Aus29.1 to [draft] ASRS 2 may inadvertently extend the requirements to cover non-executive directors which might be a departure from IFRS S2***

- 38 As noted in paragraph 12, key management personnel (KMP) is defined in paragraph 9 of AASB 124 as “... those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (**whether executive or otherwise**) of that entity”. [emphasis added]

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19 See table C1 on page 17 of the [Guidance on Metrics, Targets, and Transition Plans](#).

- 39 Although most stakeholders supported the proposal to add paragraph Aus29.1 to [draft] ASRS 2, some stakeholders commented that referring to the KMP definition in AASB 124:
- (a) would be a departure from IFRS S2<sup>20</sup> and may affect an entity’s ability to align with the remuneration reporting of its overseas parent;<sup>21</sup>
  - (b) is unnecessary because the degree of interpretative uncertainty relating to the terms ‘executive’ and ‘executive management’ is unlikely to be sufficiently significant to warrant modification from the baseline of IFRS S2.<sup>22</sup> Instead of modifying the baseline of IFRS S2, the AASB could develop educational materials or illustrative guidance to provide further clarification;<sup>23</sup>
  - (c) is unnecessary because the application of ASRS Standards will require judgement and entities will need to develop sustainability reporting policies in a similar way as developing accounting policies for the preparation of financial statements. An entity may decide to develop a policy to align with the KMP definition in AASB 124.<sup>24</sup> Paragraph Aus29.1 should be amended to use a less definitive text than “has the same meaning as AASB 124”. Instead, require readers of [draft] ASRS 2 to exercise judgement in determining which management roles will represent ‘executive management’ and note the definitions in AASB 124 as a point of reference for readers to make their determination;<sup>25</sup> and
  - (d) may restrict an entity’s ability to align with ESRS Standards. Entities should be permitted to analyse the phrase ‘the members of the administrative, management and supervisory bodies’ (referred to in paragraph 29 of [ESRS 2 General Disclosures](#)) in determining who should be captured in making the disclosures required under paragraph 29 of IFRS S2.<sup>26</sup>

*Staff observations regarding Issue 2*

- 40 An extract of paragraphs 5 and 6 of IFRS S2 is reproduced below.

	<b>Governance</b>
5	<b>The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.</b>
6	To achieve this objective, an entity shall disclose information about: <ul style="list-style-type: none"> <li>(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about: <ul style="list-style-type: none"> <li>...</li> <li>(v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraphs 33–36), including whether and how related performance metrics are included in remuneration policies (see paragraph 29(g)).</li> </ul> </li> <li>(b) management’s role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about: <ul style="list-style-type: none"> <li>(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and</li> </ul> </li> </ul>

20 For example, comment letter: 21, 55

21 For example, survey respondents: 20, 21, 22

22 For example, comment letter: 55

23 For example, comment letter: 21

24 For example, comment letter: 86

25 For example, comment letter: 55

26 For example, comment letter: 86

(ii)	whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions. [emphasis shown in blue shaded text]
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- 41 Paragraph 6 of IFRS S2, which relates to an entity's governance, uses the terms 'governance body(s)', 'individual(s)' and 'management' and makes no reference to the terms 'executive' or 'executive management'. In fact, the terms 'executive' or 'executive management' are not used in any other aspects of IFRS S2 other than in relation to the cross-industry remuneration metrics in paragraph 29(g). However, IFRS S2 does not define 'executive' and 'executive management'.
- 42 As mentioned in paragraph 11, because the Corporations Act requires ASX-listed to disclose the remuneration of its KMP as defined in AASB 124, the AASB added paragraph Aus29.1 to [draft] ASRS 2 to avoid potential conflicts with existing regulatory requirements and entities attempting to define which of their KMP is considered an 'executive' or 'executive management' for the purpose of disclosing the information required under paragraph 29(g) of IFRS S2.
- 43 Staff observed that the disclosure requirements relating to whether remuneration is linked to climate-related risks and opportunities (or non-financial measurements) in the following legislation/pronouncements appear to be broader than 'executives':
- (a) as mentioned, under the Corporations Act, an ASX-listed entity is required to disclose remuneration information of its KMPs which is defined in AASB 124 as "... those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (**whether executive or otherwise**) of that entity" [emphasis added];
  - (b) under CPS 511, an APRA-related entity is required to disclose remuneration information about a person with specified roles, which is defined as a person who is a senior manager, executive director, material risk-taker (including highly-paid material risk-takers) and risk and financial control personnel;<sup>27</sup>
  - (c) under the requirements in paragraph 29 of [ESRS 2](#), an entity is required to disclose information about the incentive schemes and remuneration policies linked to sustainability matters for members of its administrative, management and supervisory bodies; and
  - (d) under paragraph 22(h) of NZ CS 1 [Aotearoa New Zealand Climate Standards 1 Climate-related Disclosures](#), an entity is required to disclose **management remuneration** linked to climate-related risks and opportunities in the current period, expressed as a percentage, weighting, description or amount of overall management remuneration. Management is defined as "executive **or senior management** positions that are generally separate from the governance body".
- 44 The IASB's (and AASB's) Practice Statement 1 *Management Commentary* states at paragraph IN6: "The Practice Statement refers to 'management' as the persons responsible for the decision-making and oversight of the entity. They may include executive employees, key management personnel and members of a governing body." Staff note that the Basis for Conclusions to IFRS S1 identifies the Management Commentary as a possible location for sustainability-related financial disclosures [IFRS S1.BC143].

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27 Paragraph 20(v) of [CPS 511](#)

### *Staff conclusion*

- 45 Without clarifying the people to whom paragraph 29(g) of [draft] ASRS 2 applies, staff are concerned that:
- (a) important information about the links between non-executive directors' remuneration and climate-related risks and opportunities will remain undisclosed;
  - (b) inconsistent practices may emerge in terms of identifying the relevant management group; and
  - (c) unnecessary debate will take place about whose remuneration is included in the disclosure.
- 46 Consistent with the thinking in Practice Statement 1, staff consider that the principle underpinning the requirements in paragraphs 29(g) of IFRS S2 is that users are provided with information about the extent to which the remuneration of persons responsible for the decision-making and oversight of the entity is linked to climate-related risks and opportunities. That is, it would be inappropriate for entities to limit their disclosure to executives (and to exclude non-executive members of governing boards such as directors) in circumstances in which non-executives have decision-making responsibility for climate-related risks and opportunities.
- 47 Staff consider that the best approach to providing clarity would be, as proposed in ED SR1, to refer to the KMP definition in AASB 124, which would cover non-executives who have decision-making responsibility for climate-related risks and opportunities. This is because all entities preparing GPFS will need to comply with AASB 124. Therefore, they will have identified which of their management personnel are KMPs and will disclose KMP compensation in the GPFS. This information will form part of the same GPFR to which climate-related financial disclosures are made.
- 48 There are a number of ways to refer to the KMP definition in AASB 124, including:
- (a) retaining the proposed paragraph Aus29.1 in [draft] ASRS 2 (but omitting reference to "compensation" defined in AASB 124 to address stakeholder concerns discussed in Issue 1);
  - (b) adding the AASB 124's KMP definition in Appendix A *Defined terms* of ASRS 2; or
  - (c) clarifying in the Basis for Conclusions to ASRS 2.
- 49 Staff note that approach (c) might be more consistent with adhering to the IFRS S2 baseline and is supported by some stakeholders mentioned in paragraph 39. However, on balance, staff favour approach (a) to retain paragraph Aus29.1 on the basis that it:
- (a) provides the greatest clarity; and
  - (b) is not necessarily a departure from the IFRS S2 baseline because the meaning of 'executive' and 'executive management' in paragraph 29(g) of IFRS S2 is unexplained.

### ***Issue 3: The proposed remuneration disclosures may have unintended consequences***

- 50 Some stakeholders commented that the proposed disclosure requirement set out in paragraph 29 of [draft] ASRS 2:
- (a) may inadvertently lead to some entities:

- (i) being compelled to set ‘easy to measure’ metrics which are sub-optimal and not well aligned with an organisation’s longer-term strategies;<sup>28</sup>
  - (ii) strive to increase climate-related targets at the expense of other costs;<sup>29</sup>
  - (iii) creating overly complex performance scorecards that do not provide decision-useful information to users;<sup>30</sup> or
  - (iv) being compelled to add ‘climate-related consideration’ in negotiating executive remuneration to hire or retain employees; and<sup>31</sup>
- (b) may lead to the misconception that a higher percentage of remuneration being linked to climate-related conditions would always mean better governance.<sup>32</sup> Disclosing the percentage of executive remuneration recognised in accordance with Accounting Standards does not capture the quality of executive remuneration measures linked to climate-related considerations. The quality of these measures will vary significantly and they are therefore not necessarily comparable.<sup>33</sup>

51 One stakeholder commented that ASX-listed entities are subject to the ‘two-strikes’ rule—that is, if shareholders vote down a company’s executive remuneration package two years in a row, the board may be voted out of office. Any additional remuneration disclosures to the requirements in the Corporations Act and the Corporations Regulations should be carefully considered.<sup>34</sup>

52 A few stakeholders are concerned with the confidentiality or commercial sensitivity of executive remuneration disclosures, particularly for non-listed entities where key management personnel remuneration would otherwise only be required to be disclosed on an aggregated basis.<sup>35</sup>

#### *Staff observations regarding Issue 3*

53 Staff observed that despite the concerns from some stakeholders, a majority of stakeholders consider that information about whether and how climate-related considerations are linked to remuneration is useful information for users. A summary of stakeholders’ reasons for supporting the proposal is included in the [Appendix](#).

54 Staff consider that further discussions with users would be needed to understand if / how these disclosures would lead to unintended consequences and how they can be improved (if required). It would be more appropriate to have such discussions with stakeholders after the Standard has been implemented and users have a chance to consider the cross-industry remuneration metric disclosures.

55 In respect to the comment noted in paragraph 51 about the concerns with the ‘two-strikes’ rule, staff consider that this can be addressed by:

- (a) reminding entities that the requirements to disclose cross-industry remuneration metrics can be met by cross-referencing to their remuneration report included in the same annual report

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28 For example, comment letter: 66

29 For example, comment letter: 92

30 For example, comment letter: 53

31 For example, survey respondent: 172

32 For example, survey respondent: 196

33 For example, comment letter: 66

34 Comment letter: 53

35 For example, comment letter: 3, 100

prepared in accordance with Australian legislation, if the conditions in paragraphs B45–B47 of IFRS S1 are met; and

- (b) providing more optionality in disclosing the proportion of remuneration linked to climate-related conditions (as discussed in the staff observations in Issue 1).

56 In respect to the comment noted in paragraph 52, staff observed that paragraphs 73 and B34–B37 of IFRS S1 (and [draft] ASRS 1) relieve an entity from disclosing information that is commercially sensitive.

## **2.4 Staff recommendations**

57 Based on the staff analysis regarding Issues 1–3 above, staff recommend:

- (a) amending paragraph Aus29.1 of [draft] ASRS 2 so that it refers to the KMP definition, but not the compensation definition, in AASB 124;
- (b) retaining the requirement set out in paragraph 29(g)(i) to require disclosure of a description of whether and how climate-related considerations are factored into remuneration;
- (c) re-expressing the requirement set out in paragraph 29(g)(ii) to require disclosure of information that conveys the extent to which management remuneration recognised in the current period is linked to the management of climate-related risks and opportunities, such information can be expressed in the form of a percentage, amount, range or description; and
- (d) clarifying that the requirements described in points (c) and (d) can be met by cross-referencing to an entity's remuneration report included in the same annual report prepared in accordance with Australian legislation, if the conditions in paragraphs B45–B47 of IFRS S1 are met.

58 If an entity wants to comply with IFRS S2, it would need to disclose the percentage of remuneration recognised in the current period that is linked to climate-related considerations. The recommendation described in paragraph 57(c) does not prohibit an entity from disclosing such percentages.

### **Questions for Board members**

Q1: Do Board members have any comments on the staff analysis noted in Section [2.3](#)?

Q2: Do Board members agree with the staff recommendation noted in paragraph 57? If not, what alternative approaches would you recommend?

## Appendix: Summary of stakeholders' reasons for supporting executive remuneration disclosures

- A1. A large majority of stakeholders who responded to SMC 13 supported the proposal to require disclosure of executive remuneration. Their main reasons are summarised below.
- (a) Consistent with the requirements in ISSB's Standards to disclose executive remuneration information.<sup>36</sup>
  - (b) Maintain consistency with TCFD recommendations.<sup>37</sup>
  - (c) Whether executive remuneration is linked to climate-related considerations is always important information for users.<sup>38</sup>
  - (d) The integration of climate-related considerations into executive remuneration is anticipated to enhance the efficacy of climate management and would strengthen accountability.<sup>39</sup>
  - (e) Whether executive remuneration is linked to climate-related performance is an important indicator of the quality of an entity's governance and strategy and the extent to which climate risk is being objectively addressed by executives. This also indicates whether an entity is discouraging greenwashing.<sup>40</sup>
  - (f) The disclosures would provide insights into an entity's environmental strategy and its alignment with business practices. This transparency would foster informed decision-making among investors and the public, facilitating the mitigation of climate-related risks and the promotion of sustainable business practices.<sup>41</sup>
  - (g) The disclosures would allow users to compare entity's engagement at management and governance levels with climate-related risks and opportunities.<sup>42</sup>
  - (h) The linkage of ESG metrics to executive compensation structure has been a measurement that included in proprietary company rating analysis since early 2000s.<sup>43</sup>
  - (i) The proposed disclosures would likely also form part of an entity's remuneration report disclosures. Mandating the disclosures in ASRS Standards would ensure consistency across disclosure frameworks.<sup>44</sup>
  - (j) A key consideration in Ethical Partners' assessment of the credibility of portfolio companies transition plans is how progress on a company's climate strategies are incorporated into executive remuneration.<sup>45</sup>
- A2. A few stakeholders have expressly mentioned that they agree with adding paragraph Aus29.1 to [draft] ASRS 2. They commented that adding paragraph Aus29.1 in [draft] ASRS 2 would:

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36 For example, comment letter: 7, 11, 12, 21, 27 and Survey respondent: 136

37 For example, comment letter: 103

38 For example, comment letter: 1, 38, 86, 101

39 For example, comment letter: 7, 10, 15

40 For example, comment letter: 14, 34, 54, 64, 74, 86, 88, 89, 94, 103, 104 and survey respondent: 217

41 For example, comment letter: 20, 69, 27, 74, 77, 110 and Survey respondents: 25, 91, 130

42 For example, comment letter: 42

43 For example, comment letter: 59

44 For example, comment letter: 101

45 For example, survey respondent: 75

- (k) provide clarification in the Australian context and avoid potential conflicts with existing remuneration reporting requirements under the *Corporations Act 2001*;<sup>46</sup>
- (l) address potential conflicts with existing regulatory requirements and ensuring consistency in reporting practices;<sup>47</sup> and
- (m) ensure remuneration disclosure requirements would not be overlapped (or overridden) by the forthcoming ASRS Standards.<sup>48</sup>

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46 For example, comment letters: 12, 34, 74

47 For example, comment letter: 20

48 For example, comment letter: 112