Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related financial disclosures**	**Meeting:**	19 and 22 July 2024 (M206)
Topic:	**Costs and benefits of applying the proposals in ED SR1 (GMC 35)**	**Agenda Item:**	4.3.5
		Date:	12 July 2024
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Objective of this paper

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

(a) consider feedback from stakeholders on the costs and benefits of the proposals in ED SR1 not already provided in response to specific matters for comment; and

(b) decide on any further work that might be needed in respect of GMC 35 before finalising ASRS 1 and ASRS 2.

Background

2 GMC 35 asked stakeholders:

"Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs of the proposals."

3 This question (or a similar question) is conventionally asked in every due process document issued for comment by the AASB to help gather the most complete picture feasible of the costs and benefits of the Board's proposals.

Overview of stakeholder feedback – qualitative

4 Of the 117 comment letters and 289 survey responses received, 68 and 21 stakeholders, respectively, provided responses to GMC 35. An overview of stakeholder feedback expressed in the comment letters is presented in Agenda Paper 4.3.6 for the Board's reference. The survey responses have been provided separately for the Board's reference.

5 The comment letter responses varied and can be summarised as follows. The points noted below are not mutually exclusive – that is some respondents expressed more than one of the following views.

(a) Many respondents noted there will be increased regulatory compliance costs for preparers, but they expect them to be balanced with benefits from more informed decision-making by users, particularly in the longer term that will contribute to mitigating future climate change impacts via rational resource allocation decisions. Some of these respondents noted that, provided an entity has already commenced reporting useful climate-related disclosures and has the resources needed for that purpose, the proposals are not likely to add significant costs to the entity's existing costs.

(b) Many respondents commented that the proposed modifications from the baseline ISSB Standards would lead to higher costs. Some of these respondents noted that the modifications may allow for cost savings in the short term but will create more costs than benefits in the long term.

(c) Some respondents commented that the proposals will create a significant cost burden, particularly in the short term due to likely specialist skill shortages, including the added assurance burden.

(d) Some respondents put the view that the investment needed to meet the requirements will never produce a commensurate return in benefits, particularly in respect to Scope 3 GHG emissions and climate scenario analysis. They noted the costs involved in locating, analysing and presenting Scope 3 information. A few of these respondents indicated that simplifications should be considered, at least for some smaller entities.

(e) Some respondents noted that more work needs to be performed to identify the benefits to users.

(f) Some respondents commented that smaller entities are expected to struggle the most with additional costs and will need more time to establish their systems and staff/contractor resources.

(g) Some respondents commented that the extent of the costs will depend on how "use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort" is interpreted. Many of these respondents expressed a lack of confidence that this concept would proportionately reduce costs of implementation.

(h) Multiple stakeholders also provided suggestions regarding the scope of entities required to report under the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*. As the AASB does not have the power to determine the scope of entities required to report, staff have referred these comments to Treasury.

6 The survey responses were generally less positive than the comment letters. Up to half of the survey respondents indicated that costs would be significant while the benefits are expected to be limited or at least uncertain. These survey respondents generally referred to the same types of costs and concerns as comment letter respondents. Some survey respondents pointed to possible 'hidden' costs related to greater regulation and debates over 'greenwashing'.

Overview of stakeholder feedback – quantitative

7 A few of the comment letters and survey respondents to GMC 35 were able to quantify the estimated amounts of any incremental costs to the proposals. Those that quantified the

incremental costs started at minimum costs of $75,000 (excluding internal staff costs) and ranged upwards to an estimated $1 million per entity.[1]

Staff observations and recommendations

8 Staff note that some of the negative feedback on the costs versus benefits of the proposals related to a lack of international alignment to IFRS S2 should be resolved based on the Board's decisions in M204 and M205 to align ASRS 2 more closely with IFRS S2.

9 In relation to the significant volume of feedback expressing concerns about the cost-benefit of disclosing Scope 3 GHG emissions, staff observe that because reporting on Scope 3 GHG emissions is a specific legislative requirement for disclosure, entities within the scope of the legislation would need to report on Scope 3 GHG emissions even if the AASB were to decide to remove Scope 3 disclosure requirements from ASRS 2.

10 Given the limited scope for the Board to act within the likely legislative framework, staff consider that no further work would be needed in relation to GMC 35 before finalising ASRS 1 and ASRS 2.

11 To stakeholders' feedback that the proportionality mechanisms in IFRS S2 are insufficient to address scalability and cost-benefit concerns for smaller entities, consistent with the staff view noted in Agenda Paper 4.2.3 about the scalability of disclosures for NFP entities, staff consider there is merit in undertaking a project to address scalability and cost-benefit concerns for smaller entities, subsequent to finalising the Standards.[2]

Questions for Board members

Q1: Do Board members agree with the staff conclusion that no action be taken in responding to the feedback on GMC 35 before finalising ASRS 1 and ASRS 2?

Q2: Subject to the Board's decision in Agenda Paper 4.2.3, do Board members agree with undertaking a project to address scalability and cost-benefit concerns subsequent to finalising ASRS 1 and ASRS 2?

1 Comment letters: 65, 79 and survey respondents: 9, 31, and 216.
2 Consistent with the Board's decision at its August 2023 meeting to defer work on developing guidance until after the ASRS Standards have been issued.