



Project:	Sustainability Reporting	Meeting	AASB February 2022 (M185)
Topic:	Positioning sustainability reporting requirements in Australia	Agenda Item:	3.8
		Date:	7 February 2022
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		Decision-Making:	High
		Project Status:	Consider project direction

Objective

- 1 This paper addresses the Board’s legislative mandate to develop, more broadly, sustainability reporting requirements—that is, where the development of sustainability reporting standards would initially fit in the context of the Board’s legislative mandate.
- 2 The objective of this paper is to provide the staff with direction as to the potential scope and direction for a sustainability reporting project. To help achieve this objective, staff have presented preliminary staff analysis and recommendations for a proposed approach to how the Board could incorporate sustainability reporting requirements into its existing standard-setting framework.

Structure

- 3 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraphs 4-6)
 - (b) Background (paragraphs 7-8)
 - (c) AASB work program—Sustainability Reporting project (paragraphs 9-14)
 - (i) Summary of feedback received (paragraphs 9-11)
 - (ii) Commencing a project on sustainability reporting in Australia (paragraphs 12-13)
 - (iii) Staff recommendation and question to Board members (paragraph 14)
 - (d) Scope of a preliminary project plan—positioning sustainability reporting requirements in Australia (paragraphs 15-27)
 - (i) Scope of sustainability reporting (paragraphs 15-16)
 - (ii) Staff analysis (paragraphs 17-24)
 - (iii) Staff recommendation and question to Board members (paragraphs 25-27).

Summary of staff recommendations

- 4 Stakeholders are demanding more consistent and comparable reporting of sustainability-related information¹. Stakeholder feedback strongly indicates that, given the Board's experience and reputation in delivering high-quality financial reporting standards, the Board is best placed to meet that demand in Australia (see Agenda Paper 3.4 *Feedback summary—ITC 46 AASB Agenda Consultation 2022-2026*).
- 5 Consistent with jurisdictional and other perspectives (see Agenda Paper 3.3 *Australian and selected jurisdictional perspectives*), respondents to ITC 46 *AASB Agenda Consultation 2022-2026* (ITC 46) and ITC 48 *Extended External Reporting* (ITC 48) viewed sustainability reporting as:
 - (a) addressing a variety of matters which include, but are not limited to, climate. Respondents provided examples of other sustainability matters they think are important, such as:
 - (i) indigenous and human rights;
 - (ii) modern slavery;
 - (iii) biodiversity; and
 - (iv) data management and privacy;
 - (b) addressing a wide range of stakeholders, not only primary users of general purpose financial reports (users of financial reports); and
 - (c) including both financial and non-financial information.
- 6 Consequently, staff recommend:
 - (a) adding a project to the AASB work program to continue to consider sustainability reporting requirements in Australia (see paragraphs 9-14); and
 - (b) in developing the preliminary staff project plan, the project's focus is to develop a separate suite of standards for sustainability reporting alongside the existing AASB Standards (see paragraphs 15-27).

Background

- 7 In ITC 46 Chapter 2.4, *Potential projects* the Board summarised the IFRS Foundation's intent to establish an independent standard-setting body to address sustainability reporting². In particular, the Board acknowledged that there is a demand for global harmonisation and better disclosure in sustainability reporting³ and asked stakeholders:
 - (a) whether they agreed that the Board should add sustainability reporting to its work program and what the scope of such a project should be; and
 - (b) what priority they think should be given to a project on sustainability reporting—high, medium or low.

¹ See [Globally consistent reporting for sustainability-related information: Australian perspectives](#)

² Note that, in November 2021, the IFRS Foundation announced the establishment of the International Sustainability Standards Board.

³ See the AASB, AUASB and FRC joint responses to the [IFRS Foundation Consultation Paper on Sustainability Reporting](#) and [IFRS Foundation Exposure Draft Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards](#).

- 8 In response to the rapidly changing sustainability reporting environment and the growing domestic demand for sustainability reporting,⁴ in November 2021, the Board, Financial Reporting Council (FRC) and Auditing and Assurance Standards Board (AUASB) issued a joint [Position Statement on Extended External Reporting and Assurance](#). In the Position Statement, the Board announced its intent to develop sustainability reporting requirements.

AASB work program—Sustainability Reporting project

Summary of feedback received

- 9 The feedback to ITC 46 is provided in Agenda Paper 3.4.
- 10 All respondents to ITC 46 said that sustainability reporting is important to them (see Agenda Paper 3.4). Almost all respondents also expressed their support of the Board expanding its scope of activities to include sustainability reporting. Most respondents noted that such activities should be a high priority for the Board.
- 11 Some respondents also observed that sustainability reporting should be considered a high priority project for the Board because it's considered a high priority globally and in other jurisdictions. These respondents said that, if Australia falls behind in sustainability reporting, the economy and investor confidence will likely be adversely affected as decisions become increasingly reliant on sustainability reporting in addition to financial reporting.

Commencing a project on sustainability reporting in Australia

- 12 In Australia, interest in sustainability and climate-related matters has increased significantly. The Board expressed a preliminary view in ITC 46 and the joint Position Statement on *Extended External Reporting and Assurance* (see paragraphs 7-8) that the Board is best positioned to meet that demand in the Australian context.
- 13 Consistent with the preliminary view expressed by the Board, the feedback to ITC 46 indicates that stakeholders are demanding more transparent, consistent and comparable information about an entity's value creation, retention and erosion (see Agenda Paper 3.4). That is, stakeholders are demanding improved reporting of sustainability-related information because it:
- (a) is becoming critical to understanding and assessing an entity's performance, financial position, financing and investment. For example, many respondents to ITC 46 said that sustainability reporting is important because stakeholders want to understand better the costs associated with sustainability matters such as climate change;
 - (b) affects decision making and the allocation of scarce resources. For example:
 - (i) many respondents to ITC 46 said sustainability reporting gives entities a social license to operate—that is, sustainability-related information affects the decisions of external stakeholders such as customers, investors, suppliers and potential employees; and
 - (ii) many preparers who responded to ITC 46 said they use sustainability reports internally to help management determine the allocation of internal resources; and
 - (c) it supports directors and senior management in discharging their reporting obligations and director duties.

⁴ See Agenda Papers 3.2 *Background*, 3.3 *Australian and selected jurisdictional perspectives* and 3.4 *Feedback summary—ITC 46 AASB Agenda Consultation 2022-2026*.

Staff recommendation and question to Board members

- 14 Consistent with the stakeholder feedback received to date on ITC 46 and the preliminary views expressed by the Board, staff recommend adding a project to the AASB work program to consider sustainability reporting requirements in Australia.

Question to Board members

Q1: Do Board members agree with the staff recommendation in paragraph 14 to add a project to the AASB work program to consider sustainability reporting requirements in Australia?

Scope of a preliminary project plan—positioning sustainability reporting requirements in Australia

The scope of sustainability reporting

- 15 Broadly, the concept of sustainability (also referred to as sustainable development) was described by the 1987 Bruntland Commission Report as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. The UN Sustainable Development Goals, which almost all sustainability reporting standards and frameworks seek to address, apply this definition.⁵ That is, sustainability reporting is not limited to climate-related matters, but instead is intended to cover a range of matters such as:

- (a) biodiversity;
- (b) indigenous and human rights;
- (c) modern slavery;
- (d) data privacy and management; and
- (e) environment and nature.

- 16 Consistent with paragraph 15, almost all respondents to ITC 46 and ITC 48 said that the scope of sustainability reporting:⁶

- (a) includes both financial and non-financial information;
- (b) includes users of financial reports, but is not limited to those users;
- (c) includes climate-related matters but is not limited to those matters; and
- (d) goes beyond reporting the financial impacts of an entity and includes all impacts of an entity’s operations.

Staff analysis

- 17 For the purpose of developing a preliminary project plan, staff have identified two approaches in which sustainability reporting requirements could be positioned in Australia to improve the consistency and comparability of sustainability reporting:

- (a) Approach 1—incorporating sustainability reporting requirements into existing AASB Standards (see paragraphs 19-21); and

⁵ See Agenda Paper 3.2.

⁶ See Agenda Papers 3.4 and 3.5 *Feedback summary—ITC 48 Extended External Reporting*.

- (b) Approach 2—developing a separate suite of standards alongside existing AASB Standards (see paragraphs 22-24).
- 18 Staff consider that an initial discussion of the positioning of any sustainability reporting requirements is essential to assist staff in scoping the draft project plan.
- Approach 1—incorporating sustainability reporting requirements into existing AASB Standards***
- 19 Consistent with feedback that suggested sustainability reporting be addressed in Australia, the Board could incorporate any sustainability reporting requirements into the existing suite of AASB Standards.⁷ For example, by developing:
- (a) a stand-alone accounting standard that addresses the reporting of all sustainability-related information; or
- (b) specific sustainability reporting requirements that are incorporated into each relevant AASB Standard.
- 20 Such an approach would have the benefit of incorporating sustainability-related information and considerations into the preparation of the financial statements (on either a voluntary or mandatory basis), for example, by providing clarity around how climate-related risks affect the determination of long term asset and liability values.
- 21 However, staff also considered that such an approach could:
- (a) affect the relevance of the financial statements—that is, information that is considered relevant to users of financial statements may not also be considered relevant to users of sustainability reports and vice versa. This could have the unintended consequences of:
- (i) significantly increasing the volume of the financial statements; and
- (ii) obscuring information that is relevant only to users of financial statements;
- (b) limit the Board’s ability to develop sustainability reporting requirements that result in relevant information for users of those reports—that is, the Board could be limited by the scope of general purpose financial statements⁸ which:
- (i) could result in the exclusion of disclosures relevant to users of sustainability reports. For example, information about modern slavery is generally considered to be non-financial in nature and, as such, is not disclosed as part of the financial statements, despite being relevant to users of sustainability reports; and
- (ii) would be inconsistent with the scope of sustainability reporting (see paragraphs 15-16);
- (c) be inconsistent with the approach of international standard-setters and framework providers⁹—that is, the approach of international standard-setters and framework providers has, so far, been to develop separate standards and frameworks that

⁷ Note that the Board would still need to consider further whether such requirements would be of a voluntary or mandatory nature.

⁸ IAS 1 *Presentation of Financial Statements* paragraph 9 states ‘... The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the result of the management’s stewardship of the resources entrusted to it...’

⁹ See Agenda Paper 3.3.

address specific sustainability-related matters for reporting alongside the financial statements. For example:

- (i) New Zealand is developing its own climate reporting standards alongside its existing accounting standards;
- (ii) the International Sustainability Standards Board (ISSB) is proposing that reporting requirements for each sustainability-related matter are governed by a separate standard, such as the prototype standard *Climate-related Disclosures*; and
- (iii) the International Accounting Standards Board (IASB) is considering adding projects to its work plan which would seek to provide more clarity around sustainability-related matters such as climate-related risks and pollutant pricing mechanisms in the financial statements.¹⁰

Approach 2—developing a separate suite of sustainability reporting standards

22 Another approach identified by staff is, similar to New Zealand and other international and jurisdictional perspectives, to develop a separate suite of standards alongside existing AASB Standards.

23 This approach would have the benefits of:

- (a) aligning more broadly to the approaches of international sustainability reporting standard-setters and framework providers and other jurisdictional perspectives (see Agenda Papers 3.2 *Background* and 3.3);
- (b) allowing the Board more flexibility to develop sustainability reporting requirements that can address the reporting of a broad range of relevant financial and non-financial sustainability-related information either as part of a general purpose financial report, or as a separate sustainability report; and
- (c) leaving the decision to mandate sustainability reporting with relevant Australian regulatory bodies.

24 However, staff also considered that such an approach may not result in the mandatory application of sustainability reporting requirements as was supported by most respondents to ITC 46—that is, the decision about whether such requirements are mandated would rest with relevant Australian regulatory bodies rather than the Board.

Staff recommendation and question to Board members

25 Staff agree with respondents to ITC 46 and ITC 48 who said that the scope of sustainability reporting is broad and goes beyond (i) non-financial information; (ii) users of financial reports; (iii) climate-related reporting; and (iv) financial impacts. Consequently, when staff refer to developing sustainability reporting requirements, we refer broadly to developing reporting requirements for a diverse range of sustainability-related matters and information, the first of which will (in line with the ISSB and other jurisdictional perspectives) likely address climate-related information.

26 Staff do not recommend Approach 1 because, as observed by almost all respondents, the scope of sustainability reporting goes beyond the current boundary of general purpose

¹⁰ See November 2021 IASB meeting [Agenda Paper 24A: Feedback summary—Overview](#) and [Agenda Paper 24D: Feedback summary—Potential projects \(part 1\)](#)

financial statements.¹¹ Furthermore, staff are concerned that such an approach could limit the Board’s flexibility in developing sustainability reporting requirements—for example:

- (a) by limiting the Board’s ability to develop reporting requirements for matters which stakeholders may consider to be non-financial in nature (such as modern slavery);
- (b) by limiting the Board’s ability to respond to changes in the global sustainability reporting environment which, at times, may go beyond the scope of general purpose financial statements; and
- (c) by placing the responsibility of mandating sustainability reporting with the Board as opposed to relevant Australian regulatory bodies.

27 Consequently, staff recommend the Board approach sustainability reporting by applying Approach 2—that is, staff recommend that the Board seek to develop a separate suite of standards for sustainability reporting alongside existing AASB Standards. Staff are of the view that Approach 2 better positions the Board while providing the flexibility to:

- (a) respond to the feedback from both ITC 46 and ITC 48 (see Agenda Papers 3.4 and 3.5);
- (b) respond to rapid changes in the global sustainability reporting environment;
- (c) align Australia’s approach with international standard-setters and framework providers and other jurisdictional perspectives; and
- (d) develop sustainability reporting requirements that are more consistent with the scope of sustainability reporting.

Question to Board members

Q2: Do Board members agree with the staff recommendation that, in developing the preliminary staff project plan, the project's focus is to develop a separate suite of standards for sustainability reporting alongside the existing AASB Standards (that is, Approach 2 identified above)?

¹¹ It is important to note that staff are not wholly dismissing Approach 1. Instead, staff think the benefits of Approach 1 (see paragraph 20) will likely be achieved by the ongoing work of the IASB through their consideration of specific sustainability-related projects that directly affect the financial statements such as climate-related risks and pollutant pricing mechanisms.