

1 March 2024

Australian Accounting Standards Board (AASB)

[Via online portal](#)

Dear AASB

AASB Sustainability Reporting Standards: Exposure Draft ED SR1

Thank you for the opportunity to provide a submission on the draft Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (**Draft Sustainability Standards**).

The Australian Institute of Company Directors (**AICD**) welcomes the opportunity to comment on the development of this important policy. The AICD's mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of 52,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits, large and small businesses and the government sector.

Executive Summary

The AICD supports a mandatory climate-related financial disclosure regime that is internationally aligned and meets the policy objectives of high-quality, comparable, and useful climate disclosures.

We have confined our submission to governance and director-level issues. In summary, our key points are as follows:

- **The AICD supports the principle of international comparability in reporting standards, as far as is reasonably practicable.** However, we recognise some disclosure areas may require clarification in their application to the Australian context. We support necessary clarifications to reduce the compliance burden on entities, particularly given the nascent and novel nature of these disclosures.
- Given climate-related disclosures' inherently uncertain nature and that reasonable assurance is not required over all disclosures until 1 July 2030,¹ **entities and directors cannot provide an “explicit and unreserved statement of compliance” as currently proposed under paragraph 72 of ASRS 1.** Any director or entity sign-off must be qualified and mirror what is legislated under the final climate reporting regime that becomes enshrined in law. We believe any director declaration must be **limited to directors opining that they have ‘reasonable grounds to believe that’ the climate disclosures are in accordance with the Sustainability Standards.**
- **Group 3 and Not-for-Profit (NFP) entities, if covered by the regime, should be subject to simplified reporting standards** to avoid a compliance burden not commensurate to

¹ See the [Exposure Draft](#) issued by Treasury for consultation on 12 January 2024.

their climate impact or the needs of their users. The EU² and Malaysia³ provide examples of such an approach. **Disclosures that could be simplified or removed include scope 3, scenario analysis and forward-looking financial impact disclosures.**

- **We agree that industry-based metrics should be initially voluntary** to allow entities time to upskill and focus on the cross-industry metrics.
- **More guidance is needed to assist entities in understanding and applying materiality.** This need has been exacerbated by the proposed Group 3 materiality standard set out in the climate reporting Draft Legislation,⁴ which, in our view, has confused and potentially undermined the application of materiality under the Draft Sustainability Standards.
- **There is a need for guidance on the application of the “reasonable and supportable information available to the entity at the reporting date without undue cost or effort” test.** Such guidance would be most effective if ASIC and the AASB took a consistent and shared approach.

If you would like to discuss any aspects further, please get in touch with Christian Gergis, Head of Policy at cgergis@aicd.com.au or Anna Gudkov, Senior Policy Adviser at agudkov@aicd.com.au.

Yours sincerely,



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² See the [SME Relief Package](#) (September 2023).

³ See the [Simplified ESG Disclosure Guide](#).

⁴ See the January 2024 climate reporting [Draft Legislation](#).

Detailed comments

The AICD submission focuses on governance and director-level issues.

1. Statement of Compliance

Relevant consultation questions: 30

Paragraph 72 requires that entities make “an explicit and unreserved statement of compliance” and that “*an entity shall not describe climate-related financial disclosures as complying with Australian Sustainability Reporting Standards unless they comply with all the requirements of Australian Sustainability Reporting Standards.*”

Entities and boards cannot provide unqualified statements of compliance at a time when ISSB-based disclosures are novel and inherently uncertain, and where reasonable assurance over all disclosures is not required under the climate reporting Draft Legislation (**Draft Legislation**) until 1 July 2030 (presumably due to capacity and skill constraints). Doing so would expose directors and entities to significant liability risk,⁵ the majority of which would fall outside the scope of the Limited Immunity proposed under the Draft Legislation.

Any director sign-off must also be consistent with whatever approach is finally adopted in legislation. We have submitted to the parallel Treasury Draft Legislation consultation that this should be limited to directors attesting that they have ‘reasonable grounds to believe that’ the climate disclosures comply with the Sustainability Standards.

Recommendation: The “Statement of Compliance” under paragraph 72 of ASRS 1 must be consistent with the Directors’ Declaration required under law, which we have submitted should only require that directors and entities declare that, in their opinion there are reasonable grounds to believe that the climate disclosures comply with the Sustainability Standards. Such wording is also consistent with the language of the directors’ solvency declaration for the Financial Report, as set out in section 295(4)(c) of the Corporations Act.

2. Deviation from the ISSB Standards

Relevant consultation questions: 2, 14, 15, 16, 19, 20, 22, 30, 32 and 33

International comparability and consistency are critical to the success of a mandatory climate reporting regime. We are concerned that the cumulative impact of the proposed deviations from the ISSB standards will undermine international comparability (also noting that paragraph 19 of the [AASB’s Sustainability Reporting Standard-setting framework](#) prioritises international alignment). Unnecessary deviation may negatively impact Australia’s place in global capital markets and be construed as undermining global efforts to consolidate sustainability reporting frameworks and standards. It also increases the compliance burden for entities reporting under multiple jurisdictions.

We are concerned that the decision to present the core content requirements in ASRS 1 and delete whole sections of IFRS S2 from ASRS 2 may create perceptions of international non-comparability (even if the substance of the deviations across the Draft Sustainability Standards are relatively minor). The replacement of terms and removal of paragraphs means that further updates to the Sustainability Standards to reflect changes globally will become a more complex exercise. The Sustainability Standards should be designed to be harmonised, interoperable and agile to keep pace with changes at the international level.

⁵ See section 3.1 on pages 9 and 10 of the King & Wood Mallesons legal advice (Annexure B) to the AICD’s [submission](#) on the Draft Legislation.

We recognise that there are disclosure areas which may require clarification in their application to the Australian context. We support such clarifications and any attempts to reduce the compliance burden on entities, particularly given the nascent and novel nature of these disclosures.

3. Structure

Relevant questions: 1, 30 and 31

We support a climate-first approach to sustainability reporting. Research shows that Australian corporate disclosures need to significantly develop and mature to reach the detail and granularity required under ISSB-based climate standards. AASB and AUASB research found that there were still more than 50% of listed companies which did not make any climate-related disclosures in their 2022 Annual Reports,⁶ with only 3.4% of listed entities reporting under all four Taskforce for Climate-related Financial Disclosures (TCFD) pillars.⁷

The focus should be on ensuring the climate-reporting framework is fit-for-purpose and that entities can effectively discharge their climate-reporting requirements before shifting to other sustainability disclosures.

However, any sustainability reporting framework must be sufficiently flexible to accommodate other sustainability reporting topics outside of climate over time, should these be introduced. We are concerned that the conversion of IFRS S1 (as ASRS 1) into a climate-only standard will make it difficult to do this.

We recommend that ASRS1 should operate as the umbrella standard, with dedicated standards for any further sustainability topics which Government decides to mandate (e.g. climate). An alternative approach could be to add a paragraph stating that references to 'sustainability' should be read as 'climate' for the purpose of compliance with ASRS 2. Such a paragraph could then be removed if future reporting expands beyond climate.

4. Group 3 and Not-for-Profit entities

Relevant questions: 25, 16, 27 and 32

AICD opposes the inclusion of Not-for-Profit (NFP) entities in the climate reporting regime. In the AICD's view, the compliance burden for these entities is not commensurate with their climate impact or user benefit from reporting.⁸ We also consider that Group 3 thresholds are too low and should be raised.⁹

The ISSB standards were developed for investor-facing, for-profit entities. Adding discrete paragraphs clarifying application to NFP entities is insufficient and may lead to inconsistencies and unintended consequences. Applying these standards to NFPs and smaller privately-owned companies requires a comprehensive review of their relevance and detailed consultation with the NFP sector and Group 3 entities.

Proposed NFP relief mechanisms do not reduce the compliance burden

The proposed NFP relief mechanisms (**Proposed NFP Relief Mechanisms**) set out in the Draft Sustainability Standards are not sufficient to address the compliance burden on NFPs. This is because most of the Proposed NFP Relief Mechanisms do not remove or reduce disclosure requirements for NFPs. Rather, they clarify the applicability of requirements to NFPs – for

⁶ AASB and AUASB (December 2023), Trends in climate-related disclosures and assurance in the Annual Reports of ASX-listed entities at page 11.

⁷ Ibid at page 9.

⁸ See section 4 at pages 11 to 12 of the AICD submission on the Draft Legislation.

⁹ Ibid at section 3 at pages 9 to 11.

instance, by noting that NFPs should consider the impact of climate-related risk and opportunity on their ability to further their objectives, alongside financial impact. This clarification does not reduce the compliance burden on NFPs.

While Aus6.1 of ASRS 1 and Aus4.1 of ASRS 2 confirms that a NFP entity only needs to use “*all reasonable and supportable information available to the entity at the reporting date without undue cost or effort*” (**Reasonable and Supportable Information test**) and that this does not require an “*exhaustive search*,” this does not provide any additional relief to NFPs. This is because ASRS 1 B6(a), which applies to all entities, already provides that the Reasonable and Supportable Information test applies when entities identify whether, and which, risks and opportunities could reasonably be expected its prospects, with B10 confirming that “*an entity need not undertake an exhaustive search for information.*” It is unclear what additional relief Aus 6.1 and 4.1 provide to NFPs.

Full climate disclosures still required, with limited user benefit

NFPs and Group 3 entities are still required to disclose under the full gamut of climate disclosures, even though many of these disclosures will be of limited benefit to users. We are concerned that such an approach could ultimately result in poor-quality generalised disclosures which will not be useful to users, and/or widespread non-compliance owing to a lack of understanding of the new standards.

In its ‘Basis for Conclusion’ document, the AASB appears to acknowledge that certain disclosures, such as the disclosure of the anticipated future effects and quantitative current effects of climate-related risks and opportunities on the entity’s business model, strategy and decision-making, may be too onerous for NFPs.¹⁰ For the reasons above, we disagree with the AASB’s conclusion that the Proposed NFP Relief Mechanisms are sufficient to address the compliance burden for these entities.

Solution: Simplified reporting standards for NFPs and Group 3 entities

In our view, the better solution is, in addition to lifting relevant applicability thresholds, to require that NFPs and Group 3 entities disclose under simplified reporting standards (similar to the simplified financial accounting standards applying to Tier 2 financial reporting entities).¹¹ The European Union (EU) and Malaysia have taken this approach.

The content of such simplified climate reporting standards (including what disclosures should be removed and/or simplified) should be the subject of detailed consultation with the relevant sector/s. Based on our engagement with AICD members, including senior NFP directors, we consider that disclosures that could be removed or simplified include scope 3, scenario analysis and forward-looking financial impact disclosures.

Recommendation: NFPs and Group 3 entities, if covered by the mandatory climate reporting regime, should be subject to simplified reporting standards. Such standards should be subject to detailed consultation with the sector. Our preliminary view is that **disclosure requirements relating to scope 3, scenario analysis and forward-looking financial impact disclosures** should be removed and/or simplified.

¹⁰ See AASB Basis for Conclusions, BC31(b), which states that governance and qualitative information on the current effects of climate-related risks and opportunities on the business model and strategy and decision-making and on the entity’s overall risk profile and risk management processes do not require exhaustive costs or efforts. The converse of this statement suggests that the remaining disclosures would require exhaustive costs or efforts.

¹¹ See AASB 1060 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 entities.

5. Materiality

Relevant Questions: 3, 30, 32 and 33

We understand that under the Draft Sustainability Standards, materiality applies to every disclosure - that is, an entity must ask, "will this specific disclosure produce information that is material to my existing and potential investors, lenders and other creditors?"

Clause 6.2 of ASRS 1 also provides that an entity that determines that it has no material climate-related risks or opportunities is not required to disclose under the Draft Sustainability Standards (but must disclose this conclusion and explain its rationale). It is unclear how this clause, which seemingly applies to all entities (i.e. Group 1,2 and 3 entities) will interplay with the purportedly 'additional' Group 3 materiality threshold proposed in the Draft Legislation (**Group 3 Materiality Threshold**).

In our view, the Group 3 Materiality Threshold has confused and potentially undermined the application of materiality under the Draft Sustainability Standards. In particular, there is market confusion as to whether the Group 3 Materiality Threshold "deems" materiality for Group 1 and 2 entities. This has been exacerbated by Treasury stating, in its June 2023 consultation paper (**Treasury's June Consultation Paper**), that "*relying on judgements about materiality would not provide the level of certainty and clarity to all businesses about their obligations that comes with clear quantitative thresholds*"¹², that "*climate-related risks, either physical or transition, will be material for the vast majority of large companies in the near term, if they are not already*"¹³ and "*it is increasingly understood that climate-related risks (either transition or physical risks) would be material for most businesses.*"¹⁴

We note that the Australian Securities Exchange (ASX) has called for more information to justify the Treasury statement that climate-related risks would be material for most businesses.¹⁵ We concur with the exchange that an assessment of materiality is best left to the entity to consider based on its specific circumstances and facts.

Given market confusion, more guidance is needed to assist entities in their understanding and application of materiality. The Draft Sustainability Standards and Draft Legislation must work in tandem so that all reporting entities are clear on their obligations, with any drafting and application ambiguity increasing the compliance burden and likely to prompt legal risks.

6. Climate resilience

Relevant consultation questions: 11

We note that IFRS S2 does not prescribe the minimum number or type of scenarios used for scenario analysis. However, it does require that entities specify whether they have used a climate-related scenario aligned with the latest international agreement on climate change.¹⁶

Treasury's June Consultation Paper proposed that entities undertake climate resilience disclosure using at least two climate scenarios, one of which must be consistent with the most ambitious temperature goal under the *Climate Change Act 2022*. ASRS 2 has incorporated this deviation.

¹² Treasury's [June Consultation Paper](#) at page 7.

¹³ Ibid.

¹⁴ Ibid at page 12.

¹⁵ See page 4 of the [ASX submission](#) to the June Consultation.

¹⁶ Clause 22(b)(i)(4) of IFRS S2.

The AASB is now seeking views on whether it should prescribe a third, upper-temperature climate scenario. We **do not support this proposal** on the basis that it will significantly increase the compliance burden, particularly on Group 2 and Group 3 entities. Not mandating such a requirement will continue to allow voluntary disclosure against a third upper-temperature scenario (noting that many large Group 1 entities already do so).

7. Industry-based metrics

Relevant questions: 4, 5 and 6

The AICD supports the proposal that industry-based metrics be initially voluntary to allow entities time to upskill and focus on the cross-industry metrics.

We also agree to the removal of the requirement to refer to and consider the applicability of the Sustainability Accounting Standards Board (SASB) standards, given such standards have not been the subject of an Australian-specific consultation and there remain concerns as to their international application (whilst acknowledging the work of the ISSB in internationalising these standards¹⁷).

We have had some feedback that the requirement to apply *Australian and New Zealand Standard Industrial Classification* (ANZSIC) classifications when making voluntary disclosures under industry metrics is unhelpful to users and obscures international comparability. More useful industry classifications could be the Global Industry Classification Standards (GICS) used by the ASX and other capital markets. However, neither ANZSIC nor the GICS provide any industry-based metrics against which to disclose. As such, the utility of requiring classification against ANZSIC (or any other classification system) is unclear.

8. Relief mechanisms

Relevant questions: 18

Scope 3

We agree with the proposal to permit an entity to disclose, in the current reporting period, its Scope 3 GHG emissions using data for the immediately preceding reporting period if reasonable and supportable data related to the current reporting period is unavailable (AusB39.1 ASRS 2).

We also agree that the requirement to disclose scope 3 emissions should not operate in the first reporting year (AusC4.1 ASRS 2).

“Reasonable and Supportable” test

Relevant questions: 31

While we welcome the inclusion of the “Reasonable and Supportable Test” as a proportionality measure, there is a need for practical guidance on what steps organisations need to take to satisfy this requirement. Such guidance would work best if issued jointly by ASIC and the AASB.

¹⁷ See the [International Applicability of the SASB Standards Project](#).