Australian Government

Australian Accounting Standards Board

Staff Paper

Project:	**AASB S2: Proportionality**	**Meeting:**	6–7 March 2025 (M211)
Topic:	**[draft] Project plan**	**Agenda Item:**	9.2
		Date:	20 February 2025
Contact(s):	Ao Li ali@aasb.gov.au Lachlan McDonald-Kerr lmcdonald-kerr@aasb.gov.au Charis Halliday challiday@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High Medium Project Plan

Objective

1 The objective of this paper is:

(a) to present staff analysis and recommendations for the [draft] project plan on AASB S2: Proportionality; and

(b) for the Board to provide feedback on the [draft] project plan.

2 This paper asks whether Board members agree for the final project plan to be finalised out-of-session by the Chair. The project plan would then be included in public papers for noting at the next AASB Board meeting.

Summary

3 This project aims to understand the implementation processes of AASB S2 by Group 3 entities captured by the mandatory climate reporting regime introduced by the recent amendments to the *Corporations Act 2001 (Cth)* and explore potential responses to any implementation challenges.[1]

4 Staff have divided this project into two areas of focus:

(a) supporting Group 3 in preparing for the implementation of AASB S2 in anticipation of mandatory climate-related financial disclosures starting from periods on or after 1 July 2027 for these entities; and

(b) monitoring the implementation progress of Group 3 entities to:

(i) identify and understand the challenges arising from applying AASB S2 and

1 At its November meeting, the Board decided to undertake a research project to investigate both the information needs of users of climate-related financial information of *not-for-profit public sector entities* and guidance that might be needed to assist such entities in applying AASB S2 (see AASB Action Alert M237). These kinds of entities are therefore outside the scope of this paper.

(ii) identify the feasible approaches, where necessary, to address these challenges.

Structure

5 This paper is structured as follows:

(a) Section One: Project Background and Entities in Scope (paragraphs 6–20)

(b) Section Two: Project Objective (paragraphs 21–23)

(c) Section Three: Analysis of Potential Approaches for the Project (paragraphs 24–30)

(d) Appendix A: Existing Proportionality Mechanisms in AASB S2

Section One: Project Background and Entities in Scope

6 In response to stakeholder feedback on ED SR1, the Board added the AASB S2: Proportionality project to its work program to explore potential responses to scalability and cost-benefit concerns for not-for-profit (NFP) and smaller entities.[2,3] The Board included this project in the AASB work program in response to stakeholder feedback that emphasised the potential for implementation challenges for AASB S2, particularly for *smaller entities.*

7 While there was general support for climate-related disclosures and recognition of the usefulness of such information to users, some stakeholders were concerned about the complexity and possibly onerous cost faced by a subset of entities when preparing some of the more complex required disclosures, such as Scope 3 greenhouse gas (GHG) emissions and climate-related scenario analysis.

8 Recent amendments to the Corporations Act describe a phased approach to mandatory climate-related financial disclosure in three distinct groups—referred to as Group 1, Group 2 and Group 3 entities—based on the entity's size and level of emissions.

9 The phased approach was designed to help ensure that only "very large entities" were subject to mandatory disclosure requirements in the initial implementation stage while affording additional time for other entities to progressively uplift capability, skills, and capacity over time and a market-wide increase in the availability of methodologies and data.[4]

10 Table 1 summarises the phased approach to when entities must commence mandatory disclosure, assuming they are required to prepare and lodge annual reports under Chapter 2M of the Corporations Act and fall within one (or more) of the following three groups.

2 AASB S2 paragraph BC84.

3 One Board member expressed a dissenting view to AASB S2 noting strong concerns around the requirements to disclose Scope 3 greenhouse gas emissions when the concepts of reporting entity control, as well as verifiability and usefulness to report users regarding allocating scarce resources to an entity and across entities. These concerns are heightened for smaller and NFP entities in the private and public sectors (AASB S2 paragraph DV 4).

4 See Policy Impact Analysis—Climate-related financial disclosures (September 2023).

Table 1—Phased Approach for Climate-related Financial Disclosure

First annual reporting periods starting on or after	Large entities and their controlled entities meet at least two of three criteria:			NGER Reporters	Asset Owners
	Consolidated revenue	End-of-financial-year (EOFY) consolidated gross assets	EOFY employees		
1 January 2025 Group 1	$500 million or more	$1 billion or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	$200 million or more	$500 million or more	250 or more	All other NGER reporters	$5 billion assets under management or more
1 July 2027 Group 3	$50 million or more	$25 million or more	100 or more	N/A	N/A

11 Staff recognise that earlier stakeholder consultations and Board deliberations often used the term "smaller entities" in a *relative sense* to describe entities outside of Group 1 and Group 2 classifications per the phasing in approach for mandatory requirements detailed in the Corporations Act amendments—this has typically denoted Group 3 entities.

12 However, the "smaller entity" classification may not accurately reflect the size of the entities required to comply with AASB S2. The Explanatory Memorandum accompanying the amendments to the Corporations Act describes all three groups as "large entities", with Group 1 being specifically classified as "very large entities".

13 Furthermore, the phasing thresholds were intentionally selected to be consistent with the current thresholds used by the Australian Securities and Investments Commission (ASIC) to define a "large proprietary company" to help ensure consistency and avoid complexity in the reporting burden. Several observations were provided to support the suitability of the thresholds during Senate Economics Legislation Committee proceedings:

(a) concerns from smaller entities were acknowledged, but the trade-offs were deemed appropriately balanced considering the needs of various stakeholders;

(b) the thresholds for "large proprietary companies" were comprehensively reviewed and adjusted in 2019, ensuring they aligned with company sizes and reporting obligations; and

(c) the thresholds described in Section 292A(3) of the Corporations Act can be modified via regulations, thereby allowing for future adjustments if deemed appropriate.[5]

13 Many stakeholders may associate the terms "small entities" or "smaller entities" with "small proprietary companies" as defined by ASIC—that is, companies that do not meet ASIC's definition of "large proprietary companies". Staff note that small proprietary companies are typically exempt from the requirement to lodge financial statements with ASIC and are not captured by the mandatory climate-related disclosures.

5 Parliament of Australia. (2024, April 23). Economics Legislation Committee.

14 To avoid potential confusion, this project and the remainder of the paper will use the term "Group 3" (rather than "small" or "smaller") to denote a subset of entities captured by the mandatory climate reporting regime that some stakeholders and Board members raised concerns about potentially facing heightened implementation challenges for AASB S2.

15 Some stakeholders expressed specific concerns about the potential complexity and burden for NFP entities to comply with the disclosure requirements in AASB S2.

16 NFP entities registered with the *Australian Charities and Not-for-profits Commission* (ACNC) are not required to provide financial reports under Part 2M of the Corporations Act.[6] Consequently, even if they meet the size or emissions thresholds, these entities will not be captured by the mandatory climate reporting regime.[7]

17 NFP entities not registered with ACNC that are required to provide financial reports under Part 2M of the Corporations Act and fall within one (or more) of the three group-based thresholds based on their size or level of emissions are captured by the mandatory climate-related disclosures.

18 During the Senate Economics Legislation Committee proceedings, several observations were provided to support the decision to include such entities:

(a) the Corporations Act does not define "not-for-profits" beyond those registered with the ACNC;

(b) NFP is often used as a self-reported description for tax purposes;

(c) the aim was to avoid creating additional complexity or incentives for businesses to restructure to avoid reporting obligations; and

(d) companies operating as NFPs and registered with the ACNC are exempt from reporting.[8]

19 Given the above-mentioned rationale for deliberately including NFP entities that are required to provide financial reports under Part 2M of the Corporations Act and fall within one (or more) of the three group-based thresholds based on their size or level of emissions, staff consider it would be inappropriate to scope this project to focus on these entities specifically. Such an approach may create additional complexity or structuring incentives which the regime has sought to avoid. Therefore, staff propose scoping this project to focus on *all* Group 3 entities subject to the mandatory climate-related financial disclosure requirements introduced by the Corporations Act amendments.

20 Staff note that additional public sector considerations may be required and that public sector NFPs will be specifically considered in a separate project consistent with the Board decisions in November 2024.[9]

Section Two: Project Objective

21 The Board initially included this project in the AASB work program with the intention of addressing stakeholders' concerns regarding the *scalability* and *cost-benefit* of implementing AASB S2.

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6 Section 111L of the Corporations Act provides an exemption for bodies corporate registered under the *ACNC Act 2012 (Cth)* from Chapter 2M reporting requirements.

7 Staff have observed that the majority, if not all, of the NFP entities who are NGER reporters (such as hospitals and universities) are also registered charities under the ACNC Act. Consequently, these entities are exempt from mandatory sustainability reporting as per Section 111L, despite their NGER reporting obligations.

8 Parliament of Australia. (2024, April 23). Economics Legislation Committee.

9 See footnote 1 of this paper.

22 Regarding cost-benefit considerations, the Treasury has already determined the cost-benefits of the mandatory regime via the Policy Impact Assessment and made the policy choice to include Group 3 entities in the regime as established by amendments to the Corporations Act and passed by the Parliament. The Treasury has also committed to leading a review of climate-related disclosure requirements in 2028-29 that will, at a minimum, examine the effectiveness of coverage settings (particularly the approach to Group 3 companies' ability to make quality disclosures, including data availability and supporting materials).[10]

23 Therefore, staff recommend that this project:

(a) avoid re-examining the cost-benefit analysis for Group 3 entities; and

(b) prioritise understanding the implementation progress of Group 3 entities to:

(i) identify any challenges arising from applying AASB S2 and;

(ii) identify feasible approaches, where necessary, to address these challenges.

Section Three: Analysis of Potential Approaches for the Project

24 Staff noted that the term "scalability" is subject to interpretation—it can be taken to mean proportionality, reduced disclosures or other mechanisms to ease the burden of reporting for those less able to comply (e.g. such as transitional relief and/or ongoing expedients).[11]

25 Staff have identified and analysed four potential activity approaches to respond to the project's objectives. These activities represent a spectrum of approaches, ranging from supportive measures to standard-setting activities via targeted or comprehensive modifications. All are aimed at assisting and/or assessing the implementation of AASB S2 by Group 3 entities and are explained further below:

(a) **Supporting activities**—these activities would be aimed at facilitating the preparation for the implementation of AASB S2 by Group 3 entities through education measures, for example, enable greater awareness by stakeholders of existing proportionality mechanisms in AASB S2 (see Appendix A for further context on these mechanisms). Examples include offering workshops and webinars about proportionality or the development of educational material tailored for Group 3 entities where necessary;

(b) **Monitoring activities**—these activities involve proactive efforts to identify, understand and address implementation issues early in the process, such as engaging researchers to obtain evidence on the implementation readiness of Group 3 entities;

(c) **Domestic targeted standard-setting activities**—these involve focused modifications to AASB S2 aimed at addressing specific challenges faced by Group 3 entities. Examples include introducing or extending transition relief or exemptions from specific disclosure requirements. These

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10 See Policy Position Statement—Mandatory climate-related financial disclosures (January 2024).

11 For example, the ISSB has used the term "scalability" (sometimes interchangeably or in conjunction with "proportionality") to describe the mechanisms that are intended to assist a subset of preparers who may be less able to comply with the disclosure requirements in the IFRS Sustainability Disclosure Standards (e.g. clarification for the use of reasonable and supportable information that is available without undue cost or effort). In contrast, some international standard-setters, such as the European Financial Reporting Advisory Group (EFRAG), developed Voluntary Sustainability Reporting Standard for non-listed SMEs for entities that are not in the mandatory scope of the Corporate Sustainability Reporting Directive. NZXRB is currenly consulting on potential differential climate-related reporting for smaller entities – see https://www.xrb.govt.nz/dmsdocument/5355/.

activities would aim to allow for the range of capabilities and preparedness of entities while maintaining the overall integrity of the standard.

(d) **Comprehensive standard-setting activities**—these involve creating an alternative, reduced disclosure regime specifically designed for Group 3 entities. This approach represents a more comprehensive modification of the standard to address the needs and constraints of Group 3 entities.

26 The advantages and disadvantages associated with the four above-described approaches are presented in Table 2 below.

Table 2—Analysis of The Potential Implications for Each Possible Approach

Possible Approaches	Advantages	Disadvantages
Supporting activities	• Provides a more immediate response to support implementation • Ongoing agility and flexibility to respond to implementation challenges as they arise • Complements existing implementation support program and may assist all entities applying AASB S2—thereby improving system-wide capacity building • Better maintains international alignment with IFRS Sustainability Disclosure Standards and the ISSB's criteria for evaluating potential amendments to IFRS S1 and S2,[12] relative to standard-setting activities • Enhances the visibility and understanding of existing proportionality mechanisms in AASB S2 aimed to assist entities with varied capabilities and resources and provides time for practices to develop when applying these proportionality mechanisms before deciding whether additional activities (e.g. targeted actions) may be required	• Insufficient in isolation to identify all implementation challenges • May not address all implementation challenges for Group 3 entities
Monitoring activities	• Facilitates early identification of potential implementation issues • Provides evidentiary basis that will inform whether additional activities (e.g. targeted actions) may be required • Practice of disclosures under AASB S2 is likely to evolve considerably between now and when it becomes mandatory for Group 3 entities to begin reporting— provides time for practices to develop before deciding whether additional activities (e.g. targeted actions) may be required • Aligns with the accountability mechanisms outlined in paragraph 30 of the AASB Sustainability Reporting Due Process Framework, which sets out that standard-	• May not identify all implementation challenges • Research deliverable timelines may depend on external parties • Insufficient in isolation to address implementation challenges • Reduces the timeframe available for targeted actions

12 At its November 2025 meeting, the ISSB decided that potential amendments would be considered only if the ISSB identifies a demonstrated need, after it has explored all other options, to respond to pervasive application challenges arising from implementation, including concerns related to diversity in practice.

Table 2—Analysis of The Potential Implications for Each Possible Approach

Possible Approaches	Advantages	Disadvantages
	setting activities should first identify the problem to solve and data availability • May help inform the Treasury-led review of climate disclosure requirements in 2028-29	
Domestic targeted standard-setting activities	• Ability to address specific challenges faced by Group 3 entities • Maintains overall integrity of AASB S2, relative to comprehensive standard-setting activities	• May be seen to oppose stakeholder feedback encouraging strong alignment between domestic requirements and the ISSB Standards and reduce international alignment relative to supporting and monitoring activities • May reduce comparability between entities of different sizes • Potential for misalignment should the ISSB undertake future standard-setting activities on IFRS S2 • Actions may be limited in order to avoid creating a misalignment between *Corporations Act* requirements and the Standard • Insufficient evidence at this time of what targeted standard-setting activities would be appropriate and therefore may not adequately address all implementation challenges • Potential for market confusion or implementation disruption during early implementation periods
Comprehensive standard-setting activities	• Ability to tailor requirements specifically for Group 3 entities • Potentially increases adoption for entities outside the mandatory reporting regime	• Same as targeted standard-setting, but on a larger scale—in particular: ○ significantly reduced comparability ○ requires longer development time ○ significantly disrupted implementation

27 Based on the analysis presented in Table 2, staff consider it premature to undertake targeted or comprehensive standard-setting activities at this stage in response to stakeholder concerns raised in feedback on ED SR1 on potential implementation challenges. The evolving nature of climate-related financial disclosures and the varying stages of implementation across entities necessitates a more thorough and current understanding of the challenges faced by Group 3 entities while adopting AASB S2 and the effectiveness of the proportionality mechanisms in addressing some of these challenges. Therefore, staff consider that supporting and monitoring activities would best serve Group 3 entities at this stage.

28 Specifically, staff would propose undertaking the following activities within the planned timeline in Table 3 below:

Table 3—Proposed Activities and Timeline

<table>
<tr><th></th><th>2025</th><th>2026</th></tr>
<tr><td>Supporting activities</td><td colspan="2">• Awareness-raising initiatives for AASB S2 and targeted and tailored engagement with Group 3 entities (e.g. workshops and webinars), in anticipation of mandatory climate-related financial disclosures starting from the periods on or after 1 July 2027[13]</td></tr>
<tr><td rowspan="2">Monitoring activities</td><td>• Gathering feedback on early-phase implementation challenges via the Implementation Advisory Panel on AASB S2</td><td>• Facilitating proportionality-focused workshops with a focus on Group 3 preparers to create an early two-way dialogue on the proportionality mechanisms prior to mandatory reporting commencing on or after 1 July 2027</td></tr>
<tr><td colspan="2">• Facilitating direct engagement between the Board and practitioners by inviting relevant practitioners to share their practical insights and experiences of Group 3 entities' implementation with the Board
• Engaging researchers to assess the implementation readiness of Group 3 entities.</td></tr>
</table>

29 Staff will provide the Board with regular updates on the proposed supporting and monitoring activities. Should any concerns arise, staff will discuss with the Board to determine what, if any, action is required.

30 Staff consider the proposed approach would:

(a) enable the Board to receive updates on the evolving climate-related reporting practices and allow the Board to obtain a more substantial evidence basis for determining whether any action (if any) may be necessary to address the implementation of AASB S2 by Group 3 entities on a timely basis;

(b) allow time for practices to develop organically given that AASB S2 disclosure practices are likely to evolve significantly before becoming mandatory for Group 3 entities. This progression can help inform future Board decisions on whether further actions are required;

(c) better maintain alignment with the IFRS Sustainability Disclosure Standards by initially focusing on support and monitoring relative to targeted or comprehensive standard-setting activities;

(d) enable greater awareness by stakeholders of the existing proportionality mechanisms in AASB S2 and how these mechanisms can be used to apply the standard in a way that is commensurate with the skills, capabilities and resources that are available to the entity. Staff consider that awareness-raising and implementation support will play a crucial role in AASB S2 adoption across various size cohorts. Based on experience from recent stakeholder engagement, staff recognise that effectively communicating the proportionality mechanisms

13 These activities would take place inside the AASB S2: Implementation support project (Agenda Paper 9.1 (M211)) and include the creation and/or curation of resources aimed at helping the implementation of AASB S2, with a particular focus on topics likely to be most beneficial to Group 3 entities.

within AASB S2 is crucial for alleviating stakeholders' concerns about potential compliance challenges;

(e) align with the accountability mechanisms outlined in paragraph 30 of the *AASB Sustainability Reporting Due Process Framework*, which sets out that standard-setting activities should first identify the problem to solve and data availability;

(f) harmonise with the ISSB's criteria for evaluating potential amendments to IFRS S1 and S2, which is that potential amendments would be considered only if a demonstrated need is identified and after all other options have been investigated, to respond to pervasive application challenges arising from implementation; and

(g) may help inform the Treasury-led review of climate disclosure requirements in 2028-29.[14]

Question 1 to the Board (for discussion):

Do Board members have any comments or questions on the [draft] project plan?

Question 2 to the Board (for decision):

Do Board members agree to finalise the project plan out-of-session by the Chair? If not, what alternative(s) do board members suggest?

14 At a minimum, the review will examine the effectiveness of coverage settings (particularly the approach to Group 3 entities), appropriateness of the liability framework and whether there are any other barriers that may be affecting a company's ability to make quality disclosures, including data availability, and supporting materials.

Appendix A – Existing Proportionality Mechanisms in IFRS S2 and AASB S2

A1. The ISSB has used the term "proportionality" (sometimes interchangeably or in conjunction with "scalability") to describe the mechanisms that are intended to assist a subset of preparers who may be less able to comply with the disclosure requirements in the IFRS Sustainability Disclosure Standards.[15]

A2. There are several reasons why a subset of preparers may be less able to comply with the disclosure requirements in the IFRS Sustainability Disclosure Standards. These include, but are not limited to:

(a) the entity facing more significant resource constraints (e.g. due to its size) that make the costs of investing in and implementing the necessary systems for disclosure disproportionately higher compared to entities with fewer resource limitations; and

(b) the entity operates in a market where high-quality external data is less accessible or where attracting the necessary human resources and talent to comply with the Standard(s) is more challenging.

A3. To address circumstances such as these, IFRS S2 and AASB S2 incorporated several mechanisms to help facilitate proportionality. These include:

(a) **the use of reasonable and supportable information that is available without undue cost or effort**—to provide clarity to entities by establishing parameters about the type of information an entity would consider and the associated effort required to obtain such information, to support disclosure (e.g. AASB S2 paragraphs 11, 30, B1, B2, B8-B15, B17, B36 and B39);

(b) **consideration of an entity's skills, capabilities and resources**—to provide essential context for understanding the potential cost and effort required to apply different aspects of AASB S2 and therefore, whether that cost or effort is likely to be 'undue' when weighed against the potential benefits of the information a particular approach would yield (e.g. AASB S2 paragraph 18 and 22); and

(c) transitional relief for a reporting entity from the requirement to disclose Scope 3 greenhouse gas (GHG) emissions and comparative information in its first annual reporting period under the sustainability reporting regime (e.g. AASB S2 paragraphs C3 and C4(b)).

A4. The table below summarises topics in AASB S2 for which proportionality mechanisms are available.

Table A1 – Mechanisms that address proportionality in IFRS S2 and AASB S2

		Reasonable and supportable information that is available at the reporting date without undue cost or effort	**Consideration of skills, capabilities and resources**
1	Determination of anticipated financial effects	✓	✓
2	Climate-related scenario analysis	✓	✓
3	Measurement of Scope 3 GHG emissions	✓	
4	Identification of risks and opportunities	✓	
5	Determination of the scope of the value chain	✓	

15 For example, ISSB Staff paper 3C&4C (September 2022) and ISSB Staff paper 3D&4C (February 2023) used the term "proportionality"

Table A1 – Mechanisms that address proportionality in IFRS S2 and AASB S2

		Reasonable and supportable information that is available at the reporting date without undue cost or effort	**Consideration of skills, capabilities and resources**
6	Calculation of metrics in particular cross-industry metric categories	✓	

A5. Proportionality mechanisms in IFRS S2 and AASB S2 have been designed to accommodate varying skills, capacities and resource constraints across entities required to comply with the Standard and will therefore be highly relevant to include as focus area for supporting Group 3 entities with implementation.

A6. The ISSB also developed a webcast series and accompanying Factsheet to explain how the proportionality mechanisms support the application of IFRS S2.