



Project:	Climate-related Financial Disclosures	Meeting:	26 August 2024 (M207)
Topic:	Consider working draft Standards	Agenda Item:	3.0
		Date:	16 August 2024
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		Decision-Making:	High
		Project Status:	Finalising Standards

Objective

- 1 The objectives of this agenda item are for the Board to:
 - (a) **decide** on the titles of the Australian Sustainability Reporting Standards (the Standards) (paragraphs 10–14 below);
 - (b) **decide** on whether to issue a service Standard (paragraphs 15–20 below);
 - (c) for the purposes of finalising the voluntary Standard on general requirements for disclosure of sustainability-related financial information, **consider** a working draft of the Standard and the accompanying introductory note and **decide** on any changes required to finalise the Standard (Agenda Papers 3.1.1 and 3.1.2);
 - (d) for the purposes of finalising the mandatory Standard on climate-related disclosures:
 - (i) **consider** the scope of the project on developing industry-based disclosure requirements and **decide** on the relevant content to be included in the Basis for Conclusions (Agenda Paper 3.2.1);
 - (ii) **consider** stakeholder comments arising from ED SR1¹ that have not yet been deliberated and **decide** on any changes required to be made to the Standard (Agenda Paper 3.2.2); and
 - (iii) **consider** a working draft of the Standard and the accompanying introductory note and **decide** on any changes required to finalise the Standard (Agenda Papers 3.2.3 and 3.2.4); and
 - (e) **note** the next steps of the project (paragraph 21 below).

¹ Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (October 2023)

Attachments

2 In addition to this Cover Memo, there are nine papers for this agenda item:

Agenda Paper 3.1.1	Introduction to Agenda Paper 3.1.2
Agenda Paper 3.1.2	Working draft Standard <i>General Requirements for Disclosure of Sustainability-related Financial Information</i>
Agenda Paper 3.1.3	Marked-up file showing changes made to IFRS S1 text in Agenda Paper 3.1.2 (in supplementary folder)
Agenda Paper 3.2.1	Project scoping – Climate-related disclosures: Industry-based information
Agenda Paper 3.2.2	Other matters on climate-related financial disclosures
Agenda Paper 3.2.3	Introduction to Agenda Paper 3.2.4
Agenda Paper 3.2.4	Working draft Standard <i>Climate-related Disclosures</i>
Agenda Paper 3.2.5	Marked-up file showing changes made to IFRS S2 text in Agenda Paper 3.2.4 (in supplementary folder)
Agenda Paper 3.2.6	Subcommittee meeting outcomes regarding AASB S2 Appendix D (Board only paper in supplementary folder)

Background

3 ED SR1 proposed three draft Australian Sustainability Reporting Standards:

- (a) [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using the requirements of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* as the baseline but with a scope limitation to climate-related disclosure;
- (b) [draft] ASRS 2 *Climate-related Financial Disclosures*, developed using the requirements of IFRS S2 *Climate-related Disclosures* as the baseline, with proposed modifications to certain requirements; and
- (c) [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service Standard that would be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in Australian Sustainability Reporting Standards.

4 At its meetings held in June and July 2024, the Board decided to:

- (a) issue a Standard on general requirements for disclosure of sustainability-related financial information as a voluntary Standard. That Standard would incorporate all IFRS S1 requirements without any modification; and
- (b) issue a Standard to prescribe climate-related financial disclosure requirements that would incorporate all IFRS S2 requirements, with modifications only in respect to the following matters:
 - (i) general requirements for disclosure of climate-related financial information;

- (ii) consideration and disclosure of industry-based information; and
- (iii) users of a not-for-profit entity's general purpose financial report.

- 5 In respect to the modifications described in paragraph 4(b)(i), the Board formed a subcommittee to identify the content of IFRS S1 (limited in scope to climate-related disclosures) to be incorporated into the Standard on climate-related disclosures. Agenda Paper 3.2.6 provides a summary of subcommittee meeting outcomes, for Board members' information.
- 6 Staff have revised those two draft Standards based on the Board's decisions at the meetings held in June and July 2024. They are presented as Agenda Papers 3.1.2 and 3.2.4. Staff have prepared those working draft Standards by amending IFRS S1 and IFRS S2 text rather than amending [draft] ASRS 1 and [draft] ASRS 2 proposed in ED SR1. To assist Board members' review of the working draft Standards, staff have prepared:
- (a) introductory notes to highlight some aspects of the working draft Standards that may require further discussion by Board members (Agenda Papers 3.1.1 and 3.2.3);
 - (b) a marked-up file (Agenda Paper 3.1.3) showing changes made to IFRS S1 text in the working draft voluntary Standard on general requirements for disclosure of sustainability-related financial information; and
 - (c) a marked-up file (Agenda Paper 3.2.5) showing changes made to IFRS S2 text in the working draft mandatory Standard on climate-related disclosures.
- 7 The main objective of this meeting is for the Board to consider the working drafts of the two Standards and decide on any changes required to finalise the Standards, subject to any amendments necessary from the Board's review of the final version of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*.
- 8 At the meeting, before discussing the working draft Standard on climate-related disclosures (Agenda Paper 3.2.4), staff plan to present the following papers for discussion:
- (a) Agenda Paper 3.2.1 includes staff recommendations to take forward the Board's decision to add a project to the work program on climate-related disclosures: industry-based information to consider the scope of this project, with a view to providing greater clarity for stakeholders in the Basis for Conclusions to the Standard; and
 - (b) Agenda Paper 3.2.2 includes staff analysis of stakeholder comments raised in ED SR1 relating to climate-related financial disclosures that have not yet been deliberated by the Board. Staff did not identify any changes that need to be made to the working draft Standard from those comments.
- 9 The Board has not yet discussed how its decisions at the June and July 2024 meetings would affect the service Standard ([draft] ASRS 101). Paragraphs 15–20 below provides staff analysis on why staff consider that it is not necessary to issue a service Standard.

The titles of the Australian Sustainability Reporting Standards

- 10 When developing ED SR1, the Board decided that [draft] ASRS 1 should have a scope limitation to climate-related disclosures. Therefore, the Board did not adopt the title of IFRS S1 for [draft] ASRS 1. The Board changed "sustainability-related" to "climate-related" in the title of [draft] ASRS 1. Since the Board has now decided that the voluntary Standard on general requirements for disclosure of sustainability-related financial information would have the same scope as IFRS S1, the title of that Standard should be updated to align with that of IFRS S1. Accordingly, in the working draft Standard

(Agenda Paper 3.1.2), staff have changed the title of the Standard to be the same as that of IFRS S1 – that is, *General Requirements for Disclosure of Sustainability-related Financial Information*.

- 11 The title of IFRS S2 is *Climate-related Disclosures*. When developing the draft Standard that was proposed in ED SR1, the Board added the word “financial” to the title of the Standard (i.e. [draft] ASRS 2 *Climate-related Financial Disclosures*). This was because:
- (a) despite its title, the phrase “climate-related financial disclosures” rather than “climate-related disclosures” is used throughout IFRS S2;
 - (b) the title and content of IFRS S1 includes “financial information”; and
 - (c) the Board observed that requirements relating to “climate-related impact reporting” for NFP public sector entities – to report the effect of climate-related risks and opportunities, and related government policies, on the economy, environment and people – might need to be developed in future.² Therefore, it might be beneficial to distinguish this type of climate-related disclosure from those required by IFRS S2. Specifying in the title of ASRS 2 that the Standard relates to “climate-related financial disclosures” would avoid any confusion about whether [draft] ASRS 2 covers requirements other than climate-related financial disclosures.
- 12 Although no stakeholder specifically commented on the title of [draft] ASRS 2, many stakeholders expressed a strong preference for [draft] ASRS 2 to be aligned as closely as possible to IFRS S2. Accordingly, in the working draft Standard (Agenda Paper 3.2.4), staff have changed the title of the Standard to be the same as that of IFRS S2 – that is, *Climate-related Disclosures* without the word “financial”.
- 13 Staff also recommend revising the prefix in the numbering of Australian Sustainability Reporting Standards to align with the numbering of ISSB’s Standards. That is, to revise the numbering and titles of the two Standards as follows:
- (a) AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information*; and
 - (b) AASB S2 *Climate-related Disclosures*.

Questions for Board members

- Q1: Do Board members agree with revising the title of the voluntary Standard as *General Requirements for Disclosure of Sustainability-related Financial Information*, to align with the title of IFRS S1?
- Q2: Do Board members agree with revising the title of the Standard that would prescribe climate-related financial disclosure requirements as *Climate-related Disclosures*, to align with the title of IFRS S2?
- Q3: Do Board members agree with revising the prefix in the numbering of Australian Sustainability Reporting Standards as shown in paragraph 13?

- 14 **For the purposes of discussion, the agenda papers for this item refer to:**

- (a) **the Standard on general requirements for disclosure of sustainability-related financial information as AASB S1 rather than ASRS 1; and**

² At its August 2023 meeting, the Board decided to defer consideration of whether to undertake a domestic standard-setting project to develop Australian climate-related impact reporting requirements until it has considered results of the IPSASB’s project related to climate-related impact reporting in due course.

- (b) the Standard on climate-related disclosures as AASB S2 rather than ASRS 2.

Whether to issue a service Standard

- 15 IFRS S2 refers to a few external documents, such as (emphasis shown in blue shaded text):
- (a) the latest international agreement on climate change, which is defined in Appendix A of IFRS S2 as “An agreement by states, as members of the United Nations Framework Convention on Climate Change, to combat climate change. The agreements set norms and targets for a reduction in greenhouse gases;
 - (b) the latest Intergovernmental Panel on Climate Change assessment available at the reporting date (IFRS S2 paragraphs B21 and B22); and
 - (c) in relation to financed emission disclosures, the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties, reflecting the latest version of the classification system available at the reporting date (IFRS S2 paragraphs B62 and B63).
- 16 Such documents are considered “other instruments or writing” under the *Legislation Act 2003*. Under that Act, Australian legislative instruments (such as AASB S2) can require provisions to be made in relation to other documents by reference, but would need to be incorporated as they exist at a fixed point in time. Legislative instruments cannot make provisions in relation to a document as existing from time to time. Relevant text in section 14 of that Act are included below (emphasis shown in blue shaded text).

Prescribing matters by reference to other instruments

- (1) If enabling legislation authorises or requires provision to be made in relation to any matter by a legislative instrument or notifiable instrument, the instrument may, unless the contrary intention appears, make provision in relation to that matter: ...
- (b) subject to subsection (2), by applying, adopting or incorporating, with or without modification, any matter contained in any other instrument or writing as in force or existing at:
 - (i) the time the first - mentioned instrument commences; or
 - (ii) a time before the first - mentioned instrument commences (whether or not the other instrument is still in force, or the other writing still exists, at the time the first - mentioned instrument commences).
- (2) Unless the contrary intention appears, the legislative instrument or notifiable instrument may not make provision in relation to a matter by applying, adopting or incorporating any matter contained in an instrument or other writing as in force or existing from time to time.

- 17 Accordingly, the relevant versions of external documents need to be specified in AASB S2. The Board could address this matter by adopting one of the following approaches.
- (a) Approach 1: Specify the relevant versions within AASB S2. Under this approach, the relevant versions of external documents referenced in AASB S2 will need to be amended (through an amending Standard) when there are new versions of those external documents.
 - (b) Approach 2: Issue a service Standard, similar to [draft] ASRS 101 proposed in ED SR1, that would list the relevant versions of external documents, and make reference in AASB S2 to the service Standard. Under this approach, AASB S2 would not need to be amended for any new versions of external documents referenced. The service Standard is expected to work in the same way as how AASB 1048 *Interpretation of Standards* interacts with other Australian Accounting

Standards – that is, preparers, auditors and users are not expected to need to refer to the service Standard in order to prepare, audit or understand Australian Sustainability Reporting Standards.³

- 18 The Board adopted Approach 2 in ED SR1. The Board considered that a service Standard would be helpful as it had planned to issue both [draft] ASRS 1 and [draft] ASRS 2 as legislative instruments and updating one Standard – the service Standard – would be more efficient than updating two Standards. At its meetings in June and July 2024, the Board decided to issue only one Standard as a legislative instrument (AASB S2). Therefore, there are now fewer benefits in issuing and maintaining a service Standard. Additionally, many stakeholders commented on ED SR1 that cross-referencing to other Standards reduces the readability of a Standard; therefore, adopting Approach 1 might have more benefits than Approach 2.
- 19 The Board decided to issue [draft] ASRS 101 also because there were concerns that periodically amending a Standard (for the purposes of updating the relevant versions of external documents) might mislead stakeholders into thinking that the Board has changed the requirements set out in the Standards. This was because an amending Standard to amend Accounting Standards is usually related to modifying or adding requirements. Staff consider that clear communication with stakeholders about the nature of any future changes to AASB S2 would avoid such confusion.
- 20 Staff recommend proceeding with Approach 1 to not issue a service Standard, and instead to specify the relevant version of external documents referenced in AASB S2. For example, in the working draft AASB S2 (Agenda Paper 3.2.4), staff have specified the version of the following documents by adding the blue shaded text shown below.

In Appendix A – the definition of “the latest international agreement on climate change”:

An agreement by states, as members of the United Nations Framework Convention on Climate Change, to combat climate change (December 2015). The agreements set norms and targets for a reduction in **greenhouse gases**

...

B21 If an entity uses direct measurement to measure its greenhouse gas emissions, the entity is required to convert the seven constituent greenhouse gases into a CO₂ equivalent value using global warming potential values based on a 100-year time horizon, from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date (the Sixth Assessment Report).

...

B62 An entity that participates in commercial banking activities shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by:

(i) industry—the entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties, reflecting the latest version (as amended to August 2024) of the classification system available at the reporting date.

3 The Preface of [draft] ASRS 101 proposed in ED SR1 provides an explanation of the reasons why a service standard was needed.

Question for Board members

Q4: Do Board members agree with the staff recommendation to specify the relevant version of the documents noted in paragraph 15 within AASB S2 and not to issue a service Standard?

Next steps

- 21 The Board is scheduled to meet again on 30 August 2024. At that meeting, staff expect to present the following documents to the Board:
- (a) revised draft Standards based on the Board's decisions on 26 August 2024, for the Board's consideration, subject to any amendments necessary from the Board's review of the final version of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*; and
 - (b) a document outlining due process considerations.