



Project:	Climate-related Financial Disclosures	Meeting:	19 and 22 July 2024 (M206)
Topic:	Application of the AASB Sustainability Reporting Standard-Setting Framework (GMC 30)	Agenda Item:	4.3.1
		Date:	12 July 2024
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objective of this paper

- The objectives of this paper are for the AASB to:
 - consider feedback from stakeholders on whether the [AASB Sustainability Reporting Standard-Setting Framework](#) (September 2023) has been applied appropriately in developing the proposals in ED SR1 (GMC 30); and
 - decide on any further work that might be needed in respect of GMC 30 before finalising ASRS 1 and ASRS 2.

Background

- In September 2023, the Board developed the [AASB Sustainability Reporting Standard-Setting Framework](#) (the Framework) to set out the principles it would apply to determine the content of Australian Sustainability Reporting Standards (ASRS Standards) and related guidance. The AASB adopted as an assumption underpinning the Framework that IFRS Sustainability Disclosure Standards (and guidance) issued by the ISSB present a suitable foundation for developing Australian Sustainability Reporting Standards. The framework sets out how the AASB would use IFRS Sustainability Disclosure Standards (and guidance) to develop, issue and maintain ASRS Standards that are, as far as practicable, sector neutral.
- Paragraph 4 of the Framework notes that the AASB may consider the need for separate sustainability reporting standard-setting frameworks for for-profit entities and not-for-profit entities in the future.
- Paragraph 10 of the Framework specifies that “International alignment is prioritised in this Framework, with amendments to the baseline of IFRS Sustainability Disclosure Standards made only where it is necessary to do so to meet the needs of Australian stakeholders”. Paragraph 20 of the Framework outlines justifiable circumstances in which the AASB contemplates modification to the requirements in an IFRS Sustainability Disclosure Standard might be warranted, which are:

- (a) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice warranting Australian-specific requirements or guidance;
- (b) requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers;
- (c) requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or else will conflict with global sustainability reporting practices;
- (d) the AASB identifies equivalent or corresponding disclosure requirements in Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards and would result in duplicate disclosure or reporting for Australian entities. In making this assessment, the AASB would consider relevant Australian legislation such as the National Greenhouse and Energy Reporting Act 2007; and/or
- (e) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs or require additional time when compared with international counterparts, warranting deferral of the application date.

5 In the Basis of Conclusions of ED SR1, paragraph BC 13, the Board noted that “...despite the modifications made to the baseline of IFRS S2, [draft] Australian Sustainability Reporting Standards (ASRS Standards) predominantly align with IFRS Sustainability Disclosure Standards. Excluding industry-based metrics disclosure, the AASB anticipated that the outcomes from applying the [draft] ASRS Standards would be the same as if an Australian entity were to apply IFRS S2. However, [draft] ASRS Standards provide additional clarity and guidance on how the requirements apply within the context of the Australian legislative and regulatory environment.”

Summary of Stakeholder Feedback and Analysis

- 6 GMC 30 of ED SR1 asked stakeholders: “Has the AASB Sustainability Reporting Standard-Setting Framework (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?”
- 7 Of the 117 comment letters and 289 survey responses received, 26 and 12 stakeholders, respectively, provided a specific response to GMC 30. The following table provides an overview of the responses received on GMC 30 (rounded to the nearest %).

	Yes, the Framework has been applied appropriately	Some parts of the Framework have not been applied appropriately	No, the Framework has not been applied appropriately	Cannot form a view at present
Out of the 26 comment letters that commented on GMC 30 ¹	36%	20%	40%	4%
Out of the 12 survey responses that commented on GMC 30 ²	89%	-	11%	-

1 An overview of stakeholder feedback expressed in the comment letters is presented in Agenda Paper 4.3.6 for the Board’s reference. Staff applied judgement to categorise the overall comments expressed in the letters. Regardless of how staff categorised the feedback, the reasons provided by the respondents for supporting their position were considered as a part of the staff analysis.

2 The survey responses have been provided separately for the Board’s reference.

- 8 The question elicited a range of responses as there are multiple elements in the Framework that stakeholders considered.
- 9 The majority of comment letters and surveys that responded affirmatively to the question were not accompanied by any explanation of their rationale.
- 10 The two main areas of concern expressed in comment letters that did not agree that the Framework had been appropriately applied were:
- (a) The perceived lack of alignment to the IFRS Sustainability Disclosure Standards in ED SR1 compared to the statement in paragraph 10 of the Framework that “International alignment is prioritised in this Framework, with amendments to the baseline of IFRS Sustainability Disclosure Standards made only where it is necessary to do so to meet the needs of Australian stakeholders”. Staff have also included in this category concerns regarding perceived lack of adequate rationale for departures from the baseline of IFRS S1 and IFRS S2.
 - (b) Concerns regarding the approach taken to develop sector-neutral Australian Sustainability Reporting Standards specifically arising from two sectors: public sector entities, and asset management entities (managed investment schemes and superannuation funds).
- 11 The split of feedback regarding these issues is shown below (rounded to nearest %):

	Perceived lack of international alignment	Concerns regarding sector neutrality	Other matters
Comment letters that did not agree with GMC 30	43%	48%	9%

- 12 Other matters raised in responses to GMC 30 not discussed in detail in this paper included consideration as to whether a separate sustainability focused standard-setting board should be established, and queries as to the relevance of disclosures required by [draft] ASRS (also considered in Agenda Paper 4.3.4 about GMC 33).
- 13 Additionally, some of the feedback to GMC 30 reflected cost-benefit concerns. For ease of analysis, staff have considered cost-benefit aspects of responses to GMC 30 as part of the analysis of feedback received for GMC 35 (discussed in Agenda Paper 4.3.5).

Stakeholders’ concerns and staff analysis

International alignment

- 14 Multiple comment letters raised specific concerns in relation to the perceived lack of alignment with IFRS S1 and IFRS S2 on the proposed disclosure requirements covered by SMCs.³ A number of comment letters that specifically responded to GMC 30 also made reference to their comments on the SMCs in this regard.⁴
- 15 Additionally, several stakeholders specifically commented that they did not agree with how paragraph 20 of the Framework (described in paragraph 4 above) had been applied to justify departing from, amending or adding to requirements in IFRS S1 and IFRS S2, or indicated

³ Comment letters 7, 12, 21, 37, 40, 55, 65, 82, 86, and 103.

⁴ Comment letters 12, 26, 37, 55

that they did not agree with the justification presented in the Basis of Conclusions to ED SR1.⁵

- 16 Specific areas that were relevant to the perceived lack of international alignment mentioned in stakeholder responses to GMC 30 included:
- (a) measurement of greenhouse gas emissions and related disclosures, primarily addressed in SMCs 14-20;
 - (b) the scope of ED SR1 being narrowed to climate-related risks and opportunities, as opposed to the broader sustainability-related risks and opportunities in IFRS S1, addressed in SMC 1; and
 - (c) concerns regarding changes to industry-based disclosures, addressed in SMCs 4-6.

Staff observations

- 17 When discussing stakeholder feedback on [draft] ASRS 2 at its June 2024 meetings (M204 and M205), including discussing the topic noted in point (a) of paragraph 16, the Board considered whether the feedback on a topic indicates a justifiable circumstance noted in paragraph 20 of the Framework to warrant modifying the requirements in IFRS S2.⁶ As a result of that consideration, the Board decided that no modifications to the baseline of IFRS S2 were warranted on the ASRS 2 topics discussed at those meetings.
- 18 At its 6–7 June 2024 meeting (M204), the Board was informed about the stakeholder feedback in relation to point (b) of paragraph 16 and noted it does not currently have the authority to issue a mandatory standard in relation to broader sustainability-related risks and opportunities outside of climate. Therefore, the Board decided to prepare ASRS 1 that would have the same scope as IFRS S1 to cover sustainability-related financial disclosures, but to issue it as a non-mandatory Standard. The Board considered that this approach would address stakeholder concerns relating to the scope of ASRS 1 and facilitate Australian entities to voluntarily report on broader sustainability-related risks and opportunities outside of climate.
- 19 In relation to point (c) of paragraph 16, IFRS S2 paragraphs 28(b) and 32 require an entity to disclose industry-based metrics and refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the *Industry-based Guidance on Implementing IFRS S2*. As noted in paragraph BC40 of ED SR1, the Board decided not to incorporate the requirements to disclose industry-based metrics until it has undergone its own due process in determining the appropriateness of ISSB's *Industry-based Guidance on Implementing IFRS S2* for Australian entities. Staff observed that the ISSB is currently undertaking work to consider an approach to enhancing the SASB Standards. Staff present the related stakeholder feedback received on SMC 4 in Agenda Paper 4.1.4 for the Board's consideration.
- 20 The Board noted an entity that wishes to make additional, voluntary industry-based disclosures would be able to do so. Staff observed that not incorporating requirements to disclose industry-based metrics in ASRS 2 until the AASB has undergone its own due process is consistent with paragraph 18 of the [AASB Due Process Framework for Setting Australian Sustainability Reporting Standards](#).

⁵ Comment letters 37, 40, 55, 65, and 86

⁶ The agenda papers for those meetings included an explanation of whether stakeholder feedback on the topic represents a justifiable circumstance noted in paragraph 20 of the Framework.

Sector Neutrality

- 21 Multiple stakeholders responded to GMC 30 around concerns of how the transaction neutrality approach outlined in the Framework had been implemented. The two major groups to which this was relevant was:
- (a) superannuation entities; and
 - (b) public sector entities.
- 22 Other sectors include managed investment schemes and the NFP sector.
- 23 In relation to sectoral considerations for managed investment schemes, the feedback was concerned with the usefulness of the information to users of financial reports, and therefore staff have analysed these comments as part of GMC 33.
- 24 The majority of NFP-specific feedback was received in response to GMC 35 around cost-benefit considerations rather than transaction neutrality. Therefore NFP sector neutrality considerations are not discussed further in this paper.

Superannuation sector concerns

- 25 Stakeholders with concerns regarding superannuation sector applicability echoed feedback that stakeholders provided in their responses to SMC 21, which asked stakeholders if there were circumstances specific to superannuation entities that would cause challenges for superannuation entities to comply with the proposed requirements.⁷
- 26 Staff consider that the concerns raised by the comment letters have been considered by the Board as part of its discussion on the feedback received on SMC 21 (see [Agenda Paper 4.4](#) for the 26 June 2024 AASB meeting).

Public sector concerns

- 27 Stakeholders highlighted concerns regarding the applicability of [draft] ASRS 1 and [draft] ASRS 2 to public sector entities, including concerns regarding:
- (a) the appropriate identification of the reporting entity, and subsequent level of reporting (whole-of-state, whole-of-government, or individual agencies);
 - (b) the uncertain timeline of IPSASB's current project to develop a public-sector-specific Climate-Related Disclosure standard;
 - (c) the lack of practical guidance to apply concepts such as materiality and value chain identification to a government agency or department;
 - (d) uncertainty regarding the cost-benefit assessment of the required disclosures, especially at the local government level; and
 - (e) government/State owned corporations incorporated under the Corporations Act that will be within the scope of the proposed legislation.
- 28 Stakeholder comments relating to those public sector matters are discussed in Agenda Paper 4.2.4 covering SMCs 28–29.

⁷ Comment letters 18, 54, 77, 81, and 96.

Staff conclusion

- 29 Based on the feedback received on GMC 30, staff consider that the Board has applied the [AASB Sustainability Reporting Standard-Setting Framework](#) appropriately in analysing stakeholder feedback received on ED SR1 and in deciding the contents to be incorporated in ASRS 1 and ASRS 2.
- 30 Accordingly, subject to the Board's decisions in other agenda papers for this meeting, staff consider that no further standard-setting work would be needed before finalising ASRS 1 and ASRS 2, provided the Board does not substantively change or extend what was proposed in ED SR1.

Question for Board members

Q1: Do Board members agree with the staff conclusion that no further standard-setting work would be needed before finalising ASRS 1 and ASRS 2, subject to decisions the Board might make on other issues that may substantively change or extend what was proposed in ED SR1? If not, what other work do Board members consider necessary?