



Project:	Climate-related Financial Disclosures	Meeting:	M209, September 2024
Topic:	Legislation – Consideration of recent changes and related matters	Agenda Item:	3.1
		Date:	13 September 2024
Contact(s):	Lachlan McDonald-Kerr lmcdonald-kerr@asb.gov.au Charis Halliday challiday@asb.gov.au Clark Anstis canstis@asb.gov.au Angus Thomson athomson@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Finalising ASRS Standards

Objective

- The purpose of this paper is to:
 - consider recent changes agreed by the Senate and the House of Representatives to the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (the Bill) affecting climate-related disclosure requirements; and
 - consider any inconsistencies identified by staff between the Bill and the forthcoming mandatory Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures* that need to be addressed by the Board.

Executive Summary

- Staff have not identified any inconsistencies between the Bill and ballot version of AASB S2 that warrant further action by the Board before finalising the Standard.

Structure

- This paper is structured as follows:
 - [Section One](#): Background
 - [Section Two](#): Analysis of Parliamentary Amendments

Section One: Background

- In developing AASB S2, the AASB has relied on the due process employed to identify any potential inconsistencies between the proposed Standard and legislation. This approach is consistent with the AASB's approach to setting Accounting Standards. Only one such issue has been identified in respect of ED SR1, which the Board addressed at its August meeting. This inconsistency between the Bill (as it was prior to the Parliament's amendments) and AASB S2 was identified by the Australian Securities and Investments Commission (ASIC).
- Subsection 292A(2) of the Bill provides an option for a parent entity required by the accounting standards to prepare consolidated financial statements to prepare either:

- (a) a consolidated sustainability report; or
 - (b) a separate sustainability report for the parent.
- 6 Given that the Bill provides a parent entity the choice of preparing a consolidated or separate sustainability report, staff considered that the requirements set out in IFRS S1 paragraphs 20 and B38 appeared inconsistent with subsection 292A(2) of the Bill. To ensure that AASB S2 is not inconsistent with the Bill, staff recommended modifying the requirements set out in those IFRS S1 paragraphs when incorporating them in AASB S2 Appendix D.
- 7 Accordingly, the Board decided to remove this inconsistency by amending in Appendix D of AASB S2 the wording from IFRS S1/AASB S1 paragraph 20 as follows (emphasis added):

Aus20.1 An entity’s climate-related financial disclosures shall be for the same reporting entity as the related financial statements, **unless otherwise permitted by law** (see paragraph AusB38.1).

- 8 The Board also decided to amend paragraph B38 in Appendix D of AASB S2 as follows (emphasis added):

AusB38.1 **Unless otherwise permitted by law**, paragraph Aus20.1 requires that climate-related financial disclosures shall be for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with Australian Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity’s climate-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the climate-related risks and opportunities on the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries.

- 9 Aside from the above-described issue, the AASB staff has not identified or been made aware of any other areas of inconsistency between the Bill (prior to the Parliament’s amendments) and AASB S2.

Section Two: Analysis of Parliamentary Amendments

- 10 During the last sitting week in August, the Bill passed the Senate with seven amendments, which are summarised in the table below. The amended Bill was then passed by the House of Representatives on 9 September 2024. Other than Item 4 in the following table, the changes are not directly relevant to climate-related disclosure and are predominately editorial in nature.

Item	Change	Staff conclusions
1	Schedule 2, page 109 (after line 11), after item 1, insert: 1A Subsection 821A(2) Omit “paragraph (1)(aa), (a), (c), (d), (e), (f), (g) or (h)”, substitute “a paragraph of subsection (1) other than paragraph (b)”.	Relates to Australian clearing and settlement facility licenses, not climate-related disclosure.
2	Schedule 2, Part 4, page 122 (lines 1 to 14), omit the Part.	Relates to Ministerial power to approve increases in voting power in ASX Limited, not climate-related disclosure.
3	Schedule 2, item 127, page 194 (lines 24 to 26), omit the item.	Relates to the regulation of Australian clearing and settlement facility licensees, not climate-related disclosure.

Item	Change	Staff conclusions
4	<p>Schedule 4, item 26, page 259 (after line 21), after subsection 296D(2), insert:</p> <p>(2A) Subsection (2B) applies if sustainability standards made for the purposes of subsection (1) require the disclosure of:</p> <p>(a) a scenario analysis (within the meaning given by sustainability standards made for the purposes of this paragraph); or</p> <p>(b) information derived from a scenario analysis; or</p> <p>(c) information about a scenario analysis.</p> <p>(2B) For the purposes of subsection (1), a disclosure of a scenario analysis, information derived from a scenario analysis or information about a scenario analysis is taken not to satisfy that requirement unless the scenario analysis is carried out using at least both of the following scenarios:</p> <p>(a) the increase in the global average temperature well exceeds the increase mentioned in subparagraph 3(a)(i) of the <i>Climate Change Act 2022</i>;</p> <p>(b) the increase in the global average temperature is limited to the increase mentioned in subparagraph 3(a)(ii) of that Act.</p>	<p>AASB S2 includes requirements relating to scenario analysis and, therefore, the 'new' subsection 296D(2B) would be relevant.</p> <p>Consistent with the IFRS S2 baseline, AASB S2 does not prescribe specific temperature outcomes. Rather it requires entities to determine scenarios commensurate with its circumstances. Accordingly, there appears to be no inconsistency with the new subsections.</p>
5	<p>Schedule 5, page 288 (after line 18), after item 6, insert:</p> <p>6A Paragraphs 850B(1)(b) and (c)</p> <p>Omit "Australian Stock Exchange Limited" (wherever occurring), substitute "ASX Limited".</p> <p>6B Subsection 851A(1)</p> <p>Omit "Australian Stock Exchange Limited" (wherever occurring), substitute "ASX Limited".</p>	<p>Relates to limits on involvement with licenses, not climate-related disclosure.</p>
6	<p>Schedule 5, item 8, page 288 (lines 23 and 24), omit "Australian Stock Exchange Limited" (wherever occurring), substitute "ASX Limited".</p>	<p>Relates to the Minister nominating the Securities Exchanges Guarantee Corporation, not climate-related disclosure.</p>
7	<p>Schedule 5, item 8, page 289 (line 5), omit "Australian Stock Exchange Limited" (wherever occurring), substitute "ASX Limited".</p>	<p>Relates to the definition of a securities exchange under the <i>Insurance Act 1973</i>, not climate-related disclosure.</p>

Scenario analysis

- 11 With the Parliament's amendments, Section 296D would read as follows (new text is underlined):

296D Climate statement disclosures

- (1) The climate statements for a financial year, and the notes to the climate statements, must together disclose all of the following:
 - (a) any:
 - (i) material financial risks there are for the entity; or
 - (ii) material financial opportunities relating to climate there are for the entity; that are required to be disclosed by sustainability standards made for the purposes of this paragraph;
 - (b) any metrics and targets of the entity relating to climate that are required to be disclosed by sustainability standards made for the purposes of this paragraph, including metrics and targets relating to:
 - (i) scope 1 greenhouse gas emissions; or
 - (ii) scope 2 greenhouse gas emissions; or
 - (iii) scope 3 greenhouse gas emissions (including financed emissions);
 - (c) any information that:
 - (i) is about governance of, strategy of, or risk-management by, the entity in relation to the risks, opportunities, metrics and targets mentioned in paragraphs (a) and (b); and
 - (ii) is required to be disclosed by sustainability standards made for the purposes of this paragraph.
- (2) For the purposes of this section, the question of whether there are any of the following for an entity is to be worked out in accordance with sustainability standards made for the purposes of this subsection:
 - (a) a material financial risk relating to climate;
 - (b) a material financial opportunity relating to climate.
- (2A) Subsection (2B) applies if sustainability standards made for the purposes of subsection (1) require the disclosure of:
 - (a) a scenario analysis (within the meaning given by sustainability standards made for the purposes of this paragraph); or
 - (b) information derived from a scenario analysis; or
 - (c) information about a scenario analysis.
- (2B) For the purposes of subsection (1), a disclosure of a scenario analysis, information derived from a scenario analysis or information about a scenario analysis is taken not to satisfy that requirement unless the scenario analysis is carried out using at least both of the following scenarios:
 - (a) the increase in the global average temperature well exceeds the increase mentioned in subparagraph 3(a)(i) of the *Climate Change Act 2022*;
 - (b) the increase in the global average temperature is limited to the increase mentioned in subparagraph 3(a)(ii) of that Act.
- (3) This section does not apply if subsection 296B(1) applies for the financial year.

- 12 As noted in Table 1, there are AASB S2 requirements that refer to climate-related scenario analysis in several contexts, including climate resilience (paragraph 22), risk management (paragraph 25) and metrics and targets (paragraph 29). However, consistent with the IFRS Sustainability Disclosure Standards baseline, the AASB has not prescribed specific temperature outcomes for scenario analysis. Rather, it requires entities to determine scenarios commensurate with its circumstances. Consequently, there appears to be no inconsistency with the new subsections that provide requirements under which the relevant temperature outcomes for scenario analysis would need to be determined by an entity preparing its sustainability reports with reference to the Corporations Act requirements.
- 13 Staff note that at its August meeting, the Board decided it would be appropriate to refer in the AASB S2 Basis for Conclusions to amendments to the Bill that prescribed minimum

requirements related to climate scenario analysis. Staff note that this appears in paragraphs BC60-BC64 of the AASB S2 Basis for Conclusions.

- 14 As described above, staff consider that, based on the steps taken in developing AASB S2, no inconsistencies between the Bill and the proposed mandatory AASB S2 have been identified and need to be addressed by the Board (other than the 'reporting issue' already addressed by the Board in August).

Questions for Board members

- Q1** Do Board members agree with the staff view that no further action is needed by the Board with respect to interactions between the Standard and the Bill before finalising AASB S2?