Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related financial disclosures**	**Meeting:**	19 and 22 July 2024 (M206)
Topic:	**Scalability of disclosures for NFP entities (SMCs 26–27)**	**Agenda Item:**	4.2.3
		Date:	12 July 2024
Contact(s):	Patricia Au pau@aasb.gov.au Charis Halliday challiday@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Consider ED Feedback

Objective of this paper

1 This paper follows Agenda Paper 4.2.2 relating to SMC 25. The objectives of this paper are for the AASB to:

(a) consider feedback from stakeholders on whether the proportionality relief paragraphs discussed in Agenda Paper 4.2.2 would be sufficient to address the cost-benefit and scalability concerns for NFP entities preparing climate-related financial disclosures (SMCs 26–27); and

(b) decide on any changes to be made to [draft] ASRS 2 or further standard-setting action required in response to feedback received.

Background

2 In the Basis of Conclusions to IFRS S1, paragraphs BC8–BC 9, explain that the ISSB introduced a range of mechanisms to respond to “proportionality” challenges, designed to ease the burden of disclosure and assist entities in applying IFRS Sustainability Disclosure Standards. These are hereafter referred to as “proportionality mechanisms”.

3 In ED SR1, the Board retained the proportionality mechanisms of IFRS S1. Additionally, as discussed in Agenda Paper 4.2.2, the Board added [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1 (referred to as the “proportionality relief paragraphs” for the purposes of this paper).

4 The table from BC9 of IFRS S1 summarising the full proportionality mechanisms introduced by the ISSB is shown below:

Areas	Mechanisms to address proportionality challenges			Additional clarifications/mechanisms to facilitate application	
	Concept of "reasonable and supportable information without undue cost or effort"	Consideration of skills, capabilities and resources	Transition relief	Concept of "unable to do so"	Guidance, educational material and other efforts to facilitate application
Identification of risks and opportunities	X				X
Current financial effects				X	X
Anticipated financial impacts	X	X		X	X
Determination of the scope of the value chain	X				X
Other areas			X		X

Overview of stakeholder feedback

5 SMC 26 asked stakeholders:

"Do you agree with the AASB's view noted in paragraphs BC31–BC33 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view."

6 SMC 27 asked stakeholders:

"If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related financial disclosure requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful."

7 Of the 117 comment letters and 289 survey responses received,16 and 50 stakeholders, respectively, provided responses to SMC 26 and SMC 27. A summary of the responses received to SMC 26 and SMC 27 (rounded to the nearest %) is shown below:

	Agree	Partially agree	Disagree
Out of the 16 comment letters that commented on SMCs 26 and 27[1]	38%	31%	31%
Out of the 50 survey responses that commented on SMCs 26 and 27[2]	58%	18%	24%

1 An overview of stakeholder feedback expressed in the comment letters is presented in Agenda Paper 4.2.5 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 Staff observed that although many stakeholders stated agreement with SMC 26, their comments indicated partial agreement or disagreement with SMC 26.

Summary of stakeholder concerns

9 Stakeholders' main concerns can broadly be summarised into two issues, as described below.

Issue 1: The proportionality mechanisms in the baseline of IFRS S2 are insufficient to address scalability and cost-benefit concerns for smaller entities

10 A large number of stakeholders who commented on SMCs 26–27 raised concerns regarding the ability of less-resourced NFP entities to apply the requirements of [draft] ASRS 1 and [draft] ASRS 2. Similar feedback was received in relation to GMC 35 regarding the costs and benefits of ED SR1 (see Agenda Paper 4.3.5). They consider that the proportionality mechanisms in the baseline of IFRS S2 are insufficient to address scalability and cost-benefit concerns for NFP entities, particularly smaller NFP entities.

11 Some examples of the feedback received are as follows:

(a) "Whilst acknowledged that certain efforts have been made to achieve sector neutrality, the draft ASRS cannot be pragmatically applied by the NFP sector without a significant level of judgement being exercised and the need for specialist expertise in the subject area of climate and sustainability matters. Significant consulting costs will be incurred by the NFP sector unless there is more practical relief provided (e.g. for example scenario analysis and scope 3 reporting)."[3]

(b) "Despite our support, we remain concerned that, in practice, not-for-profit entities will still bear a significant cost impost and be forced to incur additional consulting costs in the areas of climate scenario analysis and Scope 3 emissions reporting. The quantum of judgement required to apply the high-level practical expedients is significant. It is our view that the not-for-profit and public sector will incur the burden of actually determining in practice how to apply these practical expedients."[4]

(c) "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. This clarification does not reduce the compliance burden as 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."[5]

(d) "Individuals working in and for NFP entities have expressed concern about the potential struggles they foresee in relation to the proposals. Many have expressed concern that NFPs will not have the resources to engage consultants to assist with their preparation for disclosures and the process will fall back onto existing staff, who do not have the knowledge required."[6]

---

3 Survey respondent 30
4 Comment letter 9
5 Comment letter 82
6 Comment letter 65

(e) “We respectfully request that the AASB truly considers the scope and applicability of the proposed disclosure requirements, particularly for not-for-profit public sector entities. We advocate for a more flexible and pragmatic approach that takes into account the diverse capabilities and priorities of the local government sector and the users of such disclosures. This is a very onerous reporting regime for smaller non listed businesses, particularly for Group 2 and 3... that would put small business at a disadvantage to larger competitors with more resources.”[7]

(f) “Complexity is an enormous barrier to reporting...I want you to succeed but please make things easier for business to do the right thing. Unnecessary complexity or requirements place unnecessary burden on business/NFP's.”[8]

Issue 2: Lack of capability and the cost required to prepare climate-related disclosures

12 Many stakeholders consistently highlighted concerns that they considered the level of the education and upskilling required by preparers in order to implement the [draft] ASRS, including involving external consultants or specialists, would be expensive, require significant time and investment, and be potentially cost-prohibitive for smaller unlisted entities.[9] Two specific disclosure areas of concern commonly identified were Scope 3 emissions[10] and climate-related scenario analysis.[11]

Stakeholders' suggestions

13 Multiple stakeholders requested the AASB to consider:

(a) deferring the application date of ASRS 2 for NFP entities, and for the AASB to consider modifications that would enable the ISSB Standards to be adopted by the NFP sector, until such time that there is a foundational level of knowledge, understanding and implementation experience by FP entities;[12]

(b) in relation to Scope 3 emissions:

(i) making the disclosure of Scope 3 emissions voluntary;

(ii) removing Scope 3 emissions from the disclosure requirements for smaller entities and/or NFP entities; or

(iii) extending transition relief for Scope 3 emissions disclosure for a longer period;

(c) in relation to climate-related scenario analysis:

(i) providing clear and simple scenario guidance for NFP entities; or

(ii) removing climate-related scenario analysis as a requirement for smaller entities and/or NFP entities; and

(d) developing a tiered sustainability reporting framework similar to the existing multiple tiers of financial reporting.[13] Stakeholders noted that overseas jurisdictions such as the

---

7 Survey respondent 279
8 Survey respondent 214
9 Comment letters: 9, 12, 13, 19, 21, 25, 26, 28, 37, 38, 39, 41, 44, 47, 52, 53, 55, 60, 64, 65, 85, 86, 91, 92, 93, 95, 101, 106, 107, and 115. Survey respondents: 9, 14, 21, 23, 28, 30, 52, 53, 100, 115, 116, 128, 172, 214, and 279.
10 Comment letters: 9, 13, 21, 25, 37, 39, 44, 47, 67, 72, 80, 85, 93, 95, 107. Survey respondents: 21, 30, and 116.
11 Comment letters: 9, 19, 26, 39, 44, 107. Survey respondents: 9, 30, and 217.
12 For example, comment letter 21
13 Comment letters: 9, 44, 65, and 86 and Survey respondents: 21, 30, and 279.

European Union and Malaysia are pursuing an approach of simplified reporting standards for SME entities.

Staff observations and recommendations

14 In respect to the stakeholder suggestion on a deferral of reporting requirements for NFP entities, the obligation on NFP entities meeting certain size thresholds to prepare a sustainability report in accordance with the ASRS is a proposed legislative requirement in the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*. Moreover, the draft legislation is not expected to apply to entities registered with the ACNC, even if the large NFP entity is registered under the NGER Scheme. Consequently, the NFP entities that are required by legislation to prepare a sustainability report in accordance with ASRS Standards will be of a significant size and often acting in a market alongside FP entities.

15 Staff observe the current wording in clause s296D *Climate statement disclosures* of the Bill (24 June 2024) specifies the following elements for disclosure:

(a) any material financial risks there are for the entity; or material financial opportunities relating to climate there are for the entity;

(b) any metrics and targets of the entity, including Scope 1, 2 and 3 of GHG emissions (including financed emissions); and

(c) any information about governance of, strategy of, or risk management in relation to the risks, opportunities and metrics and targets in subparagraphs (a) and (b) above.

16 In relation to the significant volume of feedback expressing concerns about the cost-benefit of disclosing Scope 3 GHG emissions, staff observe that because reporting on Scope 3 GHG emissions is a specific legislative requirement for disclosure, entities within the scope of the legislation would need to report on Scope 3 GHG emissions even if the AASB decides to remove Scope 3 disclosure requirements from ASRS 2.

17 In relation to the feedback expressing concerns about the cost-benefit of climate-related scenario analysis, staff observed that the Commonwealth Government tabled proposed amendments to the Bill for Senate discussion. The proposed amendments include proposing to require an entity to undertake scenario analysis to assess a low-warming and a high-warming temperature outcome, and to disclose information about the scenario analyses undertaken (see Clause 4 of the proposed amendments).[14]

18 Accordingly, to avoid developing a Standard that might contradict the legislation, staff consider that it would be inappropriate for ASRS 2 to permit entities that would be within the scope of the legislation to:

(a) apply ASRS 2 later than the mandatory application date specified in the legislation;

(b) report on Scope 3 GHG emissions or undertake climate scenario analysis later than the application date specified in the legislation; or

(c) not report on Scope 3 GHG emissions at all or not undertake climate scenario analysis.

---

14 The Board considered the Commonwealth Government's proposed amendments relating to client scenario analysis at its 26 June 2024 meeting.

Staff recommendation

19 To address stakeholders' feedback that the proportionality mechanisms in IFRS S2 are insufficient to address scalability and cost-benefit concerns for NFP entities (and smaller entities, as expressed in GMC 35), staff consider there is merit in undertaking a project, subsequent to finalising ASRS 2,[15] to consider whether there are feasible approaches (and what those approaches would look like) for addressing scalability and cost-benefit concerns. This may include, but not limited to:

(a) targeted standard-setting to address scalability and cost-benefit concerns specific to certain sectors;

(b) developing practical guidance that would assist NFP entities and smaller entities apply the concepts of "reasonable and supportable information without undue cost or effort" and "consideration of skills, capabilities and resources" in IFRS S2, especially in how these concepts apply when determining the level of reporting required in respect of Scope 3 GHG emissions and climate resilience disclosures;[16] and/or

(c) developing a tiered sustainability reporting structure that explores a simplified disclosure/reporting regime for certain entities (that would not contradict the reporting and disclosure requirements set out in the legislation).

Question for Board members

Q1: Do Board members agree with undertaking a project to address scalability and cost-benefit concerns subsequent to finalising ASRS 1 and ASRS 2?

15 Consistent with the Board's decision at its August 2023 meeting to defer work on developing guidance until after the ASRS Standards have been issued.

16 Staff observed that the FAQs on the IFRS Foundation's Knowledge Hub website already provide explanations on what is meant by "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort" and "use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures."