



<b>Project:</b>	<b>Climate-related Financial Disclosure</b>	<b>Meeting:</b>	19 and 22 July 2024 (M206)
<b>Topic:</b>	<b>Index table (SMC 7)</b>	<b>Agenda Item:</b>	4.1.6
		<b>Date:</b>	12 July 2024
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider ED feedback

## Objective

- 1 The purpose of this paper is to:
  - (a) summarise the stakeholder feedback received on SMC 7 in ED SR1; and
  - (b) decide whether the Board should proceed with the proposal described in SMC 7 for the purpose of finalising the ASRS Standards.<sup>1</sup>

## Summary of staff recommendations

- 2 Staff recommend the Board **revert** to the IFRS Sustainability Disclosure Standards baseline when finalising the ASRS Standards by omitting the Aus paragraphs proposed as part of SMC 7 in ED SR1.
- 3 Staff consider that existing IFRS S1 baseline requirements permit flexibility and the use of judgement and are consistent with the stakeholder rationale for supporting the proposal and the concerns of stakeholders who disagreed with the proposal.

## Structure

- 4 This paper is structured as follows:
  - (a) [Section One](#): Background
  - (b) [Section Two](#): Stakeholder feedback summary
  - (c) [Section Three](#): Staff analysis and recommendations

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<sup>1</sup> As explained in the Cover Memo accompanying this staff paper, the staff recommendations in this paper are made in the context of the body of ASRS 2 or the proposed Australian-specific appendix (or equivalently-named item) to ASRS 2 only. They are not related to a non-mandatory ('voluntary') equivalent of IFRS S1 that would cover sustainability-related financial disclosures.

(d) [Appendix A](#): Extracts from IFRS S1

## Section One: Background

- 5 Paragraph 21 of IFRS S1 requires an entity to provide information in a manner that enables users of GPFR to understand *connections* between sustainability-related risks and opportunities that could affect the entity's prospects, including connections between sustainability-related risks and opportunities, sustainability-related financial information, and disclosures in other GPFR published by an entity.
- 6 Paragraphs 60-63 of IFRS S1 describe requirements concerning the location of sustainability-related disclosures. These require sustainability-related disclosures to be provided as part of the entity's GPFR. However, it is recognised that these disclosures may appear in different locations throughout the entity's GPFR, subject to certain requirements (including jurisdictional requirements).
- 7 [Appendix A](#) reproduces the paragraphs from IFRS S1 referenced above to assist the Board when considering this staff paper.
- 8 Stakeholder feedback received on the Treasury's [Climate-related Financial Disclosure: Consultation Paper](#) (June 2023) indicated that a detailed index table would help provide users with useful information. While the IFRS Sustainability Disclosures Standards do not require such a disclosure, the AASB agreed that a detailed index table would be beneficial for providing users with useful information. The AASB nevertheless held concerns that the cost and effort required to produce a detailed index table may be onerous on preparers and that no equivalent requirement existed in Australian Accounting Standards or IFRS Sustainability Disclosure Standards.
- 9 Ultimately, the AASB concluded that for at least some entities, the costs of producing a detailed index table would not necessarily outweigh the benefits of such a table. Therefore, instead, the AASB added Aus60.1 to [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information that enables users to locate its climate-related financial disclosures. Paragraph Aus60.1 from [draft] ASRS 1 has been reproduced below:

Aus60.1 Further to paragraph 60, an entity shall provide information in a manner that enables users of general purpose financial reports to locate its disclosures prepared in accordance with applicable Australian Sustainability Reporting Standards.
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## Section Two: Stakeholder feedback summary

- 10 SMC 7 of ED SR1 asked stakeholders the following question:

Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 to [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures.
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Do you agree with that proposed requirement? Please provide reasons to support your view.
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- 11 A summary of the quantitative and qualitative feedback for this SMC is presented in the following two sections of this paper.

### Quantitative feedback summary

- 12 The AASB received a total of 117 comment letters and 289 survey responses for ED SR1. Of these, 54 comment letters and 80 survey respondents clearly expressed a view on SMC 7.

13 The following table summarises the responses received on SMC 7 (rounded to the nearest %).

	Agree	Partially agree	Disagree
Out of the 54 comment letters that expressed a clear view on SMC 7 <sup>2</sup>	65%	7%	28%
Out of the 80 survey responses that commented on SMC 7 <sup>3</sup>	73%	11%	26%

14 Quantitative data presented above shows that while some respondents disagreed with the AASB’s proposal concerning SMC 7, many respondents supported it.

**Qualitative feedback summary<sup>4</sup>**

15 Many respondents agreed with the AASB’s proposal to require entities to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures rather than specifying that a detailed index table be included.

16 Respondents were supportive of this proposal because:

- (a) it is a less prescriptive approach and permits the use of professional judgement in the entity’s specific circumstances, which is consistent with principles-based standards;<sup>5</sup>
- (b) the potential costs of producing the table were considered high and may outweigh the benefits for users;<sup>6</sup>
- (c) the detailed index table could be lengthy and span multiple pages;<sup>7</sup>
- (d) it helps to facilitate connected information and integration with other relevant disclosures—that is, climate-related financial disclosures may be presented in multiple sections within an entity’s GPFR;<sup>8</sup> and
- (e) there is no equivalent requirement in Australian Accounting Standards.<sup>9</sup>

17 A few respondents partially agreed with the proposed amendment but suggested that a high-level index or high-level summary could offer a middle-ground approach to balancing costs and benefits.<sup>10</sup>

18 Some respondents disagreed with the AASB’s proposal to require entities to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures

<sup>2</sup> Some respondents did not clearly express their agreement, partial agreement or disagreement with a proposal in their comment letters. Accordingly, staff applied judgement in categorising the overall comments expressed in the comment letters. An overview of stakeholder feedback expressed in the comment letters is presented as Agenda Paper 4.1.8 for the Board’s reference.

<sup>3</sup> The survey responses have been provided separately for the Board’s reference.

<sup>4</sup> The cover memo explains that SMC 7 was not specifically discussed in the roundtable outreach sessions. However, participants were given the opportunity to share their comments on other aspects of ED SR1 during these sessions where time allowed. Participants did not provide feedback on a detailed index table in such instances.

<sup>5</sup> For example, refer to comment letters 1, 7, 11, 18, 44, 51, 53, 54, 62, 64, 65, 69, 81, 95, 97, and survey respondents S19, S25, S31.

<sup>6</sup> For example, refer to comment letters 9, 42, 44, 55, 66, 69, 79, 83, 93, and survey responses S21 and S136.

<sup>7</sup> For example, refer to comment letter 101.

<sup>8</sup> For example, refer to comment letter 38, 41, 67, and 68.

<sup>9</sup> For example, refer to comment letters 12, and 97.

<sup>10</sup> For example, refer to comment letters 70, 86, 103, 110, and survey responses S53, S75, S156 and S190.

rather than requiring a detailed index table to be included in GPFR. Reasons provided to support this view included that:

- (a) the cost to produce a detailed index table was not seen to be too onerous;<sup>11</sup>
- (b) a detailed index table would help to provide useful information to users by enhancing the clarity and location of disclosures, would help reduce the risk that material information was not obscured, and facilitate data comparability between entities;<sup>12</sup> and
- (c) an index table is useful for preparers to ensure they have complied with requirements and, in many instances, may already be completed because they have a checklist for compliance.<sup>13</sup>

### Section Three: Staff analysis and recommendations

- 19 Respondent feedback to SMC 7 suggests that stakeholders interpreted this matter as centring on two potential viewpoints:
- (a) Viewpoint 1: the requirement to produce a detailed index table; or
  - (b) Viewpoint 2: the requirement “to provide information in a manner that enables users of general purpose financial reports to locate its disclosures prepared in accordance with applicable Australian Sustainability Reporting Standards” (as proposed in paragraph Aus60.1).
- 20 Staff observe that the baseline requirements of IFRS S1 do not require the disclosure of an index table. The IFRS S1 requirements are instead that the entity:
- (a) shall provide information in a manner that enables users of GPFR to understand types of connections between information (paragraph 21);
  - (b) provide disclosures required by IFRS Sustainability Disclosure Standards as part of its GPFR (paragraph 60);
  - (c) shall ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by additional information (paragraph 62); and
  - (d) apply the requirements in paragraphs B45–B47 if the entity includes information by cross-reference (paragraph 63).
- 21 Paragraph Aus60.1 of [draft] ASRS 1 was ‘additive’ to the IFRS S1 baseline and clarified that “[f]urther to paragraph 60, an entity shall provide information in a manner that enables users of general purpose financial reports to locate its disclosures prepared in accordance with applicable Australian Sustainability Reporting Standards”.
- 22 At the time of writing this paper, staff note that the proposed Treasury Laws Amendment (Financial Markets and Other Measures) Bill 2024 does not specify any requirements regarding an index table.
- 23 Staff observe that SMC 7 was intended to elicit stakeholder views on the merits of paragraph Aus60.1 (i.e. “that proposed requirement” described in SMC 7) as presented in [draft] ASRS 1. SMC 7 was not

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<sup>11</sup> For example, refer to comment letters 6, 14, 15, 20, 37, 59, 88, and 117, and survey responses S3, S264 and S271.

<sup>12</sup> For example, refer to comment letters 14, 20, 21, 37, 94, and 108, and survey responses S3, S5, S13, S205, S211, S214, and S233.

<sup>13</sup> For example, refer to comment letters 43, 104, and survey response S13.

intended to elicit stakeholder views on whether the ASRS Standards should amend the IFRS S1 baseline to require entities to produce a detailed index table.

- 24 However, partly because of the way the question was framed, a considerable portion of respondent feedback focused on the potential merits of a detailed index table as an additive requirement to the baseline as opposed to the requirement to exercise judgement in how disclosures were presented (as contained in proposed paragraph Aus60.1).
- 25 Regarding stakeholder views that supported the Board’s adding a requirement to disclose a detailed index table, staff acknowledge that a detailed index table would help provide useful information to users. However, staff also note that the Board recognised the benefits to users when deliberating this proposal and ultimately concluded that these did not necessarily outweigh the costs of producing a detailed index table.<sup>14</sup>
- 26 Staff observe that conflicting feedback was provided regarding the cost of producing a detailed index table. Respondents did not provide quantitative evidence of costs when expressing support or opposition to the proposed amendment. Without more substantial evidence on costs, staff believe that a precautionary approach would be preferable.<sup>15</sup> Staff recognise that while requiring the disclosure of an index table would benefit users, these benefits may not necessarily outweigh the costs and other reasons summarised in paragraphs 16(a)16(e)16(a)-16(e).
- 27 Staff also note that neither the IFRS S1 baseline nor the proposed Aus60.1 paragraph prohibits an entity from disclosing an index table. Therefore, an entity that concludes a detailed index table would provide useful information to users can choose to produce and disclose one (and vice versa). Such flexibility is consistent with a principles-based approach to standard-setting that underpins all Australian Accounting Standards.
- 28 To help proceed with the finalisation of the ASRS Standards, staff have shortlisted two potential options in relation to paragraph Aus 60.1 in [draft] ASRS 1 and provide a summary of these approaches in the following table:

OPTION	STAFF ANALYSIS	BASELINE ALIGNMENT
<b>Option 1:</b> Retain paragraph Aus60.1 in the ASRS Standards	This was the proposal in ED SR1 that received support from the respondents. However, paragraph Aus60.1 is an addition to the IFRS Sustainability Disclosure Standards baseline. Staff believe that the existing requirements of IFRS S1 provide sufficient guidance regarding the presentation and location of disclosures.	×
<b>Option 2:</b> Delete paragraph Aus60.1 in the ASRS Standards	This is wholly consistent with the baseline of IFRS S1. Staff note that SMC 7 did not specifically ask stakeholders their views on the baseline language without the context of an index table.	✓

- 29 **Option 1** would add to the IFRS Sustainability Disclosure Standards baseline and does not represent a deviation. The proposed requirement in Aus60.1 to exercise judgement is consistent with a principles-based approach to standard-setting while still signalling to preparers the need to provide information in a user-friendly manner based on their particular facts and circumstances.

<sup>14</sup> See BC 43-44 of ED SR1.

<sup>15</sup> In other words, it may be preferable *not* to require the disclosure of a detailed index table because of uncertainty surrounding costs.

- 30 Staff observe that the majority of stakeholders expressed support for the proposed paragraph described in Option 1. However, staff also observe that the framing of SMC 7 likely influenced the extent of support for this proposal and that the support for paragraph Aus60.1 does not necessarily indicate a lack of support for an alternative approach (e.g. Option 2) as this question was not asked.
- 31 Staff recommend **Option 2** on the basis that:
- (a) the removal of Aus60.1 would result in stronger alignment with IFRS S1 (i.e. exact replication of baseline requirements, without an Aus paragraph);
  - (b) the Aus60.1 requirement to “provide information in a manner that enables users ... to locate its disclosures” mirrors the existing requirement in paragraph 62 of IFRS S1 to “ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by additional information”; and
  - (c) the existing requirements of IFRS S1 are wholly consistent with the stakeholder rationale for supporting the proposal as outlined in paragraphs 16(a)-16(e) and consistent with the concerns of stakeholders who disagreed with the proposal and summarised in paragraph 18(b) above.

#### **Section Four: Questions to Board members**

**Q1.** Do Board members have any questions about the summary of stakeholder feedback or staff analysis and recommendations concerning SMC 7?

**Q2.** Do Board members agree with the staff recommendation identified in paragraph 31 **Error! Reference source not found.**? If not, what alternative approaches would you recommend?

## Appendix A: Extracts from IFRS S1

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### Connected information

- 21 An entity shall provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:
- (a) the connections between the items to which the information relates—such as connections between various sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and
  - (b) the connections between disclosures provided by the entity:
    - (i) within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and
    - (ii) across its sustainability-related financial disclosures and other general purpose financial reports published by the entity —such as its related financial statements (see paragraphs B39–B44).

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### Location of disclosures

- 60 An entity is required to provide disclosures required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reports
- 61 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports. Management commentary or a similar report is a required report in many jurisdictions. It might be known by or included in reports with various names, such as 'management report', 'management's discussion and analysis', 'operating and financial review', 'integrated report' or 'strategic report'.
- 62 An entity may disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. The entity shall ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information (see paragraph B27).
- 63 Information required by an IFRS Sustainability Disclosure Standard may be included in sustainability-related financial disclosures by cross-reference to another report published by the entity. If an entity includes information by cross-reference, the entity shall apply the requirements in paragraphs B45–B47.

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