Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related financial disclosures**	**Meeting:**	19 and 22 July 2024 (M206)
Topic:	**NFP public sector considerations (SMCs 28–29)**	**Agenda Item:**	4.2.4
		Date:	12 July 2024
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Objective of this paper

1 The objectives of this paper are for the AASB to:

(a) consider feedback from stakeholders on what modifications to the IFRS S2 baseline might be necessary for NFP public sector entities (SMC 28);

(b) consider feedback from stakeholders on the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting (SMC 29);[1] and

(c) decide on any changes to be made to [draft] ASRS 1 and [draft] ASRS 2, or whether any further standard-setting work would be needed before finalising the Standards.

Background

2 In the Basis for Conclusions to ED SR1 (paragraphs BC105–BC109), the Board acknowledged the following matters will need to be considered when developing climate-related financial disclosure requirements applicable to NFP public sector entities:

(a) whether climate-related financial disclosure requirements should be provided by public sector entities on a mandatory or voluntary basis, and by which level of government entities;

(b) how to determine the value chain of a government and public sector entities with multi-stakeholder groups; and

(c) whether the disclosures of information about climate-related financial disclosures should be expanded to include climate-related impact reporting.

1 For ease of reference in this paper, climate-related impact reporting refers to the reporting by NFP public sector entities on the effect of climate-related risks and opportunities, and related government policies, on the economy, environment and people.

3 At the time of developing ED SR1, the Board noted that:

(a) it does not have the authority to mandate which entities are required to report in accordance with the [draft] ASRS. The applicability of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*, which is administered by the Treasury of the Commonwealth Government, to public sector entities is dependent on whether they are incorporated under the Corporations Act (and would be required to prepare financial reports under Chapter 2M of the Corporations Act);

(b) it is the Treasury/Finance Department and the Office of Local Government of each government that would decide which of its government entities would be required to comply with ASRS Standards, and those departments and offices may modify disclosure requirements for their government entities at their discretion;

(c) the Australian Government Department of Finance plans to develop climate-related financial disclosure requirements for Commonwealth government agencies based on the forthcoming ASRS Standards. Several State governments have indicated that they will consider, but have not yet decided, whether to require their entities to prepare climate-related financial disclosures based on the forthcoming ASRS Standards; and

(d) the IPSASB is undertaking its own Climate-related Disclosures project, which is expected to address both climate-related financial disclosures and climate-related impact reporting from an NFP public sector perspective based on IFRS S2 and Standards issued by the Global Reporting Initiative (GRI Standards).

4 Accordingly, the Board added SMC 28 and ED 29 to ED SR1 (quoted in paragraphs 5–6 below) to gather feedback from stakeholders to assist its consideration of:

(a) whether there are any public-sector-specific reasons to modify the IFRS S2 baseline for those public sector entities incorporated under the Corporations Act—this is the focus of this paper;

(b) whether there are any other public-sector-specific matters not yet identified by the Board that the Board should consider in future in determining whether to undertake a domestic standard-setting project to develop Australian-specific public sector climate-related disclosure requirements, and if so, the scope of that project; and

(c) stakeholders' views on its decision to defer consideration of whether to undertake a domestic standard-setting project to develop Australian climate-related impact reporting requirements until it has considered the results of the IPSASB's project in due course.

Overview of stakeholder feedback

5 SMC 28 asked stakeholders:

"Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to:

(a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and

(b) better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030?

In your response, please specify:

(a) 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; and

(b) which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view.

(i) Whole of Government;

(ii) General Government Sector;

(iii) Government departments;

(iv) Government entities; and

(v) Local governments."

6 SMC 29 asked stakeholders: "Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view."

7 Of the 117 comment letters and 289 survey responses received:[2]

(a) 21 and 27 stakeholders, respectively, provided responses to SMC 28; and

(b) 19 and 35 stakeholders, respectively, provided responses to SMC 29.

8 The following table provides an overview of the responses received on SMC 29 (rounded to the nearest %).[3]

	Agree	Partially agree	Disagree
Out of the 19 comment letters that commented on SMC 29	53%	21%	26%
Out of the 35 survey responses that commented on SMC 29	69%	11%	20%

9 One stakeholder commented that there are some government owned corporations (GOCs) or State owned corporations (SOCs) incorporated under the Corporations Act and will be within the scope of the proposed legislation.[4] The stakeholder commented that:

(a) such GOCs/SOCs would be preparing disclosures in advance of the controlling Government. This might result in an entity disclosing climate strategies and performing climate-related scenario analysis on a different basis to the relevant Government; and

(b) unlike private entities, public sector entities including GOCs/SOCs do not directly raise capital because they are debt financed via the controlling Government's central financing authority and via equity provided by Government shareholding Ministers. Accordingly, the users of GPFR of GOCs/SOCs are not the same as users of GPFR of

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

3 Such classification is not applicable to SMC 28 because of the nature of the question.

4 Comment letter 112

private corporations and the proposals in ED SR1 do not adequately cater for the different shareholding investor profiles and specific functional characteristics of GOCs/SOCs.

10 In respect to other public-sector-specific matters to be considered by the Board in future, stakeholders generally agreed there would need to be modifications or additions to the baseline of IFRS S1 and IFRS S2 in order to apply the disclosure requirements to the NFP public sector (primarily to local government or government agencies). Their key comments are summarised in paragraphs 11–14 below.

11 The issue most consistently raised by stakeholders was clarification regarding the identification of the reporting entity, and whether this should be at the individual department or agency level, or at Whole of Government level. Stakeholders observed that, as this question set the reporting boundary for the rest of the disclosures, it is a fundamental question that would affect the application of the rest of the requirements in the ASRS Standard.[5]

12 A comment letter written by representatives of State governments and the Commonwealth Government provided the following comments:[6]

(a) connected to this same issue of the reporting entity boundary described in paragraph 11, it was common for Government departments to be affected by restructuring of administrative arrangements, which could present a potentially significant challenge for climate and sustainability reporting in the public sector;

(b) scenario analysis should be undertaken at the whole-of-government level only, due to the significant challenges of downscaling models to the individual agency level;

(c) they are concerned that individual agencies might report climate strategies inconsistent with whole-of-government positions, and observed relation to governance, strategy and risk management disclosure requirements that Government agencies would not be able to make decisions in isolation from cabinet when managing climate risks; and

(d) they have significant concerns over the administrative costs relative to the benefit of reporting Scope 3 emissions by individual government agencies, noting that many of these Scope 3 emissions will be either Scope 1 or 2 when consolidated to higher reporting levels.

13 Multiple stakeholders supported delayed reporting requirements until these modifications or additions could be considered, with consultation or further research regarding public sector application.[7]

14 Some stakeholders also requested that consideration be given to the limited resources and technical capabilities of smaller government entities such as local government councils in developing the disclosure requirements.[8]

15 Additionally, a few stakeholders were concerned that any potential exclusion of reporting by public sector entities would mean that a significant portion of the Australian economy was not required to make climate-related financial disclosures. Some stakeholders expressed concern that the public sector was a potentially significant source of greenhouse gas emissions,

5 For example, comment letters 9, 19, 33, 37
6 Comment letter 9
7 For example, comment letters 9, 21, 33, 43, 37, 47, 52, 57
8 For example, comment letters 43, 52, 57, 115 and survey respondents 9 and 30

exposed to potentially significant climate-related risks, and should be providing climate-related financial disclosures for their constituents.[9]

Staff analysis and recommendations

16 In respect to GOCs/SOCs incorporated under the Corporations Act, staff observe that:

(a) the stakeholder who raised concerns about GOCs/SOCs suggested the AASB defer the mandatory application date for these entities to apply ASRS Standards at a later date, or as part of the proposed Group 2 commencement from 1 July 2026. Staff observe that ASRS Standards cannot override the requirements set out in Australian legislation, and the AASB does not have the authority to amend Australian legislation. Similarly, if the legislation sets out requirements to report on Scope 3 GHG emissions and to undertake climate scenario analysis, the affected GOCs/SOCs would need to comply with those requirements;

(b) they are entities that primarily operate key infrastructure, such as electricity networks, that have similar operations to private sector counterparts and are likely to have significant GHG emissions;

(c) they would be able to identify the reporting entity consistent with the accompanying general purpose financial statements; and

(d) although they are bound by government financial arrangements, the nature of GOCs/ SOCs is not fundamentally different from a for-profit entity in the same industry with significant contractual and regulatory interactions with government(s).

17 Staff have not identified from the submissions a public-sector-specific reason to modify the baseline requirements for GOCs/SOCs.

18 In respect to the stakeholder concerns summarised in paragraphs 11–14, staff consider that, when considering the forthcoming IPSASB Exposure Draft, the Board can engage with stakeholders to discuss:

(a) whether the IPSASB proposals would be relevant in addressing those concerns described in paragraphs 11–14; and

(b) which IPSASB proposals would be beneficial for the Australian NFP public sector.

19 At its June 2024 meeting, the IPSASB clarified that its Exposure Draft will address public policy programs (such as regulations, taxation, subsidies, and incentives) that are explicitly designed to address climate-related risks and opportunities. The IPSASB plans to approve the Exposure Draft at its September 2024 meeting.

20 Based on the feedback received, staff consider that no further standard-setting work needs to be performed in relation to SMC 28 and SMC 29 before finalising ASRS 1 and ASRS 2.

Question for Board members

Q1: Do Board members agree with the staff conclusion that no further standard-setting work would be needed in relation to SMC 28 and SMC 29 before finalising ASRS 1 and ASRS 2? If not, what other standard-setting work do Board members consider necessary?

9 For example, comment letters 42, 98