



Project:	Climate-related Financial Disclosure	Meeting:	AASB 6-7 June 2024 (M204)
Topic:	Non-mandatory ASRS 1	Agenda Item:	5.1
		Date:	21 May 2024
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objective of this paper

- 1 The objectives of this agenda item are for the Board to:
 - (a) note the background to presenting the core content of IFRS S1 in [draft] ASRS Standards in Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, which was the subject of Specific Matter for Comment (SMC) 1 in ED SR1; and
 - (b) consider a proposed way forward in light of the feedback received on ED SR1, which would involve:
 - (i) making a “mandatory” ASRS Standard [ASRS 2] that includes the necessary [draft] ASRS 1 content needed to make ASRS 2 function; and
 - (ii) issuing a “non-mandatory” ASRS Standard [ASRS 1] that incorporates all the content of IFRS S1.

Background

- 2 The AASB is aligning with the Australian Government’s direction to address climate-related financial disclosures by developing climate-related financial disclosure requirements that can, at least initially, be applied independently of any broader sustainability reporting framework [ED SR1.BC8(c)]. The current need for legally-binding sustainability standards extends only to climate-related disclosure.
- 3 In ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* the AASB proposed to limit the scope of disclosure requirements based on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* to climate-related financial disclosures. Therefore, in developing the [draft] ASRS Standards, all references to “sustainability” in IFRS S1 were replaced with “climate” [ED SR1.BC21].
- 4 After making that change in scope for ED SR1, the proposed requirements in the [draft] ASRS 2 *Climate-related Financial Disclosures* in respect to the core content disclosures of governance, strategy and risk management would duplicate the proposed requirements in the [draft]

ASRS 1. To minimise unnecessary duplication, the AASB considered three possible options to presenting the core content disclosure requirements of IFRS S1 in ASRS Standards:¹

Option 1 – one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgements, uncertainties and errors (i.e. all relevant requirements other than those relating to the core content that are exactly the same as the requirements in IFRS S2) within an Australian equivalent of IFRS S2;

Option 2 – two ASRS Standards where the same requirements in respect to disclosures of governance, strategy and risk management would be included in both Standards; and

Option 3 – two ASRS Standards, by including in [draft] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [draft] ASRS 2, replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding paragraphs in [draft] ASRS 1.

- 5 The AASB proposed and presented Option 3 in ED SR1 and also asked stakeholders for any other presentation approach they consider would be appropriate.
- 6 The feedback received on presenting the core content of IFRS S1 in ASRS Standards was mixed, however in general greater consistency with the ISSB's Standards is supported. In addition, support for greater international alignment was an overarching theme across many comment letters.² Accordingly, the Board gave preliminary consideration at the May Board meeting to an approach to ASRS 1 and ASRS 2 that would align more closely with the scope of both IFRS S1 and IFRS S2.

Proposed approach

- 7 The approach considered in this agenda item is for the AASB to:
 - (a) make a "mandatory" ASRS Standard [ASRS 2] that includes the necessary [draft] ASRS 1 content needed to make ASRS 2 function as the Standard containing all of the requirements for climate-related financial disclosures; and
 - (b) issue a "non-mandatory" ASRS Standard [ASRS 1] that incorporates all the content of IFRS S1 in respect of general requirements for the disclosure of sustainability-related financial information.
- 8 This approach would allow the AASB to have two Standards that closely correspond to the two existing ISSB Standards, albeit modified, while only mandating requirements for climate-related financial information, consistent with the Australian Government's direction to address climate-related financial disclosures. This is also consistent with the feedback from stakeholders that urged the AASB to more closely align with the ISSB Standards.
- 9 This approach could also potentially be applied in the event that the AASB addresses areas of sustainability other than climate-related disclosure. This may particularly be the case if the ISSB addresses further areas of sustainability and relies on IFRS S1 to provide core concepts to support further standards.

The AASB's powers and functions

- 10 The AASB's powers and functions are set out section 227 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

1 Specific matters for comment, Question 1, ED SR1, page 7.

2 For example, comment letters: 7, 21, 24, 30, 31, 38, 40, 55, 60, 65, 76, 77, 82, 83, 86, 98, 103.

11 If the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* is enacted, section 227(1) of the ASIC Act would state the following (underlined text shows the changes proposed in the Bill):

- (1) The functions of the AASB are:
 - (a) to develop conceptual frameworks, not having the force of standards, for the purpose of evaluating:
 - (i) proposed accounting standards and international accounting standards; and
 - (ii) proposed sustainability standards and international sustainability standards; and
 - (b) to make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation (other than the excluded provisions); and
 - (ba) to make sustainability standards under section 336A of the Corporations Act for the purposes of the corporations legislation; and
 - (c) to formulate accounting standards for other purposes; and
 - (ca) to formulate sustainability standards for other purposes; and
 - (d) to participate in and contribute to the development of each of the following for world-wide use:
 - (i) a single set of accounting standards; and
 - (ii) a single set of sustainability standards; and
 - (e) to advance and promote the main objects of this Part.

Setting standards for “other purposes”

12 The reference in section 227(1)(c) to formulating accounting standards for other purposes has been read as permitting the AASB to issue accounting standards that meet a range of needs. These include:

- (a) formulating standards that are not legally binding for financial reporting under the Corporations Act; and
- (b) formulating standards for entities not covered by the Corporations Act, such as most public sector entities and many not-for-profit entities.

13 Examples of standards formulated for other purposes include:

- (a) standards applying only to public sector entities, such as AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, where the AASB relies on public sector jurisdictions in Australia to impose the requirements on themselves; and
- (b) AASB 1056 *Superannuation Entities* (June 2014) – although applied by Registrable Superannuation Entities for the past six years, the Standard only became legally binding on superannuation entities under the Corporations Act for annual periods beginning on or after 1 July 2023, when it was formally made by the AASB in December 2023 under its Corporations Act power.

14 In issuing accounting standards, whether or not legally binding, there has typically been an expectation that any relevant entities would apply the requirements in preparing general

purpose financial statements – for example, in respect of members of the Accounting Bodies based on APES 205 *Conformity with Accounting Standards*.³

- 15 However, there are also precedents for the AASB issuing accounting standards with requirements that an entity can elect to apply – that is, there is either no expectation as to whether an entity would or would not apply the requirements or else an encouragement to apply them. These “non-mandatory” standards include:
- (a) AASB 14 *Regulatory Deferral Accounts*, which states: “An entity shall apply the requirements of this Standard in its financial statements for subsequent periods if and only if, in its first Australian-Accounting-Standards financial statements, it recognised regulatory deferral account balances by electing to apply the requirements of this Standard [AASB 14.6]; and
 - (b) parts of AASB 1058 *Income of Not-for-Profit Entities* – a not-for-profit entity:
 - (i) may elect to recognise volunteer services received if their fair value can be measured reliably even though the entity would not have purchased those services if not donated [AASB 1058.4]; and
 - (ii) is encouraged (but not required) to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used [AASB 1058.37].
- 16 AASB 14 effectively provides an “all or nothing” choice – an entity electing to apply the Standard must apply all the requirements [AASB 14.8].
- 17 AASB 1058 effectively is allowing a choice to either apply or not apply some aspects of the Standard.
- 18 Although the above examples are limited, they establish a precedent for the AASB issuing standards that are not intended to be mandatory (unless adopted as requirements by a regulator or other authority). This is consistent with the fact that there are no specific limitations in the ASIC Act on the “other purposes” for which the AASB might issue (“formulate”) a standard.
- 19 Based on the precedents in setting accounting standards “for other purposes”, the proposed addition to ASIC Act section 227(1)(ca) of the words “for other purposes” in respect of sustainability standards could reasonably be read as allowing the AASB the scope to issue sustainability standards that are not legally binding or mandatory.

What would the proposal mean?

- 20 Under the proposed approach in this paper, the content of ASRS 1 would incorporate the content of IFRS S1, which entities could elect to apply if they report on aspects of sustainability other than climate-related financial disclosures.
- 21 Given that entities can choose the extent to which they address sustainability-related financial disclosure (other than climate-related financial disclosure), AASB staff consider it would be appropriate to clarify that:
- (a) entities could elect to apply some or all of the requirements in ASRS 1 – or in parts of ASRS 1; and

3 APES 205, paragraph 5.1, states: “Members shall take all reasonable steps to apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework.”

- (b) for an entity to claim compliance with ASRS 1 in respect of a particular aspect of sustainability disclosure, it would need to apply all the requirements of ASRS 1 to that aspect.⁴
- 22 Those parts of an ASRS 1 Standard that incorporates IFRS S1 which are needed to make ASRS 2 function would be included in ASRS 2, either embedded in relevant sections of ASRS 2 or as an Appendix to ASRS 2.
- 23 Accordingly, if the Board supports the proposed approach or further investigation of the approach, it would need to identify which parts of an ASRS 1 Standard that incorporates IFRS S1 are needed to make ASRS 2 function as a “standalone” Standard on climate-related financial disclosure, i.e. without a mandatory ASRS 1. (The service Standard ASRS 101 would still be needed.)
- 24 Analysis of the contents of the [draft] ASRS 1 would consider factors such as the following:
- (a) whether an ASRS 1 principle, disclosure or guidance is also included in ASRS 2, including considering the extent to which that content is the same – the greater the similarity of content, the **less likely** it is that the ASRS 1 content is needed to make ASRS 2 function;
 - (b) whether the ASRS 1 content reflects content already in the Conceptual Frameworks⁵ that are available as support material for applying ASRS 2, including considering the extent to which that content is the same – the greater the similarity of content, the **less likely** it is that the ASRS 1 content is needed to make ASRS 2 function; and
 - (c) whether the ASRS 1 content reflects corresponding content in Accounting Standards, i.e. material considered necessary to include in Accounting Standards to enable them to function – if similar content is considered necessary in an Accounting Standards context, the **more likely** it is that the ASRS 1 content is needed to make ASRS 2 function.

Questions for Board members

Q1 Do Board members agree with the proposed approach of:

- (a) making a mandatory ASRS Standard [ASRS 2] that includes the [draft] ASRS 1 content needed for ASRS 2 to function as the Standard for climate-related financial disclosures; and
- (b) issuing a “non-mandatory” ASRS Standard [ASRS 1] that includes all the relevant content from IFRS S1 relating to general requirements for the disclosure of sustainability-related financial information?

If you do not support the proposed approach, what alternative approach would you suggest and why?

Q2 Assuming the proposed approach is supported, do you agree that entities:

- (a) should be permitted to elect to apply parts of ASRS 1 while not applying all the requirements; and
- (b) would need to apply all the requirements of ASRS 1 to be able to claim compliance with ASRS 1 in respect of a particular aspect of sustainability disclosure?

If you do not agree, what alternative approach would you suggest and why?

4 Consistent with the requirement in AASB 1054 *Australian Additional Disclosures* that “An entity shall not describe financial statements as complying with Australian Accounting Standards unless they comply with all the requirements of Australian Accounting Standards.” [AASB 1054.7].

5 The *Conceptual Framework for Financial Reporting* in respect to for-profit entities and the *Framework for the Preparation and Presentation of Financial Statements* in respect to not-for-profit entities.

Next steps

- 25 If the Board supports the proposed approach, the Board should decide the process for identifying which parts of ASRS 1 need to be incorporated into ASRS 2 to make it function as the climate-related financial disclosure Standard. The Board may wish to discuss the analysis of the ASRS 1 content directly during Board meetings or else for a sub-committee to consider the analysis in the first instance and make recommendations to the Board.

Question for Board members

- Q3 Would Board members prefer a sub-committee consider in detail the analysis regarding the content of ASRS 1 required for ASRS 2 and make recommendations for discussion at Board meetings?