Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosure**	**Meeting:**	19 and 22 July 2024 (M206)
Topic:	**Interim reporting (SMC 8)**	**Agenda Item:**	4.1.7
		Date:	12 July 2024
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Objective

1 The purpose of this paper is to:

(a) summarise the stakeholder feedback received on SMC 8 in ED SR1; and

(b) decide whether the Board should proceed with the proposal described in SMC 8 for the purpose of finalising the ASRS Standards.[1]

Summary of staff recommendations

2 Staff recommend the Board **revert** to the IFRS Sustainability Disclosure Standards baseline when finalising the ASRS Standards by retaining paragraphs 69 and B48 from IFRS S1. This would help to ensure alignment with the IFRS S1 baseline and retain guidance for entities that may be required or choose to publish interim climate-related financial disclosures.

Structure

3 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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[1] 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

4 Paragraphs 69 and B48 of IFRS S1 describe interim reporting in the context of sustainability-related financial disclosures. Appendix A reproduces these paragraphs from IFRS S1 to assist the Board when considering this staff paper.

5 IFRS S1 does not mandate interim reporting but recognises that entities *may* be required to publish interim sustainability-related financial disclosures depending on their particular facts and circumstances (e.g., due to listing or legislative requirements). In such instances, IFRS S1 requires an entity to apply paragraph B48, which provides high-level guidance that less information may be included in any interim sustainability-related financial disclosures than in annual sustainability-related financial disclosures.

6 Paragraph BC 46 of ED SR1 describes the AASB's rationale for proposing the omission of two IFRS S1 paragraphs related to interim reporting from [draft] ASRS 1. In short, this proposal responded to stakeholder feedback received on the Treasury's *Climate-related Financial Disclosure: Consultation Paper* (June 2023) regarding confusion as to whether interim reporting of climate-related financial disclosures would be mandatory in Australia.

7 The abovementioned feedback led the AASB to propose omitting paragraphs 69 and B48 of IFRS S1 from [draft] ASRS 1 to help avoid confusion about whether interim reporting is required. Since the omission represented a deviation from the IFRS Sustainability Disclosure baseline, the AASB proposed SMC 8 to gauge stakeholder views on the proposal's suitability.

Section Two: Stakeholder feedback summary

8 SMC 8 of ED SR1 asked stakeholders the following question:

> Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.

9 A summary of the quantitative and qualitative feedback for this SMC is presented in the following two sections of this paper.

Quantitative feedback summary

10 The AASB received 117 comment letters and 289 survey responses for ED SR1. Of these, 44 comment letters and 70 survey respondents clearly expressed a view on SMC 8. The following table summarises the responses received on SMC 8 (rounded to the nearest %).

	Agree	Partially agree	Disagree
Out of the 44 comment letters that expressed a view on SMC 8[2]	73%	2%	25%
Out of the 70 survey responses that commented on SMC 8[3]	77%	7%	16%

11 Quantitative data presented in the table above indicates that most stakeholders supported the AASB's proposal to clarify interim reporting requirements in [draft] ASRS 1.

Qualitative feedback summary[4]

12 Most respondents agreed with the AASB's proposal to help clarify that interim reporting was not required by omitting paragraphs 69 and B48 of IFRS S1 in [draft] ASRS 1. Reasons provided to support this view included that:

(a) the disclosures presented in IFRS S1 were seen to be confusing and unclear, with the amendment helping to clarify that interim reporting was not required under ASRS Standards;[5]

(b) the disclosures presented in IFRS S1 provide little guidance on what would be expected to be disclosed in interim reports if the paragraph was retained;[6]

(c) most climate-related risks and opportunities were seen to be medium- or longer-term in nature, limiting the utility of any interim disclosures for users;[7]

(d) the annual reporting period was seen to be a sufficient frequency for disclosing climate-related risks and opportunities;[8]

(e) the provision of climate-related information on an interim basis would require significant resources, with resourcing already posing significant challenges for annual reporting and small/medium-sized entities;[9] and

(f) interim reporting was considered an ancillary consideration for the AASB due to the emerging nature of the field, with the prioritisation of annual reporting considerations being recommended as a primary focus.[10]

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2 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.

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

4 The cover memo accompanying this paper explains that SMC 8 was not explicitly addressed in roundtable outreach sessions. However, participants were provided with the opportunity to comment on any other aspects of ED SR1 in these sessions where time permitted and, in such instances, participants did not provide comments on interim reporting.

5 For example, refer to comment letters 4, 15, 35, 38, 41, 69, 73, 79, 97, and 101.

6 For example, refer to comment letter 98.

7 For example, refer to comment letters 3 and 53.

8 For example, refer to comment letter 42.

9 For example, refer to comment letters 64, 93, 95, and survey respondent S100.

10 For example, refer to survey respondent S136.

13 A few respondents suggested that alternative means of clarification could best be used. They recommended adding an Aus paragraph explicitly stating that interim reporting of climate-related disclosures is not required rather than deleting the paragraph presented in IFRS S1.[11]

14 A few respondents recommended the addition of an Aus paragraph to clarify that interim reporting can be done voluntarily should an entity wish to do so.[12]

15 Some respondents disagreed with the AASB's proposal to clarify that interim reporting was not required by omitting paragraphs 69 and B48 of IFRS S1 in [draft] ASRS 1. Reasons provided to support this view included that:

(a) it was seen to be a deviation from the IFRS Sustainability Disclosure Standards baseline;[13]

(b) interim reporting requirements should be addressed through legislation rather than ASRS Standards;[14]

(c) it was unnecessary because existing disclosures were sufficiently clear;[15]

(d) the deletion removes guidance for entities that may wish to provide interim disclosures voluntarily;[16] and

(e) interim reporting is an important requirement and should be consistent with financial reporting.[17]

Section Three: Staff analysis and recommendations

16 Staff observe that some respondents perceived SMC 8 as implying that the IFRS S1 baseline paragraphs mandated interim sustainability-related financial disclosures, and the AASB proposal sought to remove that requirement.[18] As explained earlier in the paper, this was not the case.[19]

17 Since IFRS S1 does not mandate interim reporting, stakeholder concerns regarding the potential costs and limited utility of any interim reporting, as described in paragraphs 15(c)15(d)15(e)12(c)–(e), appears to be largely alleviated by this fact.

18 Staff also observe that the wording of:

(a) paragraph 69 in IFRS S1 is aligned with paragraph 1 in AASB 134; and

(b) paragraph B48 in IFRS S1 is aligned with paragraphs 6 and 7 in AASB 134.

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11 For example, refer to comment letters 6, 12, 20, 62, 77, and 110.
12 For example, refer to comment letters 43 and 103.
13 For example, refer to comment letters 7 and 11 and survey respondent S115.
14 For example, refer to comment letters 21 and 86.
15 For example, refer to comment letters 37 and survey respondents S128 and S230.
16 For example, refer to comment letters 26 and 55.
17 For example, refer to survey respondents S13 and S91.
18 For example, refer to comment letters 42, 53, 64, 73, 75, 81, 93, 95, 101, 113, and survey respondents S20, S21, and S22.
19 Staff acknowledge that, with hindsight, the wording of SMC 8 and the deletion of the original IFRS S1 and IFRS S2 paragraphs in ED SR1 may have contributed to this confusion.

19 As such, the IFRS S1 baseline paragraphs language aligns with existing interim reporting language used in the Australian Accounting Standards.

20 Staff agree with stakeholder feedback that interim reporting obligations are best defined by legislation or other regulatory requirements rather than the ASRS Standards. Staff agree that it is not the role of the AASB to mandate which entities are required to report in accordance with ASRS Standards or how frequently they are required to report.

21 Notwithstanding, respondent feedback indicates that the interim reporting disclosure requirements presented in paragraphs 69 and B48 of IFRS S1 were seen to lack clarity. This could warrant a modification or addition to the IFRS S1 baseline concerning interim reporting in the context of ASRS Standards, as a clarification to address this ambiguity could be justified based on stakeholder benefits.

22 Staff have shortlisted three potential options regarding interim reporting requirements, which are summarised in the following table:

OPTION	STAFF ANALYSIS	BASELINE ALIGNMENT
Option 1: Delete paragraphs 69 and B48 of IFRS S1 in ASRS 1	This was the proposal in ED SR1 that received support from the respondents. However, deleting paragraphs 69 and B48 of IFRS S1 in [draft] ASRS 1 was a deviation from the IFRS Sustainability Disclosure Standards baseline. It also removed guidance for entities that are required (or choose) to report on an interim basis and may not necessarily resolve stakeholder confusion regarding whether interim reporting is mandatory under ASRS Standards.	×
Option 2: Retain paragraphs 69 and B48 of IFRS S1 in ASRS 1 without further changes	Retaining paragraphs 69 and B48 of IFRS S1 would help ensure alignment with the IFRS Sustainability Disclosure Standards baseline. However, this approach may not necessarily resolve stakeholder confusion regarding whether interim reporting is mandatory under ASRS Standards.	✓
Option 3: Retain paragraphs 69 and B48 of IFRS S1 in ASRS 1 and add an Aus paragraph to clarify that interim reporting requirements are determined by legislation	This approach would allow for clarification to be made in a manner that is 'additive' to the IFRS Sustainability Disclosure Standards baseline and would not necessarily preclude international alignment. This could be similar to the approach followed in AASB 134 *Interim Financial Reporting*.[20]	✓

23 Staff do not believe **Option 1** would be the preferred approach for the reasons identified in the above table.

24 Staff further consider the advantages and disadvantages of the two options (Option 2 and Option 3) that reflect alignment with the IFRS Sustainability Disclosure Standards baseline below.

[20] Paragraph Aus1.1 of AASB 134 states "*Under the Corporations Act, disclosing entities are required to prepare half-year financial reports. Disclosing entities may also voluntarily prepare other general purpose interim financial reports. This Standard prescribes the form and content of general purpose interim financial reports, including half-year financial reports prepared by disclosing entities*". Staff note that consistency with existing Australian Accounting Standards (including Interpretations) is one of the factors the AASB considers under paragraph 24 (c) of the *AASB Sustainability Reporting Standard-Setting Framework*.

25 Staff consider the advantages of **Option 2** include:

(a) retaining the paragraphs without addition would constitute the closest alignment with the IFRS S1 baseline; and

(b) the paragraphs would provide guidance in the instance that an entity preparing a sustainability report in compliance with the ASRS Standards was either required or elected to publish interim climate-related financial disclosures.

26 Staff consider the disadvantage of Option 2 is that it would not respond to the stakeholder feedback indicating that certain stakeholders found the existing IFRS S1 paragraph wording confusing.

27 Staff consider that the advantage of **Option 3** is that retaining the paragraphs would allow alignment with the IFRS S1 baseline, while the additive paragraph would also respond to respondents' confusion to add clarification. Staff consider the disadvantages of Option 3 include:

(a) while not conflicting with the IFRS S1 baseline *per se*, the paragraph would be in addition to the existing requirements of IFRS S1;

(b) the wording of an additive paragraph would likely reflect existing wording in IFRS S1 paragraph 69, which already states that "this Standard does not mandate which entities would be required to provide interim sustainability-related financial disclosures, how frequently, or how soon after the end of an interim period"; and

(c) there is a risk that future amendments to the Standards may be required should another body impose a requirement on an entity to prepare interim climate-related financial disclosures via the ASRS Standards, which was not contemplated in the drafting of the additive paragraph.

28 Unlike paragraph Aus1.1 in AASB 134, which can make specific and factual reference to existing disclosing entity reporting obligations under the Corporations Act, staff are conscious there are currently no proposed mandatory interim climate-related financial disclosure requirements in Australia, but it is not possible to say whether this may change in the future.

29 If the additive paragraph specified that such requirements are determined by the Corporations Act (or legislation more generally), there is a risk that a non-legislative body, such as a securities exchange, imposes a requirement on an entity to prepare interim climate-related financial disclosures and this wording would potentially create an additional layer of confusion.

30 If the additive paragraph were worded more broadly to capture types of bodies that may impose an interim reporting requirement, the wording of the paragraph would likely be very similar to the existing IFRS S1 wording and encounter the risk of another body imposing a reporting requirement that was not contemplated in the drafting of the additive paragraph.

31 Additionally, staff observe that as sustainability reporting obligations continue to develop internationally, extra-jurisdictional sustainability reporting obligations may apply to Australian entities reporting in accordance with the ASRS Standards.[21] The evolving nature of sustainability reporting around the globe provides additional justification for alignment with the IFRS baseline.

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21 For example, the European Union Corporate Sustainability Reporting Directive (EU CSRD) and California Climate Accountability Package (CCAP) impose reporting requirements for entities external to their respective jurisdictions.

32 Ultimately, staff consider **Option 2** the preferred choice for the above reasons.

33 Staff believe the Board could address stakeholder concerns regarding uncertainties in interim reporting requirements through non-mandatory implementation guidance and educational material, such as a FAQ publication on the AASB website.

34 Therefore, staff recommend that the Board retain IFRS S1 paragraphs 69 and B48 in the ASRS Standards without amendment or additional clarification.

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 8?

Q2. Do Board members agree with the staff recommendation identified in paragraph 34? If not, what alternative approaches would you recommend?

Appendix A: Extracts from IFRS S1

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Timing of reporting

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69 This Standard does not mandate which entities would be required to provide interim sustainability-related financial disclosures, how frequently, or how soon after the end of an interim period. However, governments, securities regulators, stock exchanges and accountancy bodies may require entities whose debt or equity securities are publicly traded to publish interim general purpose financial reports. If an entity is required or elects to publish interim sustainability-related financial disclosures in accordance with IFRS Sustainability Disclosure Standards, the entity shall apply paragraph B48.

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Interim reporting (paragraph 69)

B48 In the interest of timeliness and cost considerations, and to avoid repetition of information previously reported, an entity may be required or choose to provide less information at interim dates than it provides in its annual sustainability-related financial disclosures. Interim sustainability-related financial disclosures are intended to provide an update on the latest complete set of annual disclosures of sustainability-related financial information. These disclosures focus on new information, events and circumstances and do not duplicate information previously reported. Although the information provided in interim sustainability-related financial disclosures may be more condensed than in annual sustainability-related financial disclosures, an entity is not prohibited or discouraged from publishing a complete set of sustainability-related financial disclosures as specified in this Standard as part of its interim general purpose financial report.

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