Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosure**	**Meeting:**	19 and 22 July 2024 (M206)
Topic:	**Entities that do not have material climate-related risks and opportunities (SMC 3)**	**Agenda Item:**	4.1.3
		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 3 in ED SR1; and

(b) decide whether the Board should proceed with the proposal described in SMC 3 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 omitting the Aus paragraphs proposed as part of SMC 3 in ED SR1.

3 This would result in stronger alignment with the IFRS Sustainability Disclosure Standards baseline, ensure consistency with financial reporting topics under Australian Accounting Standards, and allow the AASB to respond to materiality in the context of the ASRS Standards (rather than broader legislative interactions). Furthermore, entities applying the ASRS Standards could still make a statement consistent with the proposal described in SMC 3, irrespective of whether Aus paragraphs are included in the final Standards.

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.

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

(d) Appendix A: Extracts from IFRS S1 and [draft] ASRS 1

(e) Appendix B: Extracts from the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 – currently under consideration by Parliament

Section One: Background

5 Paragraph 2 of IFRS S2 explains the objective of the standard is to require an entity to disclose information about its climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects. Paragraph 4 of IFRS S2 also states that "climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard".

6 IFRS S1 requires an entity to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects.[2]

7 At its August 2023 meeting, the Board considered—but rejected—the staff suggestion to add an additional requirement for entities in all sectors that do not have material climate-related risks and opportunities to disclose this fact in their GPFR when deliberating proposed modifications to the IFRS Sustainability Disclosure Standards baseline.[3]

8 Subsequently, the AASB received feedback from the Treasury's *Climate-related Financial Disclosure: Consultation Paper* (June 2023) indicating that while climate was likely to be material for many entities within the proposed scope of mandatory reporting, stakeholder feedback suggested that where an entity assesses it has no material climate-related risks and opportunities, disclosing that fact would be useful information to users.[4]

9 The AASB also observed at that time that certain entities without significant exposure to climate change or significant greenhouse gas emissions *may* not have material climate-related financial risks and opportunities to disclose. However, without an explanation in their GPFR, it could be challenging for primary users to gauge whether these entities had (or had not) considered climate-related risks and opportunities in their operations.[5,6] In this sense, the fact that an entity has no material climate-related financial risks and opportunities to disclose is likely to be a material piece of information within the broader GPFR.

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[2] Paragraph 17 of IFRS S1.

[3] See Staff Paper 4.2 August 2023 (M197) *Staff suggested modifications to IFRS S1 and IFRS S2 to support sector neutrality*.

[4] See BC 35 in ED SR1.

[5] See BC 34 in ED SR1.

[6] For research on this subject, see You and Simnett (2023). *Trends in climate-related disclosures and assurance in the Annual Reports of ASX-listed entities*. AASB-AUASB Research Report (November 2023).

10 Consequently, for the above reasons, the AASB proposed adding paragraph Aus6.2 in [draft] ASRS 1 and paragraph Aus4.2 in [draft] ASRS 2 to require an entity that has determined it has no material climate-related risks and opportunities to disclose that fact and explain how it came to this conclusion.[7] These paragraphs have been reproduced below:

> Aus6.2 For the purposes of this [draft] Standard, if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general purpose financial reports.

> Aus4.2 For the purposes of this [draft] Standard, if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general purpose financial reports.

11 As the above-mentioned disclosure requirements **were not** part of the IFRS Sustainability Disclosure Standards baseline, the AASB added SMC 3 (detailed below) to ED SR1 (released October 2023) to gauge stakeholder feedback for the proposed amendment.

12 On 12 January 2024, the Treasury publicly released an Exposure Draft of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Cth)* ("the Bill"). The Bill proposed amending parts of the *Australian Securities and Investment Commission Act 2001 (Cth)* and the *Corporations Act 2001 (Cth)* to introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities. The legislation is currently before the Senate at the time of writing this paper.

13 The Bill contains section 296B, which proposes allowing Group 3 entities that determine they have no material climate-related financial risks or opportunities for the year to comply with the obligations for producing a "climate statement"[8] by stating this fact and providing an explanation for how they reached that conclusion.

14 Appendix A summarises references to materiality (excluding presentation requirements) contained in ED SR1 along with the original wording in IFRS S1/S2 to assist the Board when considering this staff paper. This appendix shows that when developing ED SR1, the AASB only amended the requirements related to 'material information' (or 'material') to reflect:

(a) the scope limitation to climate (rather than sustainability);

(b) sector neutrality amendments for NFP entities; and

(c) industry-based disclosure application amendments to refer to ANZSIC.

15 Staff note that the definition of 'material information' presented in IFRS S1 has been based on and is conceptually aligned with the definitions of the same term in the IASB's Conceptual Framework. The respective definitions have been reproduced below:

> Information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of [GPFR] make on the basis of those reports, which provide information about a specific reporting entity. In other words, materiality is an entity-

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7 See BC 36 in ED SR1.

8 Refer to Appendix B, section 296A(2)

specific aspect of relevance. The materiality of information is assessed in the context of an entity's sustainability-related financial disclosures and is based on the nature or magnitude of the item to which the information relates, or both. (IFRS S1:D8)

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of [GPFR] make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. (IASB Conceptual Framework:2.11)

16 The above definitions share significant similarities in that they focus on information that could reasonably be expected to influence the decisions of primary users of GPFR. However, they differ through the IFRS S1 definition being contextualised to sustainability-related financial information (rather than financial information), and the context of an entity's sustainability-related financial disclosures (rather than an entity's financial report).[9]

17 Appendix B provides an extract of Sections 296A-296D of proposed amendments to the *Corporations Act (Cth)* which are currently being deliberated by the Senate as of the date of finalising this paper and have been provided to assist the Board when considering this staff paper. Staff note that at this date, amendments have been proposed to the legislation yet to be considered by the Senate.

Section Two: Stakeholder feedback summary

18 SMC 3 of ED SR1 asked stakeholders the following question:

Do you agree with the proposed requirement that if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general purpose financial reports?

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

Quantitative feedback summary

20 The AASB received 117 comment letters and 289 survey responses for ED SR1. Of these, 58 comment letters and 104 survey respondents clearly expressed a view on SMC 3.

21 The following table summarises the responses received on SMC 3 (rounded to the nearest %).

	Agree	Partially agree	Disagree
Out of the 58 comment letters that expressed a clear view on SMC 3[10]	83%	9%	9%

9 For further explanation of this matter, see BC68 in IFRS S1 *Basis for Conclusions on General Requirements for Disclosure of Sustainability-related Financial Information*.

10 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.

Out of the 104 survey responses that commented on SMC 3[11]	66%	18%	15%

22 The quantitative feedback summarised above indicates strong support for the proposal in SMC 3. Specifically, this support was higher in comment letter respondents (83%) than in survey respondents (66%). This nevertheless suggests a general consensus among stakeholders concerning the proposal.

Qualitative feedback summary[12]

23 Most respondents agreed with the AASB proposal that if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact and explain how it came to that conclusion.

24 Reasons provided to support the AASB proposal included that:

(a) it will provide useful information to users of GPFR;[13]

(b) it will facilitate greater transparency because it will confirm that an entity has considered climate-related risks and opportunities, and that they have not been overlooked;[14]

(c) it represents a useful addition to the 'baseline' of IFRS Sustainability Disclosure Standards;[15] and

(d) it is a requirement in the Exposure Draft legislation released by the Treasury, so it was necessary for the ASRS Standards to be consistent with the legislation.[16]

25 A few respondents, while supportive of the requirement, expressed scepticism that climate could be considered immaterial for any entities subject to mandatory climate-related disclosure requirements.[17] This was because climate change was seen to bring about risks such as supply chain disruptions, extreme weather events, and resource scarcity that would impact most entities, but particularly the larger entities captured by the mandatory disclosure requirements. One respondent suggested including additional language to set the expectation that having no material climate-related risks and opportunities is not the norm.[18]

26 Some respondents partially agreed with the proposal but observed that:

(a) assurance of this statement may be significantly challenging;[19]

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

12 Roundtable participants provided diverse views on SMC 3; however, they were more likely to support the proposal rather than disagree with it. This paper integrates the reasons provided to support and oppose SMC 3 raised by stakeholders during outreach sessions.

13 For example, refer to comment letters 3, 12, 14, 15, 18, 38, 43, 64, 81, 88, and almost all roundtable sessions.

14 For example, refer to comment letters 4, 11, 14, 51, 77, 103, 104, and survey respondents S13, S25, and S214.

15 For example, refer to comment letter 34.

16 For example, refer to comment letters 40 and 55.

17 For example, refer to comment letters 42 and 94, survey respondents S75, S101, S216, and S251, and roundtable summary (Melbourne 1-2, Perth 1-2, Sydney 2, Adelaide, Hobart, and Virtual 1).

18 For example, refer to comment letter 86.

19 For example, refer to comment letters 26 and 67, and roundtable summary (Melbourne 1-4, Canberra 2, Sydney 3, Brisbane 3, and Virtual 2).

(b) this requirement should not necessarily be extended to sustainability topics beyond climate-related financial disclosures; [20] and

(c) entities may need to report on this information in one way or another for value chain reporting purposes.[21]

27 Some respondents disagreed with the proposal because:

(a) it was seen to be an unnecessary departure from the international 'baseline' of IFRS Sustainability Disclosure Standards;[22]

(b) reaching this conclusion was seen to be practically challenging, complex, and onerous;[23]

(c) the information was seen to be superfluous and unnecessary;[24]

(d) it was seen to be a case of government policy influencing standard-setting;[25]

(e) the reporting of Scope 1, 2 and 3 greenhouse gas emissions was seen to be an important disclosure, irrespective of materiality;[26] and

(f) an equivalent requirement does not exist in financial reporting.[27]

28 One respondent who disagreed with the proposal argued that such a requirement was redundant because the proper application of IFRS Sustainability Disclosure Standards could lead to a similar conclusion as disclosure of how an entity has determined there are no material climate-related risks and opportunities (through disclosure of governance, strategy and risk management) is useful information to users.[28]

29 A few respondents highlighted several concerns that may require additional clarification, including:

(a) how the concept of materiality is applied to determine whether climate-related risks and opportunities are material, including noting it is not just on the basis of consideration of quantitative financial information;[29]

(b) the nature of the disclosure required—that is, whether a statement of fact and explanation is sufficient or whether other disclosures must still be made (e.g., governance, risk management, cross-industry metrics and/or Scope 1, 2 and 3 emissions);[30]

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20 For example, refer to comment letters 67, 97.

21 For example, refer to roundtable summary (Melbourne 2, and Perth 1)

22 For example, refer to comment letter 63.

23 For example, refer to comment letters 63, 90, survey respondent S279, and roundtable summary (Melbourne 2 and 4, Perth 2, Brisbane 2-3).

24 For example, refer to comment letter 90, and survey respondent S19.

25 For example, refer to comment letter 7.

26 For example, refer to comment letter 105.

27 For example, refer to comment letter 90 and roundtable summary (Virtual 3).

28 For example, refer to comment letter 7.

29 For example, refer to comment letter 26.

30 For example, refer to comment letters 6, 9, 86, 55, 65, and roundtable summary (Sydney 1, 3-4, Brisbane 2, and Virtual 1).

(c) clarification on how the requirement intersects with the Exposure Draft legislation;[31] and

(d) the inclusion of additional information in the Basis for Conclusions (BC) to explain why this approach is justified for climate-related financial disclosures when an equivalent requirement does not exist in financial reporting.[32]

30 Overall, respondents expressed a strong demand for materiality guidance and/or educational materials concerning climate-related financial disclosures. Respondents observed that materiality in the context of climate-related financial disclosures may involve substantial complexities because the nature of the subject matter differs considerably in terms of quantitative and qualitative considerations compared to financial reporting. As such, materiality guidance/education content was seen to be crucial to facilitating consistency in practice throughout implementation.[33]

Section Three: Staff analysis and recommendations

31 ED SR1 was published in October 2023 and the Bill was published in Exposure Draft form *after* the publication of ED SR1 in January 2024. Staff believe this timeline and the Bill's content have important implications for the Board's deliberations regarding SMC 3.

32 Section 296B of the Bill contains requirements broadly similar to those proposed in SMC 3. Assuming Section 296B is retained in the final version of the Bill, this will mean that certain entities captured by the mandatory climate-related financial disclosure requirements may choose to make a statement similar to the proposal in SMC 3 as part of fulfilling their obligations under the Bill (if it is applicable to their facts and circumstances).

33 Given the inclusion of Section 296B in the Bill, the Board has two options to consider when deciding on this SMC. The Board can either pursue:

(a) **Option 1:** incorporate the proposal into the ASRS Standards and endeavour to make it consistent with the requirements described in the Bill; <u>*or*</u>

(b) **Option 2:** exclude the proposal from the ASRS Standards.

34 Following the consideration of stakeholder feedback, staff have identified the following key themes for analysis when considering the above options:

(a) interpreting "material climate-related risks and opportunities";

(b) alignment with the IFRS Sustainability Disclosure Standards baseline; and

(c) specific requirements of the [draft] ASRS Standards and its interactions with the Bill.

Interpreting "material climate-related risks and opportunities"

35 Staff observe that the concept of a "material climate-related risk" or a "material climate-related opportunity" does not exist in the IFRS Sustainability Disclosure Standards. Rather, IFRS S2 establishes

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31 For example, refer to comment letters 21, 79, 82, survey respondent S75, and roundtable summary (Sydney 1, Perth 2, and Virtual 1).

32 For example, refer to comment letter 37.

33 For example, refer to comment letters 9, 20, 21, 37, 44, 63, 65, 68, 81, 82, 83, 86, 100, 104, 108, 110, survey respondent S28, and roundtable summary (Perth 1-2, Sydney 1-4, Melbourne 4, Hobart, Brisbane 1-3, Newcastle, and Virtual 3).

disclosure requirements for information about climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

36 Materiality applies instead to the **information** disclosed in relation to the climate-related risk or climate-related opportunity that could reasonably be expected to affect an entity's prospects.

37 Paragraph 4 of IFRS S2 states:

> "Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard."

38 Staff observe that while the wording in section 296B of the Bill does not use the technical phrase "could not reasonably be expected to affect an entity's prospects", the wording in the Explanatory Memorandum to the Bill appears to indicate that "no material climate-related financial risks and opportunities" is equated to those risks and opportunities that "could not reasonably be expected to affect an entity's prospects". If this is the case, in accordance with paragraph 4 of IFRS S2, these risks and opportunities would be outside the Standard's scope.

Alignment with the IFRS Sustainability Disclosure Standards baseline

39 Staff note that stakeholder feedback on ED SR1 exhibited a strong preference for closer alignment with the IFRS Sustainability Disclosures Standards baseline. Since receiving this feedback, subsequent Board discussions have noted a similar preference for alignment with the IFRS Sustainability Disclosures Standards baseline, with amendments only made for specific jurisdictional reasons.

40 While section 296B of the Bill could be considered a specific jurisdictional reason for moving away from the baseline, staff have considered whether the ASRS Standards—excluding paragraph Aus6.2 in [draft] ASRS 1 and paragraph Aus4.2 in [draft] ASRS 2—are not inconsistent with the requirements in the Bill as it is currently drafted.

41 As discussed above, in accordance with paragraph 4 of IFRS S2, climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of the Standard. The existing drafting of paragraph 4 of [draft] ASRS 2 is consistent with paragraph 4 of IFRS S2.

42 While the staff believe that applying paragraph 4 would render the rest of the application of the Standard largely irrelevant, they also note that Paragraph B25 in [draft] ASRS 1 states:

> "An entity need not disclose information otherwise required by an Australian Sustainability Reporting Standard if the information is not material. This is the case even if the Australian Sustainability Reporting Standard contains a list of specific requirements or describes them as minimum requirements"

43 Staff note that the above disclosure is consistent, albeit with contextualisation, with paragraph B25 in IFRS S1:

> "An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if the information is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements."

44 Consistent with the IFRS Sustainability Disclosure Standards baseline, the [draft] ASRS Standards thus position materiality as a pervasive concept that must be applied in the context of a specific entity's

facts and circumstances. This approach to materiality is consistent with financial reporting topics under Australian Accounting Standards and means that any entity applying the [draft] ASRS Standards may conclude that information is not required to be disclosed if the information is not material.

45 Therefore, staff believe that the ASRS Standards would not be inconsistent with the wording in the Bill *without* the inclusion of paragraph Aus6.2 in [draft] ASRS 1 and paragraph Aus4.2 in [draft] ASRS 2. Therefore, there does not appear to be a specific jurisdictional reason for amending the existing IFRS Sustainability Disclosure Standards baseline via the addition of Aus paragraphs.

46 Furthermore, staff note that the Bill has not yet been finalised at the time of writing this paper. If the Board decides to proceed with the proposal to incorporate paragraphs Aus6.2 and Aus4.2 into the final ASRS Standards and seek to make it consistent with the requirements described in the Bill, it would be prudent to wait for that Bill to pass both Houses of Parliament. Staff nevertheless note that including paragraphs to mirror the requirements of legislation may cause future issues if the legislation were to change, which may create an unwanted precedent to incorporate legislative scoping requirements into principles-based standards.

Specific requirements of the [draft] ASRS Standards and its interactions with Bill

47 In terms of the Bill, staff note that:

(a) section 296A(1) describes the basic contents of an entity's "sustainability report" required under the Bill. This identifies the "sustainability report" as consisting of various items, including the "climate statements", any notes to the climate statements, any statements and notes required under a Ministerial legislative instrument, and the directors' declaration about the statements and the notes; and

(b) section 296B(1) details the contents of "climate statements" in circumstances where an entity determines they have no financial risks or opportunities relating to climate.

48 Staff interpret section 296B(1) to mean that a statement of no material financial risks and opportunities relating to climate (and an accompanying explanation) would satisfy the requirements for the "climate statements" for the financial year. However, staff note that under section 296A(1), the "climate statements" are only one of the items that make up the entity's "sustainability report".

49 The IFRS Sustainability Disclosure Standards and the [draft] ASRS Standards do not identify or refer to "climate statements" or "notes to climate statements". This potentially creates uncertainties surrounding the interaction of the [draft] ASRS Standards and the broader requirements of the Bill where section 296B applies.

50 The issue arises as to what information entities are required to disclose under the relevant legislation, as the Bill requires an "explanation" under section 296B(1)(d). As the content required in this "explanation" is not specified, it is unclear if the information contained in this explanatory statement should reflect disclosures from the [draft] ASRS Standards (assuming they are deemed material). Staff also note that the obligation to provide "climate notes" and other disclosures per section 296A(1) appears to remain where an entity makes a climate statement of no material climate-related risks and opportunities under section 296B(1). It is possible these obligations may be substantially limited when making such a statement (e.g. there may be no accompanying "notes to the climate statements"), but staff are unable to say how this interacts with the requirements in the [draft] ASRS Standards as this lies outside the scope of the AASB.

51 Like any piece of legislation, staff believe this matter may be open to interpretation and diversity in practice could be expected. Staff believe that the nature of materiality, coupled with intersections with requirements imposed under the legislation, means that the approach to making this statement,

including the length and detail to support this assessment, may differ between entities based on their particular facts and circumstances.

52 Overall, staff cannot form a definitive view on how a statement made under section 296B of the Bill would interact with the requirements described in the [draft] ASRS Standards. This determination would be complex, dependent on the entity's specific facts and circumstances, and involve legal interpretation beyond the scope of the AASB.

53 Staff note that removing the proposed paragraphs Aus6.2 and Aus4.2 in the [draft] ASRS Standards would not limit an entity's ability to make a statement under section 296B of the Bill. Instead, it would allow the AASB to refrain from interpretations on intersections between the [draft] ASRS Standards and section 296B of the Bill.

Conclusion

54 Staff believe the approach to scope and materiality in the Standards and the requirements described in section 296B(1) of the Bill are not inconsistent, irrespective of whether the Board decides to include or exclude paragraphs Aus6.2 and Aus4.2 in the [draft] ASRS Standards.

55 However, as the Bill has yet to pass both Houses, ensuring that no inconsistency occurs between the final Bill and the ASRS Standards may delay the finalisation of the Standards and create an unnecessary precedent for incorporating legislative scoping requirements into principles-based standards. Staff note that these issues are not typically addressed by the AASB and, therefore, consider it prudent for the Board to avoid them.

56 Staff observe that while most respondents supported the inclusion of paragraphs Aus6.2 and Aus4.2 in the [draft] ASRS Standards, for the reasons stated above, entities applying the Standards can make a statement consistent with the proposal described in SMC 3, irrespective of whether these paragraphs are included in the final Standards. Staff also observe that Section 296B as currently proposed includes a legislative requirement to this effect.

57 Furthermore, staff note that the inclusion of paragraphs Aus6.2 and Aus4.2 in the [draft] ASRS Standards does not have a precedent in Australian Accounting Standards, which do not include similar statements to the effect of the consequences of determining that the subject of the Standard is not material. Under principles-based standards, entities determine on an individual basis what disclosure requirements provide useful information for users of GPFR based on their particular facts and circumstances.

58 Staff further observe that several key thematic issues identified by respondents regarding the complexity of concluding that an entity faces no material climate-related risks and opportunities, the nature of the accompanying explanation, and intersections with requirements in the Bill would remain should the Board decide to include paragraphs Aus6.2 and Aus4.2 in the ASRS Standards.

59 Based on the analysis presented in this paper, staff consider **Option 2** the preferred option and therefore recommend the Board exclude the proposal from the ASRS Standards.

Questions to Board members

Q1. Do Board members have any questions about the summary of stakeholder feedback, analysis or recommendations concerning SMC 3?

Q2. Do Board members agree with the staff recommendation identified in paragraph 59? If not, what alternative approaches would you recommend?

Appendix A: Extracts from IFRS S1 and [draft] ASRS 1

Requirements in IFRS S1		Requirements in [draft] ASRS 1	
2	Information about sustainability-related risks and opportunities is useful to primary users because an entity’s ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity’s *value chain*. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity’s dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity.	Aus2.1	Material information about climate-related risks and opportunities is useful to primary users of general purpose financial reports. An entity’s climate-related risks and opportunities arise out of the interactions between the entity and its stakeholders (including primary users of the entity’s general purpose financial reports), society, the economy and the natural environment throughout the entity’s *value chain*. These interactions—which can be direct and indirect—result from operating an entity’s *business model* in pursuit of the entity’s strategic purposes and from the external environment in which the entity operates. These interactions take place within an interdependent system in which an entity both depends on resources and relationships throughout its value chain to generate cash flows and affects those resources and relationships through its activities and outputs. These dependencies and impacts might give rise to climate-related risks and opportunities that could reasonably be expected to affect an entity’s cash flows, access to finance and cost of capital, and a not-for-profit entity’s ability to further its objectives, over the short, medium and long term.

Requirements in IFRS S1		Requirements in [draft] ASRS 1	
3	**This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.**	**Aus3.1**	**This [draft] Standard requires:** **(a) a for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and** **(b) a not-for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.** **For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.**
	Materiality		**Materiality**
17	**An entity shall disclose material information about the sustainability related risks and opportunities that could reasonably be expected to affect the entity's prospects.**	**17**	**An entity shall disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.**
18	**In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.**	**18**	**In the context of climate-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and climate-related financial disclosures and which provide information about a specific reporting entity.**
19	To identify and disclose material information, an entity shall apply paragraphs B13–B37	19	To identify and disclose material information, an entity shall apply paragraphs B13–B37.

Requirements in IFRS S1		Requirements in [draft] ASRS 1	
	Materiality (paragraphs 17–19)		**Materiality (paragraphs 17–19)**
B13	Paragraph 17 requires an entity to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Materiality of information is judged in relation to whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports, which provide information about a specific reporting entity.	B13	Paragraph 17 requires an entity to disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Materiality of information is judged in relation to whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports, which provide information about a specific reporting entity.
B14	The decisions of primary users relate to providing resources to the entity and involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources	B14	The decisions of primary users relate to providing resources to the entity and involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or selling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.
		AusB14.1	In respect of a not-for-profit entity, the following are examples of decisions of primary users relating to providing resources to an entity: (a) parliaments deciding on behalf of constituents whether to fund particular programmes for delivery by an entity; (b) taxpayers deciding who should represent them in government; (c) donors deciding whether to donate resources to an entity; and (d) recipients of goods and services deciding whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers.

Requirements in IFRS S1		Requirements in [draft] ASRS 1	
B15	The decisions described in paragraph B14 depend on primary users' expectations about returns, for example, dividends, principal and interest payments or market price increases. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).	B15 AusB15.1	[Deleted by the AASB] The decisions described in paragraphs B14 and AusB14.1 depend on primary users' expectations about returns, for example dividends, principal and interest payments, market price increases and a not-for-profit entity's ability to continue providing goods or services. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).
B16	Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances.	B16	Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances.
B17	Sustainability-related financial disclosures are prepared for primary users who have reasonable knowledge of business and economic activities and who review and analyse information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand sustainability-related financial information.	B17	Climate-related financial disclosures are prepared for primary users who have reasonable knowledge of business and economic activities and who review and analyse information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand climate-related financial information.
B18	Individual primary users may have different, and sometimes even conflicting, information needs and desires. Information needs of primary users may also evolve over time. Sustainability-related financial disclosures are intended to meet common information needs of primary users.	B18	Individual primary users may have different, and sometimes even conflicting, information needs and desires. Information needs of primary users may also evolve over time. Climate-related financial disclosures are intended to meet common information needs of primary users.
	Identifying material information		**Identifying material information**
B19	Materiality judgements are specific to an entity. Consequently, this Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.	B19	Materiality judgements are specific to an entity. Consequently, this [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.

	Requirements in IFRS S1		Requirements in [draft] ASRS 1
B20	To identify material information about a sustainability-related risk or opportunity, an entity shall apply, as the starting point, the requirements of the IFRS Sustainability Disclosure Standard that specifically applies to that sustainability-related risk or opportunity. In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability related risk or opportunity, the entity shall apply the requirements on sources of guidance specified in paragraphs 57–58. Those sources specify information, including metrics, that may be relevant to a particular sustainability-related risk or opportunity, to a particular industry or in specified circumstances.	B20 AusB20.1	[Deleted by the AASB] To identify material information about a climate-related risk or opportunity, an entity shall apply the requirements of the Australian Sustainability Reporting Standard that specifically applies to that climate-related risk or opportunity. In the absence of an Australian Sustainability Reporting Standard that specifically applies to a climate-related risk or opportunity, the entity may—to the extent that these sources do not conflict with Australian Sustainability Reporting Standards—refer to and consider the applicability of information, including well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC.
B21	An entity shall assess whether the information identified in applying paragraph B20, either individually or in combination with other information, is material in the context of the entity's sustainability-related financial disclosures taken as a whole. In assessing whether information is material, an entity shall consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a sustainability-related risk or opportunity on the entity.	B21	An entity shall assess whether the information identified in applying paragraph AusB20.1, either individually or in combination with other information, is material in the context of the entity's climate-related financial disclosures taken as a whole. In assessing whether information is material, an entity shall consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a climate-related risk or opportunity on the entity.
B22	In some cases, IFRS Sustainability Disclosure Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider: (a) the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'); and (b) the range of possible outcomes and the likelihood of the possible outcomes within that range.	B22 AusB22.1	[Deleted by the AASB] In some cases, Australian Sustainability Reporting Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material: (a) a for-profit entity shall consider the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'), and the range of possible outcomes and the likelihood of the possible outcomes within that range; and (b) a not-for-profit entity shall consider the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows and ability to further its objectives over the short, medium and long term (referred to as 'the possible outcome'), and

Requirements in IFRS S1	Requirements in [draft] ASRS 1
	the range of possible outcomes and the likelihood of the possible outcomes within that range.
B23 When considering possible outcomes, an entity shall consider all pertinent facts and circumstances. Information about a possible future event is more likely to be judged as being material if the potential effects are significant and the event is likely to occur. However, an entity shall also consider whether information about low-probability and high-impact outcomes might be material either individually or in combination with information about other low-probability and high-impact outcomes. For example, an entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption—such as disruption to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.	B23 When considering possible outcomes, an entity shall consider all pertinent facts and circumstances. Information about a possible future event is more likely to be judged as being material if the potential effects are significant and the event is likely to occur. However, an entity shall also consider whether information about low-probability and high-impact outcomes might be material either individually or in combination with information about other low-probability and high-impact outcomes. For example, an entity might be exposed to several climate-related risks, each of which could cause the same type of disruption—such as disruption to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.
B24 If a possible future event is expected to affect an entity's cash flows, but only many years in the future, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular sustainability-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.	B24 If a possible future event is expected to affect an entity's cash flows, but only many years in the future, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular climate-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.
B25 An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if the information is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements.	B25 An entity need not disclose information otherwise required by an Australian Sustainability Reporting Standard if the information is not material. This is the case even if the Australian Sustainability Reporting Standard contains a list of specific requirements or describes them as minimum requirements.

Requirements in IFRS S1		Requirements in [draft] ASRS 1	
B26	An entity shall disclose additional information when compliance with the specifically applicable requirements in an IFRS Sustainability Disclosure Standard is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term.	B26 AusB26.1	[Deleted by the AASB] An entity shall disclose additional information when compliance with the specifically applicable requirements in an Australian Sustainability Reporting Standard is insufficient to enable users of general purpose financial reports of: (a) a for-profit entity to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital over the short, medium and long term; or (b) a not-for-profit entity to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital, and its ability to further its objectives, over the short, medium and long term.
B27	An entity shall identify its sustainability-related financial disclosures clearlyand distinguish them from other information provided by the entity (see paragraph 62). An entity shall not obscure material information. Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information. Examples of circumstances that might result in material information being obscured include: (a) material information is not clearly distinguished from additional information that is not material; (b) material information is disclosed in the sustainability-related financial disclosures, but the language used is vague or unclear; (c) material information about a sustainability-related risk or opportunity is scattered throughout the sustainability-related financial disclosures; (d) items of information that are dissimilar are inappropriately aggregated; (e) items of information that are similar are inappropriately disaggregated; and (f) the understandability of the sustainability-related financial disclosures is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.	B27	An entity shall identify its climate-related financial disclosures clearly and distinguish them from other information provided by the entity (see paragraph 62). An entity shall not obscure material information. Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information. Examples of circumstances that might result in material information being obscured include: (a) material information is not clearly distinguished from additional information that is not material; (b) material information is disclosed in the climate-related financial disclosures, but the language used is vague or unclear; (c) material information about a climate-related risk or opportunity is scattered throughout the climate-related financial disclosures; (d) items of information that are dissimilar are inappropriately aggregated; (e) items of information that are similar are inappropriately disaggregated; and (f) the understandability of the climate-related financial disclosures is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Requirements in IFRS S1		Requirements in [draft] ASRS 1	
B28	An entity shall reassess its materiality judgements at each reporting date to take account of changed circumstances and assumptions. Because of changes in the entity's individual circumstances, or in the external environment, some types of information included in an entity's sustainability-related financial disclosures for prior periods might no longer be material. Conversely, some types of information not previously disclosed might become material.	B28	An entity shall reassess its materiality judgements at each reporting date to take account of changed circumstances and assumptions. Because of changes in the entity's individual circumstances, or in the external environment, some types of information included in an entity's climate-related financial disclosures for prior periods might no longer be material. Conversely, some types of information not previously disclosed might become material.
	Interaction with law or regulation		**Interaction with law or regulation**
B31	Law or regulation might specify requirements for an entity to disclose sustainability-related information in its general purpose financial reports. In such circumstances, the entity is permitted to include in its sustainability related financial disclosures information to meet legal or regulatory requirements, even if that information is not material. However, such information shall not obscure material information.	B31	Law or regulation might specify requirements for an entity to disclose climate-related information in its general purpose financial reports. In such circumstances, the entity is permitted to include in its climate-related financial disclosures information to meet legal or regulatory requirements, even if that information is not material. However, such information shall not obscure material information.
B32	An entity shall disclose material climate-related financial information, even if law or regulation permits the entity not to disclose such information.	B32	An entity shall disclose material climate-related financial information, even if law or regulation permits the entity not to disclose such information.
B33	An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if law or regulation prohibits the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.	B33	An entity need not disclose information otherwise required by an Australian Sustainability Reporting Standard if law or regulation prohibits the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.
	Commercially sensitive information		**Commercially sensitive information**
B34	If an entity determines that information about a sustainability-related opportunity is commercially sensitive in the limited circumstances described in paragraph B35, the entity is permitted to omit that information from its sustainability-related financial disclosures. Such an omission is permitted even if information is otherwise required by	B34	If an entity determines that information about a climate-related opportunity is commercially sensitive in the limited circumstances described in paragraph B35, the entity is permitted to omit that information from its climate-related financial disclosures. Such an omission is permitted even if information is otherwise required by an

Requirements in IFRS S1		Requirements in [draft] ASRS 1	
	an IFRS Sustainability Disclosure Standard and the information is material.		Australian Sustainability Reporting Standard and the information is material.
B35	An entity qualifies for the exemption specified in paragraph B34 if, and only if: (a) information about the sustainability-related opportunity is not already publicly available; (b) disclosure of that information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity; and (c) the entity has determined that it is impossible to disclose that information in a manner—for example, at an aggregated level—that would enable the entity to meet the objectives of the disclosure requirements without prejudicing seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity.	B35	An entity qualifies for the exemption specified in paragraph B34 if, and only if: (a) information about the climate-related opportunity is not already publicly available; (b) disclosure of that information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity; and (c) the entity has determined that it is impossible to disclose that information in a manner—for example, at an aggregated level—that would enable the entity to meet the objectives of the disclosure requirements without prejudicing seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity.
B36	If an entity elects to use the exemption specified in paragraph B34, the entity shall, for each item of information omitted: (a) disclose the fact that it has used the exemption; and (b) reassess, at each reporting date, whether the information qualifies for the exemption.	B36	If an entity elects to use the exemption specified in paragraph B34, the entity shall, for each item of information omitted: (a) disclose the fact that it has used the exemption; and (b) reassess, at each reporting date, whether the information qualifies for the exemption.
B37	An entity is prohibited from using the exemption specified in paragraph B34 in relation to a sustainability-related risk or as a basis for broad non-disclosure of sustainability-related financial information.	B37	An entity is prohibited from using the exemption specified in paragraph B34 in relation to a climate-related risk or as a basis for broad non-disclosure of climate-related financial information.

Appendix B: Extracts from the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 – currently under consideration by Parliament

296A Contents of annual sustainability report

Basic contents

(1) The sustainability report for a financial year consists of:
- (a) the climate statements for the year; and
- (b) any notes to the climate statements; and
- (c) any statements required under subsection (5); and
- (d) any notes to the statements mentioned in paragraph (1)(c) required under subsection (5); and
- (e) the directors' declaration about the statements and the notes.

Climate statements

(2) Subject to section 296B, the climate statements for the year are the climate statements in relation to the entity required by sustainability standards made for the purposes of this subsection.

Notes to climate statements

(3) A sustainability report must include the following notes to the climate statements:
- (a) any disclosures required under subsection (4);
- (b) any notes, required by sustainability standards made for the purposes of this paragraph, in relation to:
  - (i) the preparation of the climate statements; or
  - (ii) anything included in the climate statements; or
  - (iii) other matters concerning environmental sustainability;
- (c) notes containing any other information necessary to ensure that the climate statements and notes together make the disclosures required by section 296D.

(4) The Minister may, by legislative instrument, require a sustainability report to include specified disclosures in relation to:
- (a) the preparation of the climate statements; or
- (b) anything included in the climate statements.

Other statements and notes

(5) For the purposes of paragraphs (1)(c) and (d), the Minister may, by legislative instrument, require a sustainability report to include:
- (a) statements relating to financial matters concerning environmental sustainability; and
- (b) notes to the statements.

Directors' declaration

(6) The directors' declaration is a declaration by the directors as to whether, in the directors' opinion, the substantive provisions of the sustainability report are in accordance with this Act, including:
- (a) section 296C (compliance with sustainability standards etc.); and
- (b) section 296D (climate statement disclosures).

(7) The declaration must:
- (a) be made in accordance with a resolution of the directors; and

(b) specify the date on which the declaration is made; and
(c) be signed by a director.

Note: Section 1228 deals with directors' resolutions for CCIVs.

296B Contents of climate statements—statement about there being no financial risks or opportunities relating to climate

(1) Despite subsection 296A(2), if, for a financial year:
(a) there are none of the following for the entity:
(i) material financial risks relating to climate;
(ii) material financial opportunities relating to climate; and
(b) none of subsections (2), (4) and (5) of this section apply to the entity;
the climate statements for the year are:
(c) a statement of the circumstance mentioned in paragraph (a) of this subsection; and
(d) a statement explaining how paragraph (a) of this subsection applies to the entity for the financial year.

Entities to which subsection (1) does not apply

(2) This subsection applies to an entity for a financial year if it satisfies at least 2 of the following paragraphs:
(a) the consolidated revenue for the financial year of the entity and the entities it controls (if any) is $200 million or more;
(b) the value of the consolidated gross assets at the end of the financial year of the entity and the entities it controls (if any) is $500 million or more;
(c) the entity and the entities it controls (if any) have 250 or more employees at the end of the financial year.

(3) In counting employees for the purposes of subsection (2), take part-time employees into account as an appropriate fraction of a full-time equivalent.

(4) This subsection applies to an entity for a financial year if it is:
(a) a registered corporation under the *National Greenhouse and Energy Reporting Act 2007* at the end of the financial year; or
(b) required to make an application to be registered under subsection 12(1) of that Act in relation to the financial year.

(5) This subsection applies to an entity for a financial year if:
(a) the entity is a registered scheme, registrable superannuation entity or retail CCIV; and
(b) the value of assets at the end of the financial year of the entity and the entities it controls (if any) is $5 billion or more.

(6) For the purposes of this section, the question of whether there are any of the following for an entity is to be worked out in accordance with sustainability standards made for the purposes of this subsection:
(a) a material financial risk relating to climate;
(b) a material financial opportunity.

(7) For the purposes of this section:
(a) the question whether an entity controls another entity is to be decided in accordance with accounting standards made for the purposes of paragraph 295(2)(b); and
(b) consolidated revenue, the value of consolidated gross assets and the value of assets are to be calculated in accordance with accounting standards in force at the relevant time;

(even if the standards do not otherwise apply to the financial year of some or all of the entities concerned).

296C Compliance with sustainability standards etc.

(1) The substantive provisions of the sustainability report must comply with:

(a) sustainability standards made for the purposes of this paragraph; and

(b) any further requirements determined under subsection (2) of this section.

(2) For the purposes of paragraph (1)(b) of this section, the Minister may, by legislative instrument, determine requirements in relation to the substantive provisions of a sustainability report.

296D Climate statement disclosures

(1) The climate statements for a financial year, and the notes to the climate statements, must together disclose all of the following:

(a) any:

(i) material financial risks there are for the entity; or

(ii) material financial opportunities relating to climate there are for the entity;

that are required to be disclosed by sustainability standards made for the purposes of this paragraph;

(b) any metrics and targets of the entity relating to climate that are required to be disclosed by sustainability standards made for the purposes of this paragraph, including metrics and targets relating to:

(i) scope 1 greenhouse gas emissions; or

(ii) scope 2 greenhouse gas emissions; or

(iii) scope 3 greenhouse gas emissions (including financed emissions);

(c) any information that:

(i) is about governance of, strategy of, or risk-management by, the entity in relation to the risks, opportunities, metrics and targets mentioned in paragraphs (a) and (b); and

(ii) is required to be disclosed by sustainability standards made for the purposes of this paragraph.

(2) For the purposes of this section, the question of whether there are any of the following for an entity is to be worked out in accordance with sustainability standards made for the purposes of this subsection:

(a) a material financial risk relating to climate;

(b) a material financial opportunity relating to climate.

(3) This section does not apply if subsection 296B(1) applies for the financial year.