

Australian Accounting Standards Board
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via submission portal: aasb.gov.au/current-projects/open-for-comment

29 February 2024

Scyne Advisory's response to AASB Exposure Draft ED SR1 - Australian Sustainability Reporting Standards - Disclosure of Climate-related Financial Information

Thank you for the opportunity to provide comments on the AASB Sustainability Reporting Exposure Draft ED SR1 that includes three draft Australian Sustainability Reporting Standards (**the Proposed Standards**). We support the development of Australian standards that provide a foundation for transparency and accountability in sustainability reporting.

Scyne Advisory (**Scyne**) is a public sector specialist advisor who supports governments, their agencies, and other public purpose entities deliver services to Australians. Our purpose is to support public purpose entities to build more resilient, equitable, secure, and prosperous communities.

We would like to acknowledge and thank the AASB for allowing stakeholders the opportunity to comment on the Proposed Standards during their development. We would also like to acknowledge the experiences and perspectives of our clients, whose input we have considered to help shape our response. Given the focus of Scyne on delivering services to public purpose clients, our response is focused on the considerations from the perspective of public sector and public purpose entities.

Through our engagement with the public sector, we have identified the following key considerations in relation to the Proposed Standards.

Application to the public sector

Scyne is conscious that the Proposed Standards have been developed using the work of the International Sustainability Standards Board (**ISSB**) as a foundation, with modifications made for Australian matters and requirements with the intention to meet the needs of Australian stakeholders. This includes amending paragraphs within the profit-orientated draft ISSB standards to incorporate terminology suitable for not-for-profit entities. The purpose of these amendments is to support sector neutrality and address other not-for-profit considerations.

However, in its current form there remains considerable ambiguity on how public sector and not-for-profit entities would practically apply some of the key principles of the Proposed Standards, and in doing so, how these entities would consider the foundational concepts that underly financial reporting. We have outlined in table 1 the key considerations that would need to be addressed to enable public sector entities to effectively assess the impacts of the Proposed Standards, and whether reporting without appropriate application and implementation guidance would enable the public sector to provide useful information for users of its financial reports in a cost-effective manner.

Given Scyne’s public sector focus, this precludes us from responding to several matters for comment within the exposure draft. Further development of Australian requirements and guidance for public sector and not-for-profit entities around climate-related reporting would provide a stronger basis in which to provide meaningful responses to matters for comment raised by the AASB.

Assessing the impact of the Proposed Standards on the public sector

Table 1 below outlines the key considerations, as they relate to foundational concepts under the AASB’s *Framework for the Preparation and Presentation of Financial Statements (the Framework)*, that would benefit from additional clarity to enable the public sector to effectively assess the impact of the Proposed Standards.

Table 1: Key financial reporting concepts and commentary

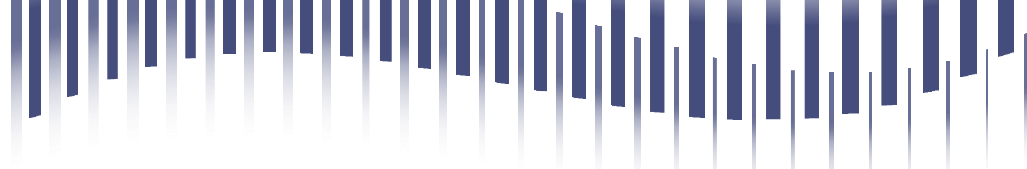
Concept	Commentary
Reporting entity	<p data-bbox="280 656 1479 719">Determining the level of government by which climate information should be reported is an important factor in assessing the impact of the Proposed Standards for the public sector.</p> <ul data-bbox="280 752 1479 1227" style="list-style-type: none"> <li data-bbox="280 752 1479 815">• The Proposed Standards require climate-related financial disclosures to be made for the same reporting entity as the related financial statements. <li data-bbox="280 826 1479 1066">• The AASB has observed that two key matters raised by Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) on ED 321 would need to be considered in developing Australian climate-related financial disclosure requirements applicable to not-for-profit public sector entities. One of these matters was whether climate-related financial disclosure requirements should be provided on a voluntary basis, and by which level of government entities, until the requirements have been appropriately tailored for the not-for-profit context and can be implemented in a cost effective and meaningful manner. <li data-bbox="280 1077 1479 1227">• Determining which level of government entity climate-related disclosures will apply to is critical in assessing the impact of the Proposed Standards for the public sector, as this will impact the reporting entity’s evaluation of the below foundational concepts under the Framework.
Materiality	<p data-bbox="280 1238 1479 1301">In assessing the materiality of information to be disclosed under the Proposed Standard, consideration must be given to the reporting entity and its users of financial reports.</p> <ul data-bbox="280 1335 1479 2098" style="list-style-type: none"> <li data-bbox="280 1335 1479 1469">• Materiality of information is judged in relation to whether omitting, misstating, or obscuring information could reasonably be expected to influence the decisions of primary users of general-purpose financial reports. Making this assessment requires consideration of the characteristics of users and the entity’s own circumstances. <li data-bbox="280 1480 1479 1543">• Therefore, identifying the primary users of financial reports is key to assessing materiality and the cost-benefit of preparing and disclosing financial information. <li data-bbox="280 1554 1479 1688">• The Framework identifies users of financial information for not-for-profit reporting entities as existing and potential resource providers, recipients of goods and services (for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). <li data-bbox="280 1700 1479 1834">• Given the multi-stakeholder environment in which the public sector operates, there may be varying characteristics and information needs of users depending on the level at which climate-related information is reported (e.g. individual department or agency, General Government Sector (GGS), whole of government (WoG) etc). <li data-bbox="280 1845 1479 1939">• Therefore, to assess materiality, the level and boundary of the reporting entity must be clear in order to consider the characteristics of users of its financial reports and the circumstances of the reporting entity itself. <li data-bbox="280 1951 1479 2098">• Materiality is also applied by auditors during an audit of financial statements, considering both quantitative and qualitative factors. The level at which the public sector reports climate-related information may give rise to additional practical challenges for auditors. For example, auditing data sets of various maturity and completeness across entities, varying assumptions and metrics used between entities to determine climate-related financial information, and the

Concept	Commentary
	upskilling required by public sector auditors to evaluate whether management has appropriately reflected climate risk in financial reports.
Cost-benefit of financial reporting	<p>To enable a robust cost-benefit assessment, further consideration needs to be given to the reporting entity and the needs of users of financial reports.</p> <ul style="list-style-type: none"> • A fundamental consideration is the cost constraint on useful financial reporting, and whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. • Paragraph QC38 of the Framework notes that applying the cost constraint in developing a proposed financial reporting standard, the AASB seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that standard. • The expected nature and quantity of the benefits and costs of the Proposed Standards within the context of the public sector is unclear. • As noted in paragraph BC106 of the Proposed Standards, given that public sector and not-for-profit entities manage a high number of assets and have diverse services to the community, there is an expectation that the cost of preparing climate-related financial disclosures would be high (e.g. the cost to comply with the whole-of-value-chain reporting would likely outweigh the benefits). • This concern has been echoed in Scyne’s conversations with public sector entities, and how the increased cost of reporting could impact the funding available for policies, programmes and services that directly benefit the community. • Further cost-benefit analysis for public sector and not-for-profit entities is required, considering the reporting entity and information needs of users. This assessment should also identify what additional implementation guidance needs to be developed to achieve a greater balance of cost-benefit in public sector climate reporting, including specific public sector exemptions, tailoring and/or transition relief such as incremental implementation. • Further, there will be considerable investment required in the education and development of people across public sector and not-for-profit entities in climate reporting. Entities will need to possess adequate capabilities to inform its consideration of the potential cost and level of effort required by a particular approach to climate-related scenario analysis and other complex areas of reporting.

Determining the public sector reporting entity for the purposes of climate-related reporting is also an important element in determining the approach taken in assessing the impact of, and determining the information requirements for, some of the key requirements of the Proposed Standards, such as:

Table 2: Key information requirements of the Proposed Standards and commentary

Key information requirement	Commentary
Determining value chain	<ul style="list-style-type: none"> • The second key matter identified by HoTARAC on ED 321 was how to determine the value chain of government and public sector entities with multi-stakeholder groups. • Under the Proposed Standards, value chain is defined as “the full range of interactions, recourses and relationships related to a reporting entity’s business model and the external environment in which it operates”. • A reporting entity’s value chain could be vastly different depending on what level of government is considered the reporting entity. • On an individual entity basis, value chain boundaries could easily extend to other public sector entities, resulting in significant overlap and duplication when reporting on an individual entity basis. • Conversely, a WoG value chain would likely be far reaching, diverse and complex given the number and scale of diverse assets, service offerings and relationships across whole of



Key information requirement	Commentary
	government. As such, the cost of gathering information across the WoG value chain may outweigh the benefits of reporting.
Strategy	<ul style="list-style-type: none"> When determining the reporting entity for the public sector, consideration should be given to what is most beneficial for public sector stakeholders when disclosing information on strategies for managing climate-related risks and opportunities. For example, evaluating whether it is more beneficial to report at the WoG level, where aligned strategies for managing the most material risks and opportunities across a particular public sector jurisdiction are disclosed. Alternatively, reporting at an individual entity level enables disclosing the nuances of strategies applied to managing the risks and opportunities unique to that entity, which may provide greater benefits to users.
Governance and risk management processes	<ul style="list-style-type: none"> In practicality, governance and risk management processes are the responsibility of individual entities. If climate-related information is reported at a WoG level, there may be challenges in disclosing the governance and risk management processes across multiple diverse entities in a meaningful way.
Metrics and Targets	<ul style="list-style-type: none"> As there would be few metrics which will be applicable to all public sector entities, it would be important to consider that public sector and not-for-profit entities are aligned on the interpretation and quantification of those metrics, and the implications for comparability and transparency of reporting. Similarly for targets, there should be alignment on the targets that should be achieved at the WoG and entity level.

If a decision is made to mandate climate-related financial reporting at the individual department or agency level, consideration would need to be given to whole of government reporting under AASB 1049 *Whole of Government and General Government Sector financial reporting (AASB 1049)*, specifically, whether climate-related reporting would also apply at the WoG level and the approach to working through the considerations outlined above.

It's important to note that, when considering at which level of government climate-related disclosures should apply, current and emerging jurisdictional guidance should be considered. We note that current jurisdictional guidance generally requires reporting climate-related information at the individual department or agency level.

Existing public sector climate reporting landscape

While not within the AASB's remit, a consideration for public sector entities is the existing and emerging public sector climate reporting landscape, and its interoperability with the Proposed Standards.

Unlike jurisdictional guidance developed in other areas of financial reporting, that is issued to provide guidance to the public sector in applying already developed AASB standards, climate-related reporting guidance has been developed by jurisdictions over the past 5 years or more in absence of a mandatory climate reporting regime. There is a need for this guidance in the public sector as climate-reporting practice has evolved internationally and in the private sector, and because mandatory Australian climate reporting has lagged the climate goals, policies, and legislative changes of governments. Therefore, jurisdictions have already considered how climate-reporting transpires within the public sector across Australia.

The different jurisdictions across Australia are at various stages in the development of mandatory climate reporting for public sector entities. As such, the impacts of transitioning to AASB climate reporting will be felt differently by each jurisdiction.

For public sector and not-for-profit entities, including Treasuries, to determine the impact of transitioning to the Proposed Standards, they will need to consider:

- Current and anticipated reporting requirements and by what level of government (e.g. individual department or agency).
- Misalignment or duplication of reporting under the differing requirements of jurisdictional versus the Proposed Standards.
- The current and anticipated resource capability and capacity required to bridge any gap between jurisdictional requirements and the Proposed Standards.
- The cost-benefit considerations of complying with the Proposed Standards.
- The regulatory and political environment in which reporting entities operate and the expectations of public sector and not-for-profit stakeholders – e.g. relevant government policies and targets.

Beyond the scope of the Proposed Standard, it is also worth noting there is international guidance that some public sector entities and not-for-profits may wish to comply with (e.g. universities because of the international market in which they operate). Introducing the Proposed Standards adds a further layer of complexity for public sector entities that already must comply with jurisdictional guidance and who may have ambitions to align with international sustainability reporting guidance.

In developing climate-related financial disclosure requirements applicable to not-for-profit public sector entities, there may be merit in referencing relevant jurisdictional guidance that may apply and identifying which guidance would take precedence. However, to determine this, input would be required from HoTARAC and other relevant jurisdictional stakeholders.

How public sector concerns could be addressed

Given the jurisdictional guidance already developed in this space and the potential impact of the reporting requirements on public sector entities, we suggest the AASB implements a coordinated approach to developing Australian climate-related financial disclosure requirements applicable to not-for-profit public sector entities.

We suggest that a public sector focused working group involving the AASB, HoTARAC and other key stakeholders (such as the appropriate federal, state, and local government representatives, large public sector and not-for-profit service providers such as universities and hospitals, and financial and sustainability reporting experts) to assess the impact of current jurisdictional guidance and how the public sector could practically transition to a nationally aligned climate-reporting regime. Input from the public sector is key in assessing the fundamental issues and impacts of climate-related reporting as they relate to the public sector context. Ultimately, a further cost-benefit assessment of applying the Proposed Standards needs to be undertaken.

This working group should also:

- Consider the results of the International Public Sector Accounting Standards Board's (**IPSASB's**) project on climate related disclosures.
- Assess and determine a reasonable timing of application for the not-for-profit public sector, considering the capability and capacity of public sector resources.
- Develop implementation guidance and worked examples on complex areas of the Proposed Standards for the public sector, for example determining an entity's value chain boundary.

- Consider whether more regular reviews and monitoring of the requirements of the Proposed Standards is required during the early years of application, compared with what the AASB would normally undertake for a new accounting standard. This should be considered as it is expected that the quality of climate reporting will be developed and refined over multiple planning cycles given the skills and capabilities required in this space.

Given the issues identified in this paper, we suggest that the AASB implements a public sector focused working group before the application date of the Proposed Standards being determined for public sector and not-for-profit entities, except for those that are required to report under the Corporations Act.

Conclusion

Scyne supports the development of Australian standards that provide a foundation for transparency and accountability in sustainability reporting. Public sector assets are generally funded by taxpayers, have a high impact on climate and have high exposure to loss from extreme weather events. As such, there is a high level of community expectation that governments address climate risks and align with the private sector in this space as much as possible. Therefore, it is critical that mandatory climate-reporting allows the public to report climate information to its stakeholders in a meaningful and cost-effective manner, and in a way that addresses the complexity and nuances that exists in the public sector.

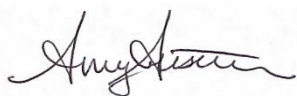
To achieve this, Scyne suggests that additional consideration be given to:

- The need for further development of implementation guidance for public sector and not-for-profit entities around climate-related reporting, including at which level of government should be reported, to support more meaningful reporting across the public sector.
- The considerable additional investment required in the education and development of people across public and not-for-profit sector entities to ensure they possess the capabilities necessary to comply with the Proposed Standards.
- Whether the benefits of reporting climate information are likely to justify the costs incurred to provide and use that information within the public and not-for-profit sectors, and the impact of additional costs on the funding available for policies, programmes and services that directly benefit the community.

To address the above considerations and other matters raised by relevant stakeholders, Scyne suggests the AASB implement a coordinated approach to developing Australian climate-related financial disclosure requirements applicable to not-for-profit public sector entities through a targeted working group involving the AASB, HoTARAC and other key stakeholders.

Thank you again for the opportunity to provide a response to the AASB on the Proposed Standards. Should you wish to discuss our response further, please don't hesitate to contact Amy Auster or Amy Senti using the contact details below.

Yours sincerely,



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