



<b>Project:</b>	<b>Climate-related financial disclosures</b>	<b>Meeting:</b>	19 and 22 July 2024 (M206)
<b>Topic:</b>	<b>Executive summary of Agenda Papers 4.3.1–4.3.5</b>	<b>Agenda Item:</b>	4.3.0
		<b>Date:</b>	12 July 2024
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider ED Feedback

## Objective of Agenda Item 4.3

- 1 The objectives of Agenda Papers 4.3.1–4.3.5 are for the AASB to:
  - (a) consider feedback from stakeholders on:
    - (i) whether the [AASB Sustainability Reporting Standard-Setting Framework](#) (September 2023) has been applied appropriately in developing the proposals in ED SR1 (GMC 30);
    - (ii) whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in ED SR1 (GMC 31);
    - (iii) whether the proposals in ED SR1 present any auditing or assurance challenges (GMC 32);
    - (iv) whether the proposals in ED SR1 will result in climate-related financial information that is useful to users (GMC 33);
    - (v) whether the proposals in ED SR1 are in the best interests of the Australian economy (GMC 34); and
    - (vi) the costs and benefits of applying the proposals in ED SR1 (GMC 35) not already provided in response to the SMCs in ED SR1; and
  - (b) decide on any further work needed before finalising ASRS 1 and ASRS 2.
- 2 This paper provides an executive summary of Agenda Papers 4.3.1–4.3.5. There is no question for Board members in this paper.

## Executive summary and attachments

- 3 The feedback received on each GMC is discussed in turn in Agenda Papers 4.3.1–4.3.5. The following table provides a high-level summary of the content of those papers.
- 4 In each of Agenda Papers 4.3.1–4.3.5, staff concluded that **no further work** would be needed in respect to the related GMC before finalising ASRS 1 and ASRS 2, subject to decisions the Board might make on other issues that may substantively change or extend what was proposed in ED SR1.

Agenda Paper	Summary of content
Agenda Paper 4.3.1: Application of the AASB Sustainability Reporting Standard-Setting Framework (GMC 30)	Staff consider that the Board has applied the <a href="#">AASB Sustainability Reporting Standard-Setting Framework</a> appropriately in analysing stakeholder feedback received on ED SR1 and in deciding the contents to be incorporated in ASRS 1 and ASRS 2.
Agenda Paper 4.3.2: Regulatory issues (GMC 31)	Staff identified two major areas of regulation of concern to stakeholders. <p>(a) Under the <i>Security of Critical Infrastructure Act 2018</i> (SOC1 Act), it is a criminal act to disclose protected information that may be considered sensitive for national security. IFRS S1 paragraph 73 relieves an entity from disclosing information where law or regulation prohibits the entity from disclosing such information. Therefore, if that paragraph is incorporated in ASRS 2, staff are of the view that an entity would not be required to disclose protected information under the SOC1 Act.</p> <p>(b) The interoperability between ASRS Standards and APRA prudential practice guide CPG 229 <i>Climate Change Financial Risks</i> (November 2021). CPG 229 considers best practice for climate-related financial disclosures to be information produced in line with the TCFD Framework. Since IFRS S2 requirements are aligned with TCFD recommendations, staff have not identified any contradictions between the proposed disclosures in [draft] ASRS 2 and CPG 229.</p>
Agenda Paper 4.3.3: Audit and assurance challenges (GMC 32)	Stakeholders commented that there are several areas of [draft] ASRS 2 that would require significant judgement for preparers and assurance practitioners, and request the AASB to provide additional guidance. <p>Staff acknowledge that there are concepts in sustainability reporting that are new to preparers and assurance practitioners, and therefore areas of significant judgement in sustainability reporting might be difficult to implement. Staff note the Board has indicated it will consider developing guidance to assist entities in applying the principles of ASRS 1 and ASRS 2, after the Standards have been finalised.</p>
Agenda Paper 4.3.4: ASRS Standards providing useful information and being in the best interest of the economy (GMCs33–34)	Many stakeholders commented that the lack of alignment of [draft] ASRS 1 and [draft] ASRS 2 with the IFRS S1 and IFRS S2 was perceived to potentially reduce the usefulness of the information for users, or impact Australia’s standing and comparability of its disclosures internationally. Staff consider that alignment has been

Agenda Paper	Summary of content
	<p>addressed as a result of the Board's decisions in M204 and M205 for:</p> <ul style="list-style-type: none"> <li>(a) ASRS 1 to have the same scope as IFRS S1 to cover sustainability-related financial disclosures, and to be a non-mandatory Standard; and</li> <li>(b) alignment/consistency with IFRS S2 when developing the aspects of ASRS 2 discussed in M204 and M205.</li> </ul>
<p>Agenda Paper 4.3.5: Costs and benefits of applying the proposals in ED SR1 (GMC 35)</p>	<p>Mixed views were received regarding the costs and benefits of applying the proposals in ED SR1. Some stakeholders consider that there will be increased regulatory compliance costs for preparers, but expect them to be balanced with benefits from more informed decision-making by users, particularly in the longer term that will contribute to mitigating future climate change impacts via rational resource allocation decisions. However, some other stakeholders commented that the investment needed to meet the proposed requirements will never produce a commensurate return in benefits, particularly in respect to Scope 3 GHG emissions and climate scenario analysis.</p> <p>Given the limited scope for the Board to act within the likely legislative framework relating to Scope 3 GHG emissions and climate scenario analysis, staff consider that no further work would be needed in relation to GMC 35 before finalising ASRS 1 and ASRS 2.</p> <p>Consistent with the staff view noted in Agenda Paper 4.2.3 about the scalability of disclosures for NFP entities, staff consider there is merit in undertaking a project to address scalability and cost-benefit concerns for smaller entities, subsequent to finalising the Standards.</p>

5 Agenda Paper 4.3.6, which is a Board-only paper in the supplementary folder, provides an overview of comments received on the GMCs expressed in comment letters, for Board members' information.