



Project:	Climate-related financial disclosures	Meeting:	19 and 22 July 2024 (M206)
Topic:	Proportionality relief paragraphs for NFP entities (SMC 25)	Agenda Item:	4.2.2
		Date:	12 July 2024
Contact(s):	Patricia Au pau@asab.gov.au Charis Halliday challiday@asab.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Consider ED Feedback

Objective of this paper

- The objectives of this paper are for the AASB to:
 - consider feedback from stakeholders on proposed clarification in [draft] ASRS 1 and [draft] ASRS 2 that an NFP entity "need not undertake an exhaustive search for information to identify climate-related risks and opportunities", but "use all reasonable and supportable information available to the entity at reporting date without undue cost or effort" (SMC 25); and
 - decide on any changes to be made to [draft] ASRS 1 and [draft] ASRS 2.

Background

- In ED SR1, the Board added paragraph Aus4.1 to [draft] ASRS 2, which would apply only to NFP entities. That paragraph states:

"For the purposes of this [draft] Standard, a not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. A not-for-profit entity shall use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by this [draft] Standard."
- A similar paragraph, paragraph Aus6.1, was also added to [draft] ASRS 1, which states "A not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. A not-for-profit entity shall use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by this [draft] Standard and other applicable Australian Sustainability Reporting Standards."
- In the Basis for Conclusions to ED SR1, paragraphs BC30–BC33, the Board stated that [draft] ASRS 2 paragraph Aus4.1 was added to address the stakeholder concern regarding the scalability of climate-related financial disclosure requirements for not-for-profit entities and

cost-benefit concerns from the feedback to ED 321. The Board considered the clarification, together with the practical expedients provided in the baseline of IFRS S1 and IFRS S2 would be sufficient in addressing the stakeholder concern.

Summary of staff recommendations

- 5 Staff recommend:
- (a) including the contents of IFRS S1 paragraph B10 in ASRS 2 and be applicable to all entities applying ASRS 2; and
 - (b) omitting paragraph Aus6.1 from [draft] ASRS 1 and paragraph Aus4.1 from [draft] ASRS 2.

Overview of stakeholder feedback

- 6 SMC 25 asked stakeholders: “Do you agree with the proposal in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1? Please provide reasons to support your view.”
- 7 Of the 117 comment letters and 289 survey responses received, 24 and 53 stakeholders, respectively, provided responses to SMC 25. A summary of the responses received to SMC 25 (rounded to the nearest %) is shown below:

	Agree	Partially agree	Disagree
Out of the 24 comment letters that commented on SMC 25 ¹	50%	21%	29%
Out of the 53 survey responses that commented on SMC 25 ²	64%	23%	13%

- 8 Much of the feedback, whether in agreement or disagreement with SMC 25, also raised concerns that the proportionality relief paragraphs would not adequately address scalability and cost-benefit concerns of NFP entities. Staff have analysed these comments separately in the Agenda Paper 4.2.3 relating to SMCs 26-27.
- 9 Feedback that supported the proportionality relief paragraphs stressed that whilst it was important for NFP entities to identify potential risks, it was crucial to set reporting requirements in line with cost-benefit considerations.
- 10 Feedback that did not support the proposal was primarily concentrated on two views:
- (a) paragraph Aus6.1 of [draft] ASRS 1 and paragraph Aus4.1 to [draft] ASRS 2 are not needed because [draft] ASRS 1 paragraphs B6 and B10 (verbatim of IFRS S1 paragraphs B6 and B10, quoted in paragraphs 12 and 13 below) provide the same relief; and
 - (b) adding those Aus paragraphs causes confusion as to whether the proportionality relief paragraphs would apply only to NFP entities since the same proportionality mechanism exists for FP entities in [draft] ASRS 1 paragraphs B6 and B10 (which are unchanged

1 An overview of stakeholder feedback expressed in the comment letters is presented in Agenda Paper 4.2.5 for the Board's reference. Staff applied judgement to categorise the overall comments expressed in the letters. Regardless of how staff categorised the feedback, the reasons provided by the respondents for supporting their position were considered as a part of the staff analysis.

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

from IFRS S1). It is unclear whether there are any differences in the practical application between applying the proposed Aus paragraphs and paragraphs B6 and B10.

11 The [Appendix](#) to this paper provides a summary of stakeholder feedback.

Staff analysis and recommendations

12 [Draft] ASRS 1 paragraph B6 (IFRS S1 paragraph B6), which would apply to all entities, states:

“An entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort ...

- (a) to identify the sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects; and
- (b) to determine the scope of its value chain, including its breadth and composition, in relation to each of those sustainability-related risks and opportunities”.

13 [Draft] ASRS 1 paragraph B10 (IFRS S1 paragraph B10), which would apply to all entities, states:

“An entity need not undertake an exhaustive search for information to identify sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects. The assessment of what constitutes undue cost or effort depends on the entity’s specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change.”

14 IFRS S2 also contains the concept of “an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort”, in paragraphs 11, 18, 30 and in several paragraphs in Appendix B *Application Guidance*. Most of those paragraphs have been incorporated into [draft] ASRS 2 and are proposed to be applicable to all entities applying ASRS 2, and not limited to NFP entities. Accordingly, staff agree with stakeholders that there is no need to add an Aus paragraph in ASRS 1 or ASRS 2 for NFP entities regarding this concept.

15 However, IFRS S2 does not specifically contain the concept in IFRS S1 paragraph B10 about “exhaustive search” for information to identify sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects.³

16 Staff agree with stakeholders that paragraph Aus6.1 of [draft] ASRS 1 and paragraph Aus4.1 of [draft] ASRS 2 provide the same relief as IFRS S1 paragraphs B6 and B10. Staff also agree that if those Aus paragraphs are retained it may cause confusion about whether there is a different application of the “undue cost or effort” and “exhaustive search” concepts by NFP entities compared with FP entities.

17 Accordingly, staff recommend:

- (a) including the contents of IFRS S1 paragraph B10 in ASRS 2 and be applicable to all entities applying ASRS 2; and

³ The Board subcommittee is considering those elements of a non-mandatory ASRS 1 that would need to be incorporated in a mandatory ASRS 2 to enable ASRS 2 to function as intended.

- (b) omitting paragraph Aus6.1 from [draft] ASRS 1 and paragraph Aus4.1 from [draft] ASRS 2.
- 18 As noted in the [Appendix](#) to this paper, some stakeholders requested for the Board to consider developing guidance on the concepts of “undue cost or effort” and “exhaustive search”. The Knowledge Hub page of the IFRS Foundation website includes [FAQs](#) that explain what is meant by “use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort” and “use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures”.⁴
- 19 At its [August 2023 meeting](#), the Board decided to defer work on developing guidance until after the ASRS Standards have been issued. Accordingly, staff recommend the Board consider whether to develop any Australian-specific guidance at a future meeting.

Question for the Board

Q1: Do Board members agree with the staff recommendation noted in paragraph 17 to

- (a) include the contents of IFRS S1 paragraph B10 in ASRS 2 and be applicable to all entities applying ASRS 2; and
- (b) omit paragraph Aus6.1 from [draft] ASRS 1 and paragraph Aus4.1 from [draft] ASRS 2?

⁴ The concepts of “undue cost or effort” and “exhaustive search” are already incorporated in some AASB Accounting Standards (for example, AASB 9 *Financial Instruments*, AASB 13 *Fair Value Measurement*, and AASB 17 *Insurance Contracts*).

Appendix: Summary of stakeholder feedback on SMC 25

- A1 This Appendix summarises stakeholder feedback received on SMC 25.
- A2 A range of stakeholder feedback indicated some confusion regarding what types of entities were able to apply the proportionality relief paragraphs. Some stakeholders thought that the proportionality relief paragraphs were only available to NFP entities, whereas other stakeholders identified that the same mechanisms were available to FP entities through [draft] ASRS 1 paragraphs B6 and B10.
- A3 Of the stakeholders that thought the concepts of “undue cost or effort” and “exhaustive search” applied only to NFP entities:
- (c) Some stakeholders appreciated the inclusion of the Aus paragraphs, but desired guidance as to how to apply it practically.
 - (i) “The term ‘exhaustive search’ could be open to interpretation, which could result in divergent approaches being adopted by preparers of climate information for not-for-profit entities...We recommend that the AASB provide some Application Guidance clarifying the meaning of the term ‘exhaustive search’”.⁵
 - (ii) “Whilst we understand the basis for inclusion of the proposal in ASRS 1 paragraph Aus6.1 and ASRS 2 paragraph Aus4.1 to reduce the burden on NFPs, we are concerned with what ‘not an exhaustive search’ would entail and the AASB should provide further clarity and guidance.”⁶
 - (d) Other stakeholders were concerned that this would allow NFP entities to report a lower standard of reporting compared to FP entities, or asked why the same proportionality mechanism would not be applicable to a FP entity:
 - (i) “‘Without undue cost or effort’ provides carte blanche for not-for-profits to downplay their ability to report to an acceptable standard and will result in a reduced quality of disclosure of sustainability risks and opportunities as well as the action required to improve performance in addressing those risks and opportunities.”⁷
 - (ii) “There is a risk that some preparers might use this as a justification to avoid making the necessary disclosures.”⁸
 - (iii) “We are unclear as to why [paragraph Aus6.1 of [draft] ASRS 1 and paragraph Aus4.1 of [draft] ASRS 2] is only applicable to a not-for-profit entity when it can equally apply to a for-profit entity.”⁹
 - (iv) “We are of the view that this proposal and the AASB’s conclusion are equally applicable to Group 3 FPE and recommend that the AASB extend the proposals to Group 3 FPE.”¹⁰
- A4 For stakeholders that recognised that the same proportionality relief was available to FP entities in [draft] ASRS 1 paragraphs B6 and B10, most were of the opinion that the Aus

5 Comment letter 7

6 Comment letter 65

7 Survey respondent 266

8 Comment letter 37

9 Comment letter 83

10 Comment letter 83

paragraphs were unnecessary as a result, and that it did not address the actual proportionality concerns of NFP entities.

- (e) “In our view there is no need for an additional Aus paragraph specific to not-for-profit entities, as the content of [DRAFT] ASRS 1.Aus6.1 and [DRAFT] ASRS 2.Aus4.1 are consistent with [DRAFT] ASRS 1.B6 and [DRAFT] ASRS 1.B8”.¹¹
- (f) “We note that these paragraphs were added in response to feedback on ED 321, which highlighted the lack of proportionality of IFRS S1 and S2. We note that when finalising IFRS S1 and S2 the ISSB have added proportionally mechanisms into IFRS S1 and S2, therefore, we suggest the AASB consider whether the addition of this overarching practical expedient is needed.”¹²
- (g) “An unintended consequence of this guidance is that a for-profit entity might consider that it is unable to avail itself to the same ‘proportional’ relief even though that relief is available when the entity studies the application of ASRS 1 paragraphs B6, B8 and B10. For this reason, this NFP guidance should be rephrased to clarify that this is proportional relief that is available for all entities”.¹³
- (h) “We also question if this inclusion provides genuine additional relief for NFPs, given relief already exists within paragraph 11 (of IFRS S2 and ASRS 2) which references ‘without undue cost or effort’ and is aligned to the IFRS Sustainability Disclosure Standards”.¹⁴
- (i) “The insertions of [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1 do not appear to add value or provide distinguished requirements between not-for-profit entities and for-profit entities.”¹⁵
- (j) “Aus6.1 of ASRS 1 and Aus4.1 of ASRS 2...does not provide any additional relief to NFPs. This is because ASRS 1 B6(a), which applies to all entities, already provides that the Reasonable and Supportable Information test applies when entities identify whether, and which, risks and opportunities could reasonably be expected its prospects, with B10 confirming that “an entity need not undertake an exhaustive search for information.” It is unclear what additional relief Aus 6.1 and 4.1 provide to NFPs.”¹⁶

11 Comment letter 26

12 Comment letter 3

13 Comment letter 55

14 Comment letter 65

15 Comment letter 86

16 Comment letter 82