



Project:	Climate-related Financial Disclosures	Meeting:	AASB 26 August 2024 (M207)
Topic:	Introduction to Agenda Paper 3.1.2 (Working Draft AASB S1)	Agenda Item:	3.1.1
		Date:	16 August 2024
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		Decision-Making:	High
		Project Status:	Finalising Standard

Objective

- 1 The objectives of this paper and Agenda Paper 3.1.2 are for the Board to consider a working draft version of AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (as provided in Agenda Paper 3.1.2) and decide on any changes required for the purpose of finalising AASB S1.

Background

- 2 At its 6-7 June 2024 meeting, the Board decided to prepare a voluntary standard that would cover sustainability-related financial disclosures with the same scope and content as IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, in addition to a mandatory Standard (AASB S2 *Climate-related Disclosures*) covering climate-related risks and opportunities.
- 3 As a result, the accompanying draft Standard AASB S1 is based on IFRS S1 with few amendments. The marked-up version of the draft AASB S1 (Agenda Paper 3.1.3) shows the changes to the text of IFRS S1 proposed for inclusion in AASB S1. The most common change is to replace references to “IFRS Sustainability Disclosure Standards” with “Australian Sustainability Reporting Standards”.
- 4 The Board decided to revert to the IFRS Sustainability Disclosure Standards baseline as far as possible with respect to the mandatory AASB S2, with the main exception being industry-based information as an interim measure. Draft AASB S1 retains the sources of guidance paragraphs 54–59, incorporating the references to SASB Standards and industry-based disclosures. Since AASB S1 is presented as a voluntary Standard, the Board is not requiring entities to “refer to and consider” the SASB Standards. Nevertheless, entities electing to apply AASB S1 to broader sustainability-related financial disclosures would have to do so if they sought to comply with all the “requirements” set out in AASB S1 (and with IFRS S1). Accordingly, the inclusion of the sources of guidance paragraphs 54–59, which incorporates references to SASB Standards and industry-based disclosures, is not inconsistent with the decisions of the Board in respect of climate-related disclosures under AASB S2.

- 5 This paper highlights some aspects of the working draft of AASB S1 that may require further discussion by Board members at the meeting on 26 August 2024.

Voluntary status of AASB S1

- 6 Draft AASB S1 is presented as a voluntary Standard since its scope is sustainability-related financial information reporting in general, which is broader than climate-related disclosures. As noted in the Basis for Conclusions to the Standard, the Australian Government’s policy is to mandate only climate-related disclosure requirements at this time. Therefore, the Board is unable to issue AASB S1 as a mandatory Standard. However, the *Australian Securities and Investments Commission Act 2001* (once amended) will permit the AASB to formulate sustainability standards for purposes other than the corporations legislation. The AASB can issue AASB S1 under that power. Such Standards do not have legal effect under the *Corporations Act 2001* but may be applied or adopted by some other authority.
- 7 In addition to the reference in the Preface and the “voluntary” markers in various places (including the footers), the voluntary status is indicated by the different wording in the “making statement”, which is placed at the start of the Standard proper (at the top of page 6). To ensure that AASB S1 would not be a mandatory Standard, the making statement refers to the Board “issuing” the Standard and does not include reference to the Corporations Act. AASB S1 would not be registered on the Federal Register of Legislation.
- 8 As an alternative to the “voluntary” terminology, the Standard could be identified as a “non-mandatory” Standard, which is the more direct opposite to a “mandatory” Standard. Nevertheless, staff are of the view that the “voluntary” terminology is more commonly understood than alternatives. For example, the term “voluntary” is commonly used when describing the status of sustainability frameworks that are not mandated by law (e.g. TCFD, GRI, etc.). Numerous explanatory paragraphs in the Standard proper (e.g. paragraph Aus1.1), the Preface and the Basis for Conclusions note that an entity may elect to apply the Standard, i.e. that an entity may apply the Standard voluntarily and is not required to do so.

Imperative language

- 9 Draft AASB S1 is based on IFRS S1 with few substantive amendments. IFRS S1 was developed by the ISSB as a mandatory Standard, to be applied concurrently with IFRS S2 *Climate-related Disclosures*. Accordingly, IFRS S1 uses imperative language to set out its requirements. Staff considered modifying the language in AASB S1 to reflect the voluntary nature of the Standard, but found the redrafting complicated and unhelpful, as well as extensive throughout the Standard. Such redrafting would also appear to move AASB S1 further away from IFRS S1. Therefore, the draft AASB S1 retains the imperative language.
- 10 However, staff propose the addition of paragraph Aus1.1, to state explicitly that despite the language of the Standard, it is a voluntary Standard and that entities may elect to apply the Standard rather than being required to do so. Combined with the “voluntary” markers on every page (the footer) and other references to the voluntary nature of the Standard, staff consider that readers of the draft AASB S1 will understand how to read the language of the Standard.

Questions for Board members

- Q1 Do Board members agree with describing AASB S1 as a voluntary Standard rather than a non-mandatory Standard?
- Q2 Do Board members support the retention of the imperative language and the proposed paragraph Aus1.1?

Statement of compliance

- 11 Paragraph 72 of IFRS S1 has been edited for inclusion in AASB S1 by referring to compliance with “this Standard” rather than with “Australian Sustainability Reporting Standards” (plural). This is necessary to ensure that compliance with the voluntary AASB S1 is distinguished from compliance with the mandatory AASB S2.
- 12 Furthermore, staff propose the addition of paragraph Aus5.1, to note that AASB S2 would currently be the only mandatory Australian Sustainability Reporting Standard and that entities required to comply with AASB S2 may elect to also comply with AASB S1. This supports the statement in paragraph 5 that an entity would apply AASB S1 in preparing and reporting sustainability-related financial disclosures in accordance with Australian Sustainability Reporting Standards. It would be inappropriate to modify paragraph 5 similarly to paragraph 72 because then paragraph 5 would state that an entity would apply AASB S1 in preparing and reporting sustainability-related financial disclosures in accordance with AASB S1.

Question for Board members

- Q3 Do Board members agree with the additional commentary in paragraph Aus5.1 and the proposed wording in paragraph 72?

Effective date and transition relief

- 13 Appendix E in draft AASB S1 addresses the effective date and transition provisions. Paragraph E1 specifies that the Standard would apply to periods beginning on or after 1 January 2025, depending on the starting date of the legislative amendments. That date is the same as the effective date for AASB S2, which is not to imply that AASB S1 must be applied by an entity in conjunction with AASB S2.
- 14 The Board has specified effective dates for voluntary accounting pronouncements, such as the Conceptual Frameworks and Practice Statement 2 *Making Materiality Judgements*. Staff consider it appropriate to continue that approach with voluntary sustainability reporting pronouncements. This provides a specific timeframe for entities that might seek to comply with the voluntary Standard. In any case, since early application is stated to be permitted, the specific effective date has little consequence in the voluntary Standard.
- 15 Paragraph E3 provides transition relief for comparative information in the first year an entity applies the Standard. This is a common transition relief when significant requirements are introduced and should be retained to assist entities that seek to comply with AASB S1.
- 16 However, staff recommend that the transition reliefs in paragraphs E4–E6 of IFRS S1 should not be included in the voluntary AASB S1 (see the “Deleted IFRS S1 text” section of AASB S1 for the text of these paragraphs).
- 17 Paragraph E4 would allow an entity to publish its sustainability-related financial disclosures after its financial statements, but within specified timeframes related to the publication of interim reports and with a maximum delay of nine months in the absence of interim reports. Entities electing to voluntarily apply AASB S1 could decide to follow such timeframes or ignore them. The specified timeframes are not necessary for the voluntary Standard and might cause entities to delay publishing sustainability-related financial information consistent with AASB S1 if they were not going to meet the timeframes. However, deleting the timeframes would also mean that entities can make their own decision as to when to publish information based on AASB S1, such as one year after the related financial statements.

- 18 Paragraphs E5 and E6 in IFRS S1 set out the major relief of not requiring an entity to provide sustainability-related financial disclosures beyond climate-related information in the first year in which the entity applies IFRS S1. Including such relief in a voluntary AASB S1 would not make sense, since all the climate-related disclosures would already be specified in AASB S2 (as it would include the relevant paragraphs of AASB S1 in Appendix D of AASB S2). There would be nothing further to disclose under AASB S1 in the first year of application in that case. The exemption would permit an entity to claim compliance with AASB S1 without any additional disclosures. Application of or compliance with the voluntary AASB S1 should require an entity to provide broader sustainability-related financial disclosures.

Questions for Board members

- Q4 Do Board members agree with the inclusion of the proposed effective date in paragraph E1?
- Q5 Do Board members support the retention of the first-year comparative disclosure relief in paragraph E3?
- Q6 Do Board members support the deletion of the publication timeframe relief and the first-year “climate disclosures only” relief?

Comparing AASB S1 with IFRS S1

- 19 The Board includes a comparison with the relevant international Standard in its Accounting Standards. The same approach has been adopted in the draft Australian Sustainability Reporting Standards. A “Comparison with IFRS S1” page is included with AASB S1 – see page 5 of Agenda Paper 3.1.2. The only differences identified relate to the voluntary status of AASB S1 and the deletion of the transition reliefs noted above.
- 20 As per the Board’s approach to its Accounting Standards, a “Deleted IFRS S1 text” page is included in the draft AASB S1 (see page 32 of Agenda Paper 3.1.2). This presents the IFRS S1 text that has not been incorporated in the working draft Standard. The only items there are the Appendix A definition of “IFRS Sustainability Disclosure Standards”, which is not referred to in AASB S1 (other than the comparison page), and the transition paragraphs E4–E6.

Question for Board members

- Q7 For the purpose of finalising AASB S1, subject to the Board’s decisions on the matters addressed in this paper, do Board members propose any further changes to the working draft Standard as set out in Agenda Paper 3.1.2, including the draft Basis for Conclusions?