



# [Draft] AASB Sustainability Reporting Standard-Setting Framework

February 2023



## Table of Contents

Introduction	3
What is the purpose of this Framework? .....	3
What are for-profit entities?.....	3
What role does the AASB play in developing sustainability reporting standards for for-profit entities?	4
Sustainability-related financial disclosures made as part of general purpose financial reporting .....	4
Enforcement.....	5
What assumptions underpin the for-profit entity sustainability reporting standard-setting framework?	5
IFRS Sustainability Disclosure Standards are a suitable starting point for developing Australian sustainability standards .....	5
Australian/New Zealand convergence .....	6
Transaction neutrality .....	6
What triggers the AASB to consider Australian-specific for-profit sustainability reporting standards or guidance?	7
What criteria is used to determine whether Australian-specific for-profit sustainability reporting standards or guidance are needed?	7
How are Australian-specific for-profit sustainability reporting standards and/or guidance developed?	8

### Appendix

Extract of Schedule # from [Treasury's Exposure Draft Legislation](#) that seeks to amend parts of the *Australian Securities and Investment Commission Act 2001* (ASIC Act)



## Introduction

### What is the purpose of this Framework?

- 1 The [Draft] *AASB Sustainability Standard-Setting Framework* (this Framework) sets out the principles used by the Australian Accounting Standards Board (AASB) to determine the content of [draft] Australian Sustainability Reporting Standards (including Interpretations) issued by the AASB, including how the AASB uses International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards (and any guidance) issued by the International Sustainability Standards Board (ISSB) to develop, issue and maintain sustainability reporting standards for the for-profit sector.
- 2 This Framework operates in conjunction with the [AASB and AUASB Board Charter](#), the [AASB Strategy](#), the [AASB Due Process Framework for Setting Standards](#), the [AASB For-Profit Entity Standard-Setting Framework](#) and the [AASB Not-for-Profit Entity Standard-Setting Framework](#).
- 3 This [Draft] Framework sets out how the AASB assesses the appropriateness of IFRS Sustainability Disclosure Standards in the Australian context and outlines criteria for when the AASB may consider making modifications to IFRS Sustainability Disclosure Standards for for-profit entities or developing [draft] Australian Sustainability Reporting Standards, amendments, guidance or examples. This [Draft] Framework provides transparency to this process and facilitates consistency in the AASB's future decision-making, including the form and extent of any modifications to IFRS Sustainability Disclosure Standards.
- 4 The AASB has determined that, in the first instance, it will develop a sustainability reporting standard-setting framework for Australian for-profit private sector entities.<sup>1</sup> The AASB will consider the need for a separate sustainability reporting standard-setting framework for not-for-profit entities in the future.

### What are for-profit entities?

- 5 For-profit entities are those entities whose principal objective is the generation of profit.<sup>2</sup> A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.
- 6 For-profit entities exist in both the private and the public sectors. For-profit entities include, but are not limited to:

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1 See [Sustainability Reporting project summary](#).

2 A not-for-profit (NFP) entity is defined in various AASB Accounting Standards, including AASB 102 *Inventories*, paragraph Aus6.1 as “an entity whose principal objective is not the generation of profit”. An NFP entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.



- (a) listed companies;
- (b) disclosing entities;
- (c) some large and small proprietary companies;
- (d) government business enterprises; and
- (e) some subsidiaries of not-for-profit entities.

## **What role does the AASB play in developing sustainability reporting standards for for-profit entities?**

- 7 [Proposed] amendments to the Australian Securities and Investment Commission Act 2001 (ASIC Act) explicitly grant the AASB the function to develop and formulate sustainability reporting standards. The [proposed] amendments allow the AASB to establish, in the first instance, non-binding reporting requirements for sustainability reporting that will, as far as is practicable, align with significant international developments.<sup>3</sup>
- 8 The *AASB Due Process Framework for Setting Standards* explains that the ASIC Act permits the AASB to develop different reporting requirements for different types of entities. As such, and where appropriate, the AASB may treat for-profit and not-for-profit entities as of different ‘types’, and develop different reporting requirements for each.
- 9 The extent of compliance required with [draft] Australian Sustainability Reporting Standards (including Interpretations) issued by the AASB is determined by the legislative or regulatory requirements of other regulators (e.g. Commonwealth and State governments) and/or an entity’s constituting or other documents, in conjunction with the application paragraphs of Standards and Interpretations set by the AASB. Other guidance issued by the AASB is generally not authoritative (e.g. Illustrative Examples and Practice Statements).

## **Sustainability-related financial disclosures made as part of general purpose financial reporting**

- 10 The AASB sets Standards and develops reporting requirements for general purpose financial statements (GPFS) and general purpose financial reporting (GPFR). GPFS forms part of broader GPFR. The objective of GPFR is to provide financial information about the reporting entity that is useful to existing and potential investors,

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<sup>3</sup> Legislative amendments are ongoing at the time of developing this [Draft] Framework. It is expected that these amendments will be finalised prior to the release of this [Draft] Framework. Staff will update the wording in this paragraph to reflect the final amendments.



lenders and other creditors<sup>4</sup> in making decisions relating to providing resources to the entity.<sup>5</sup>

## Enforcement

- 11 Enforcement of the preparation of sustainability-related financial disclosures and compliance with [draft] Australian Sustainability Reporting Standards is the responsibility of other regulators (e.g. the Australian Securities and Investments Commission). It is not the responsibility of the AASB.

## What assumptions underpin the for-profit entity sustainability reporting standard-setting framework?

### IFRS Sustainability Disclosure Standards are a suitable starting point for developing Australian sustainability standards

- 12 The AASB has adopted as an assumption underpinning this [Draft] Framework that IFRS Sustainability Disclosure Standards (and any guidance) issued by the ISSB present a suitable starting point for developing sustainability reporting requirements for [draft] Australian Sustainability Reporting Standards. International alignment is prioritised in this [Draft] Framework, with amendments to the baseline of IFRS Sustainability Disclosure Standards made only where it is necessary to do so to meet the needs of Australian stakeholders.
- 13 This [Draft] Framework sets out how the AASB assesses the appropriateness of developing [draft] Australian Sustainability Reporting Standards (and guidance) that aligns to an IFRS Sustainability Disclosure Standard or other pronouncement issued by the ISSB. In particular, this [Draft] Framework outlines criteria for when the AASB considers modifications to an issued IFRS Sustainability Disclosure Standard, or developing [draft] Australian Sustainability Reporting Standards (and guidance) that differs to that of the ISSB.
- 14 Aligning with IFRS Sustainability Disclosure Standards is expected to maintain international confidence in the Australian economy (including its capital markets), allow Australian entities to obtain the benefits of international competitiveness and comparability, facilitate the movement of professionals, and generally help ensure the costs of complying with [draft] Australian Sustainability Reporting Standards do not outweigh their benefits. In addition, IFRS Sustainability Disclosure Standards appear appropriate as a base as:
- (a) IFRS Sustainability Disclosure Standards are developed by the ISSB, a standard-setting board of the IFRS Foundation. As such, they could be expected to complement the IFRS Accounting Standards on which

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<sup>4</sup> Existing and potential investors, lenders and other creditors are the primary users to whom GPF are directed (see paragraph 1.5 of the AASB *Conceptual Framework for Financial Reporting*).

<sup>5</sup> See paragraph 1.2 of the AASB *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*).



Australian Accounting Standards are based. At this stage, the ISSB has clarified that IFRS Sustainability Disclosure Standards operate independently from IFRS Accounting Standards and have been developed to be interoperable with jurisdictional accounting requirements—that is, to comply with IFRS Sustainability Disclosure Standards an entity would not be required to also comply with IFRS Accounting Standards.

- (b) The ISSB’s intent is to develop IFRS Sustainability Disclosure Standards that bridge the perceived gap between broader sustainability reporting and the financial statements, and present as a ‘global baseline’ of sustainability-related financial disclosures for for-profit entities while recognising that respective jurisdictions may have jurisdictional-specific limitations or requirements. This suggests that IFRS Sustainability Disclosure Standards would be an appropriate baseline off which to develop sustainability-related financial reporting requirements for Australia.
- (c) The ISSB’s initial focus on existing and potential investors, lenders and other creditors provides Australian entities a stepped introduction to reporting sustainability-related information by focusing initially on meeting the information needs of primary users of its GPFS.
- (d) IFRS Sustainability Disclosure Standards are to be developed following a due process which encourages interested parties to express their views. The due process steps include redeliberation of exposed proposals having regard to stakeholder feedback received during a public consultation period. The AASB is able to participate in the development of the ISSB’s proposals via avenues such as direct submissions and as a member of the Asian-Oceania Standards-Setters Group (AOSSG).
- (e) There is support for using the IFRS Sustainability Disclosure Standards as a baseline from key international markets in which Australian entities typically compete.

### **Australian/New Zealand convergence**

- 15 As a secondary assumption underpinning this [Draft] Framework, the AASB considers that differences between sustainability-related reporting standards issued in Australia and New Zealand for for-profit entities should be minimised, if possible, to reduce the costs for entities operating trans-Tasman.

### **Transaction neutrality**

- 16 As noted in paragraph 4 above, the AASB has determined that, in the first instance, it will focus on developing sustainability reporting requirements for Australian for-profit sector entities and then consider the not-for-profit sectors at a later stage.
- 17 Despite this phased approach to developing sustainability reporting requirements for Australia, consistent with the AASB’s existing standard-setting frameworks and



processes, it is the AASB's intent to develop neutral sustainability reporting requirements where possible to do so. A transaction neutrality approach to sustainability reporting requirements would mean that like transactions, other events and conditions are considered in a like manner for all types of entities unless there is a justifiable reason not to do so.

## **What triggers the AASB to consider Australian-specific for-profit sustainability reporting standards or guidance?**

- 18 The AASB considers the need for Australian-specific sustainability reporting standards, amendments, guidance or examples when:
- (a) a new IFRS Sustainability Disclosure Standard or pronouncement – or amendments to an existing IFRS Sustainability Disclosure Standard or pronouncement – is issued;
  - (b) a post-implementation review (PIR) of an IFRS Sustainability Disclosure Standard or [draft] Australian Sustainability Reporting Standard gives a compelling reason to do so;
  - (c) Australian constituents raise the need with the AASB (via agenda consultation, outreach activities, or written or verbal submissions);
  - (d) a new International Public Sector Accounting Standards Board (IPSASB) Standard or pronouncement – or amendments to an existing IPSASB Standard or pronouncement – is issued (for public sector for-profit entities);
  - (e) Australian-specific legislation with sustainability reporting implications is issued;
  - (f) parliamentary or other legislative enquiries contain recommendations for sustainability reporting within the AASB's remit; and/or
  - (g) evidence of undue widespread and significant diversity in sustainability reporting practices exists (e.g. the results of AASB research).

## **What criteria is used to determine whether Australian-specific for-profit sustainability reporting standards or guidance are needed?**

- 19 The AASB uses professional judgement in reaching its conclusions about for-profit sustainability reporting standards, amendments, guidance or examples.
- 20 As part of its normal standard-setting due process, reasons for conclusions are documented in the related Basis for Conclusions and the extent of differences to IFRS Sustainability Disclosure Standards will be documented in the material accompanying the [draft] Australian Sustainability Reporting Standards.





- 21 As noted in paragraph 12 above, international alignment is prioritised. The AASB acknowledges that there is a significant degree of uncertainty around how best to achieve international alignment given a lack of global consensus on sustainability reporting and related requirements. However, the AASB has concluded that at this stage the IFRS Sustainability Disclosure Standards provide a suitable starting point for developing [draft] Australian Sustainability Reporting Standards.
- 22 The AASB recognises that, in certain circumstances, there may be a need to depart from, amend or add to requirements in an issued IFRS Sustainability Disclosure Standard, or develop a [draft] Australian Sustainability Reporting Standard, amendments, guidance or examples that differ to that of the ISSB, in order to meet the needs of Australian stakeholders. Justifiable circumstances in which the AASB contemplates such changes would include any of the following criteria:
- (a) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice warranting Australian-specific requirements or guidance;
  - (b) requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers;
  - (c) requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or else will conflict with global sustainability reporting practices;
  - (d) the Board identifies equivalent disclosure requirements in Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards and would result in duplicate disclosure or reporting for Australian entities. In making this assessment, the Board would consider relevant Australian legislation such as the National Greenhouse and Energy Reporting Act 2007;
  - (e) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs and/or time when compared with international counterparts, warranting deferral of the application date.
- 23 When there is evidence these assumptions are no longer appropriate for the Australian context, this [draft] Framework will be reconsidered. The AASB and/or its oversight body, the Financial Reporting Council, will periodically consult to determine whether these assumptions remain appropriate.

### **How are Australian-specific for-profit sustainability reporting standards and/or guidance developed?**

- 24 Having determined that a [draft] Australian Sustainability Reporting Standard, amendments, guidance or examples are required, the AASB:





- (a) considers whether to:
  - (i) modify the baseline of IFRS Sustainability Disclosure Standards through ‘Aus’ paragraphs, additional implementation or application guidance, or other additional guidance, such as illustrative examples; or
  - (ii) develop an additional [draft] Australian Sustainability Reporting Standard or Interpretation.

25 In making this determination, the AASB considers:

- (a) the extent and importance of Australian-specific legislation, user needs or public interest issues in maintaining confidence in the Australian economy;
- (b) the impact on international perceptions of [draft] Australian Sustainability Reporting Standards aligning with IFRS Sustainability Disclosure Standards or other internationally accepted sustainability reporting standards and frameworks such as those developed by the Global Reporting Initiative;
- (c) the inadvertent or inappropriate use of additional guidance by publicly accountable for-profit entities that may result in non-compliance with IFRS Sustainability Disclosure Standards or other internationally accepted sustainability reporting standards and frameworks; and
- (d) the extent of modifications required.

26 In developing proposals for new Standards or guidance, the AASB considers:

- (a) consistency with the *Conceptual Framework*;
- (b) consistency with existing [draft] Australian Sustainability Reporting Standards (including Interpretations);
- (c) consistency with existing Australian Accounting Standards (including Interpretations); and
- (d) other authoritative material that is relevant, such as:
  - (i) pronouncements of other national standard-setters, including the New Zealand External Reporting Board (NZ XRB); and
  - (ii) for public sector issues, IPSASB Standards, *Conceptual Framework* and guidance.

27 The AASB follows its normal due process for setting new [draft] Australian Sustainability Reporting Standards and guidance, as outlined in the *AASB Due Process Framework for Setting Standards*.



## Appendix

Extract of Schedule # from [\*Treasury's Exposure Draft Legislation\*](#) that seeks to amend parts of the Australian Securities and Investment Commission Act 2001 (ASIC Act)

This is the draft wording proposed by Treasury.

This will be updated to reflect the final amendments made to the ASIC Act when they are passed.



## Schedule #—Sustainability standards

### *Australian Securities and Investments Commission Act 2001*

#### 1 Subsection 5(1)

Insert:

*international sustainability standards* means sustainability standards made by:

- (a) the International Sustainability Standards Board; or
- (b) another body specified by the regulations.

Note: These standards may relate to climate.

#### 2 Paragraph 224(a)

After “accounting standards”, insert “, and sustainability standards,”.

#### 3 Subparagraph 224(b)(iii)

Repeal the subparagraph, substitute:

- (iii) having accounting standards, auditing standards and sustainability standards that are clearly stated and easy to understand; and

#### 4 At the end of section 224

Add:

Note: Sustainability standards may relate to climate.

#### 5 Paragraphs 225(1)(a) and (b)

Repeal the paragraphs, substitute:

- (a) to provide broad oversight of the processes for setting in Australia:
  - (i) accounting standards; and
  - (ii) auditing standards; and
  - (iii) sustainability standards; and

#### 6 Paragraph 225(1)(d)

Omit “paragraphs (a) and (b)”, substitute “paragraph (a)”.

#### 7 Paragraph 225(1)(e)

Repeal the paragraph, substitute:

- (e) the functions specified in the following subsections:
  - (i) subsection (1A) (standards functions);
  - (ii) subsection (2) (AASB governance functions);
  - (iii) subsection (2A) (AUASB governance functions);



(iv) subsection (2B) (auditor quality functions); and

## **8 After subsection 225(1)**

Insert:

### *Standards functions*

(1A) The FRC functions include:

(a) monitoring the development of international accounting standards, international auditing standards and international sustainability standards; and

(b) monitoring the development of the accounting standards, auditing standards, and sustainability standards that apply in major international financial centres; and

(c) furthering the development of a single set of each of the following for world-wide use with appropriate regard to international developments:

- (i) accounting standards;
- (ii) auditing standards;
- (iii) sustainability standards; and

(d) promoting the continued adoption of international best practice:

- (i) accounting standards; and
- (ii) auditing standards; and
- (iii) sustainability standards;

in the Australian standard-setting processes if doing so would be in the best interests of both the private and public sectors in the Australian economy; and

(e) monitoring the operation of:

- (i) accounting standards; and
- (ii) auditing standards; and
- (iii) sustainability standards;

to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy; and

(f) monitoring the effectiveness of the consultative arrangements used by the AASB and the AUASB.

## **9 Subsection 225(2) (heading)**

Repeal the heading, substitute:



*AASB governance functions*

**10 Paragraph 225(2)(c)**

Omit “direction; and”, substitute “direction.”.

**11 Paragraphs 225(2)(e) to (h)**

Repeal the paragraphs.

**12 Subsection 225(2A) (heading)**

Repeal the heading, substitute:

*AUASB governance functions*

**13 Paragraph 225(2A)(c)**

Omit “direction; and”, substitute “direction.”.

**14 Paragraphs 225(2A)(e) to (h)**

Repeal the paragraphs.

**15 Paragraph 227(1)(a)**

Repeal the paragraph, substitute:

(a) to develop conceptual frameworks, not having the force of standards, for the purpose of evaluating:

- (i) proposed accounting standards and international accounting standards; and
- (ii) proposed sustainability standards and international sustainability standards; and

**16 After paragraph 227(1)(c)**

Insert:

(ca) to formulate sustainability standards; and

**17 Paragraph 227(1)(d)**

Repeal the paragraph, substitute:

(d) to participate in and contribute to the development of each of the following for world-wide use:

- (i) a single set of accounting standards;
- (ii) a single set of sustainability standards; and

**18 Subsection 227(1) (note 3)**

Repeal the note, substitute:

Note 3: The standards formulated under paragraph (ca) do not have legal effect but may be applied or adopted by some other authority.

Note 4: For the framework within which the AASB is to formulate and make these standards, see section 224 and Division 2.



## 19 Subsections 227(4) and (5)

Repeal the subsections, substitute:

### *Manner of making or formulating standards*

(4) Without limiting subsection (1), the AASB:

(a) may make or formulate an accounting standard by issuing the text of an international accounting standard; and

(b) may formulate a sustainability standard by issuing the text of an international sustainability standard.

(5) The text of an international standard referred to in subsection (4) may be modified:

(a) to the extent necessary to take account of the Australian legal or institutional environment; and

(b) in particular, to ensure that any disclosure and transparency provisions in the standard are appropriate to the Australian legal or institutional environment.

### *Manner of participating in the development of international standards*

(6) Without limiting paragraph (1)(d), the AASB may distribute for consultation the text of:

(a) a draft international accounting standard; or

(b) a draft international sustainability standard;

(whether or not modified to take account of the Australian legal or institutional environment).

## 20 Paragraph 227B(1)(b)

Repeal the paragraph, substitute:

(b) to formulate auditing and assurance standards for sustainability purposes; and

## 21 Division 2 of Part 12 (heading)

Repeal the heading, substitute:

## **Division 2—Accounting standards and sustainability standards**

### **22 Before section 228**

Insert:



## **227C Scope of this Division**

This Division applies to the following standards (the *applicable standards*):

- (a) accounting standards;
- (b) sustainability standards.

## **23 Subsections 228(1) and (2)**

Omit “an accounting standard”, substitute “an applicable standard”.

## **24 Subsection 229(1)**

Omit “Accounting standards”, substitute “Applicable standards”.

## **25 At the end of section 229**

Add:

- (3) In formulating sustainability standards, the AASB:
  - (a) must have regard to the suitability of a proposed standard for different types of entities; and
  - (b) may apply different sustainability requirements to different types of entities.

## **26 Subsection 231(1)**

Omit “a proposed accounting standard”, substitute “a proposed applicable standard”.

## **27 Subsection 231(2)**

Omit “a proposed international accounting standard”, substitute “a proposed international applicable standard”.

## **28 Section 234**

Repeal the section, substitute:

## **234 Validity of standards**

A failure to comply with this Division in relation to the making or formulating of an applicable standard does not affect the validity of the standard.

## **29 Subsection 236A(2)**

Repeal the subsection, substitute:

- (2) A meeting of the AASB, or a part of one of its meetings, must be held in public if the meeting or that part of it concerns the contents of any of the following:
  - (a) accounting standards or international accounting standards;





(b) sustainability standards or international sustainability standards.

**30 Subsection 236B(3)**

Omit “or government”, substitute “, government, science, sustainability or climate change”.

**31 Subsection 236F(4)**

Omit “or government”, substitute “, government, science, sustainability or climate change”.

**32 Paragraph 237(2)(c)**

Omit “or international auditing standards”, substitute “, international auditing standards or international sustainability standards”.