



<b>Project:</b>	<b>Climate-related Financial Disclosure</b>	<b>Meeting</b>	AASB June 2023 (M196)
<b>Topic:</b>	<b>Scope of the Climate-related Financial Disclosure project</b>	<b>Agenda Item:</b>	3.0
		<b>Date:</b>	6 June 2023
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Deliberations on scope of Climate-related Financial Disclosure project

## Objective

- 1 The objective of this paper is for the Board to consider staff analysis and recommendations on expanding the scope of the [Climate-related Financial Disclosure project](#) beyond the initial focus on for-profit sector (FP) entities to address not-for-profit public and private sector (NFP) entities<sup>1</sup>.

## Structure

- 2 This paper is structured as follows:
  - (a) Summary of staff recommendation (paragraph 3)
  - (b) Background (paragraphs 4-7)
  - (c) Staff analysis (paragraphs 8-12)
  - (d) Staff recommendation (paragraph 13)
  - (e) Questions to Board members.

## Summary of staff recommendation

- 3 Staff recommend the Board revise its preliminary decision to focus initially on developing climate-related financial disclosure requirements for FP entities and expand the scope of the Climate-related Financial Disclosure project to include both FP and NFP entities when developing climate-related financial disclosure requirements for Australia.

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<sup>1</sup> Consistent with the [AASB Not-For-Profit Entity Standard-Setting Framework](#), an NFP entity is an entity whose principal objective is not the generation of profit. A not-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. Examples of NFP entities include, but are not limited to, many entities of the following types: government entities, charities, incorporated associations, co-operatives, and large and small proprietary companies.

## Background

- 4 At its February 2023 (M193) meeting, the Board decided to formally add the Climate-related Financial Disclosure project to its work program to develop climate-related financial disclosure requirements for Australia. At that meeting, the Board confirmed that it would apply the preliminary decisions made on its Sustainability Reporting project to its Climate-related Financial Disclosure project. These preliminary decisions were:<sup>2</sup>
- (a) to develop a separate suite of sustainability reporting standards alongside the existing Australian Accounting Standards, and address climate as the first sustainability reporting topic;
  - (b) to use the work of the IFRS Foundation's International Sustainability Standards Board (ISSB) as a foundation, with modifications for Australian matters and requirements;
  - (c) to focus initially on the development of reporting requirements for sustainability-related financial information, which is consistent with the scope of the ISSB's work;
  - (d) the initial scope of the project relates to the FP sectors, with NFP sectors being considered at a later stage; and
  - (e) to apply its existing Due Process Framework for Setting Standards to preliminary work on the Sustainability Reporting project.
- 5 This staff paper is focused on the preliminary decision identified in paragraph 4(d)—that is, limiting the initial scope of the Climate-related Financial Disclosure project to FP entities and expanding the scope of its work to include the NFP entities at a later stage.
- 6 Consistent with the Board's preliminary decision described above, staff have focused on FP entities to date.<sup>3</sup> However, as part of engagement with stakeholders involved in the broader sustainability reporting and disclosure landscape in Australia, staff have recently observed increased activity in relation to climate-related financial disclosure in the NFP sectors. Specifically, staff observed that there are currently two projects focused on climate-related financial disclosures in the Australian Public Service (APS):<sup>4</sup>
- (a) the emissions estimation and reporting framework being developed by the [APS Net Zero Unit](#) in the Department of Finance; and
  - (b) the [Commonwealth Climate Risk and Opportunity Management Program](#) being led by the Department of Climate Change, Energy, the Environment and Water (DCCEEW).
- 7 Consequently, this paper considers whether the Board should expand the scope of its work on developing climate-related financial disclosure requirements to address NFP entities in addition to FP entities.

## Staff analysis

- 8 The key features of the two projects identified in paragraph 6 may be summarised as follows:
- (a) The emissions estimation and reporting framework being developed by the APS Net Zero Unit will commence with the public reporting of 2022-23 greenhouse gas (GHG)

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<sup>2</sup> See [February 2023 \(M193\) Action Alert](#).

<sup>3</sup> For example, the [draft] AASB Sustainability Reporting Standard-Setting Framework was solely focused on FP entities (see March 2023 (M194) [Agenda Paper 14.1.0](#) and [Agenda Paper 14.1.1](#)).

<sup>4</sup> See [PGPA Newsletter 87](#).

emissions in late 2023 and disclose this information in entity annual reports. The Department of Finance intends to publish a consolidated whole-of-government report by the end of 2023. Save for some exceptions,<sup>5</sup> all non-corporate Commonwealth entities and corporate Commonwealth entities will be required to publicly report on their Scope 1 and Scope 2 GHG emissions from their operations.<sup>6</sup>

- (b) The Commonwealth Climate Risk and Opportunity Management Program, being led by the DCCEE, was announced in the 2022–23 Federal Budget and allocated \$9.3 million to develop a new climate-focused risk management framework that builds on (and ultimately replaces) the existing framework known as [Climate Compass](#). This Program also applies to certain non-corporate Commonwealth entities and seeks to facilitate the identification, assessment, prioritisation, management and disclosure of climate-related risks and opportunities.

9 While these two projects have not yet been finalised, the key difference is that the APS Net Zero Unit project will focus exclusively on a GHG emissions estimation and reporting framework. This framework will complement the framework being developed as part of the Commonwealth Climate Risk and Opportunity Management Program, which has a broader focus on climate-related risks and opportunities.

10 Considering the project features described above, staff are of the view that there are significant similarities between these APS projects and the Climate-related Financial Disclosure project. Therefore, staff believe that expanding the scope of work on developing climate-related financial disclosure requirements to address NFP entities, as well as FP entities, would be beneficial for several reasons, including:

- (a) **Enhancing consistency and alignment in climate-related financial disclosure requirements across multiple sectors.** This would help to facilitate a sector neutral approach to climate-related financial disclosure, in a manner akin to the transaction neutrality approach adopted in financial reporting. Such an approach would be beneficial because it would help to facilitate the mobility of accounting professionals from one sector to another and (where relevant) enables benchmarking of financial performance and financial position across sectors.
- (b) **Increasing stakeholder engagement for outreach on climate-related financial disclosure requirements.** The NFP sectors provided high levels of engagement with [ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and \[Draft\] IFRS S2 Climate-related Disclosure](#), even though this was focused on FP entities. This reflects a level of interest in the ongoing work of the Board in relation to its work on sustainability reporting and developing climate-related financial disclosure requirements.<sup>7</sup>
- (c) **Broadened scope of entity coverage.** While the Treasury has not formally published a position paper emerging from their [recent public consultation](#) on climate-related

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<sup>5</sup> For example, Australian Defence Force and security agencies.

<sup>6</sup> At present, Scope 3 emissions will be excluded from reporting unless robust data is available (e.g., domestic business air travel). See <https://www.finance.gov.au/government/aps-net-zero-emissions-2030>

<sup>7</sup> See November 2021 (M191) Agenda Papers [3.2.2 Feedback summary—ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#), [3.2.3 Feedback summary—ISSB Exposure Draft on \[Draft\] IFRS S1](#) and [3.2.4 Feedback summary—ISSB Exposure Draft on \[Draft\] IFRS S2](#).

financial disclosure and it is conceivable the scope of entity coverage could include both FP and NFP entities.

- 11 As a preliminary step, staff have commenced engagement with key project stakeholders with the aim to establish ongoing communication and dialogue concerning the development of climate-related financial disclosure requirements. Initial engagement has identified potential opportunities for synergies between the Climate-related Financial Disclosure project and the two aforementioned projects and highlighted the need for broad alignment between FP and NFP climate-related financial disclosure requirements.
- 12 Staff are of the view that ongoing collaboration with DCCEW, Treasury and the Department of Finance would be beneficial to the Climate-related Financial Disclosure project for several reasons, including the potential to:
- (a) **Leverage off outreach activities targeted at public sector entities.** This could facilitate access to key APS stakeholders and networks that may be challenging to obtain by AASB staff alone.
  - (b) **Facilitate resource efficiencies through shared expertise and knowledge.** This could enhance the productivity of AASB staff by providing access to expertise and knowledge that is relevant to the Climate-related Financial Disclosure project.
  - (c) **Enhance the influence and relevance of the AASB in sustainability reporting domestically.** This could provide an opportunity for the AASB to enhance its sphere of influence by creating content that has relevance to both FP and NFP entities.

### Staff recommendation

- 13 Given the benefits of expanding the scope of the Climate-related Financial Disclosure project identified in paragraph 10(a)-(c) and the benefits of collaboration identified in paragraph 12(a)-(c), staff recommend the Board revise the scope of the Climate-related Financial Disclosure project beyond the initially agreed-upon scope to include NFP entities (as defined in the [AASB Not-For-Profit Standard-Setting Framework](#)) alongside FP entities.

### Questions to Board members

#### Question to Board members

**Q1:** Do Board members have any questions about the information in this paper?

**Q2:** Do Board members agree with the staff recommendation in paragraph 13 to revise the scope of the Climate-related Financial Disclosure project to include both FP and NFP entities when developing climate-related financial disclosure requirements for Australia?