



<b>Project:</b>	<b>Climate-related Financial Reporting</b>	<b>Meeting</b>	AASB February 2023 (M193)
<b>Topic:</b>	<b>[Draft] Climate-related Financial Reporting project plan</b>	<b>Agenda Item:</b>	5.3
		<b>Date:</b>	23 January 2023
<b>Contact(s):</b>	Siobhan Hammond <a href="mailto:shammond@asb.gov.au">shammond@asb.gov.au</a>	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider Climate Reporting project plan

## Background and objective

- 1 The objective of this paper is:<sup>1</sup>
- (a) to present staff analysis and recommendations for the Sustainability Reporting—Climate-related Financial Reporting project plan; and
  - (b) for the Board to decide the project plan.

## Attachments

- Agenda Paper 5.3.1 GRI 305 *Emissions* 2016 [Supporting Material]  
Agenda Paper 5.3.2 GRI 302 *Energy* 2016 [Supporting Material]

## Structure

- 2 This paper is structured as follows:
- (a) Project summary (paragraphs 3-12)
  - (b) Objectives and project outcomes (paragraphs 13-19)
  - (c) Project team and responsibilities (paragraphs 20-22)
  - (d) Assumptions, risks and other considerations (paragraphs 23-39)
    - (i) Questions to Board members
  - (e) Project timeline (paragraph 40)
    - (i) Question to Board members
  - (f) Stakeholder engagement and communication (paragraphs 41-42)
  - (g) Question to Board members.

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<sup>1</sup> See Agenda Paper 5.1 for the background to the Sustainability Reporting project. Note that this paper is only relevant should the Board agree with the staff recommendations in Agenda Paper 5.2 *Developing climate-related financial reporting requirements for Australia*.

## Project summary

### Overall objective of the project

- 3 Consistent with the Board's [\[draft\] Sustainability Reporting project plan](#), the objective of the Climate-related Financial Reporting project is to:
- (a) develop climate-related financial reporting requirements for general purpose financial reporting to meet the evolving information needs of primary users<sup>2</sup>; and
  - (b) improve the consistency, completeness, comparability and verifiability of climate-related financial reporting both internationally and domestically.<sup>3</sup>
- 4 Consistent with the [draft] Sustainability Reporting project plan and the terms of the funding allocated to the Board in the [Australian Government's Budget October 2022-23](#), the Climate-related Financial Reporting project will prioritise the development of climate-related financial reporting requirements for for-profit sector entities (in particular, large businesses and financial institutions).
- 5 The focus outlined in paragraphs 3-4 is consistent with:
- (a) the objective of recent funding provided to the Board for the purposes of developing climate reporting standards for large business and financial institutions in line with international reporting requirements;<sup>4</sup> and
  - (b) the Board's mission to develop, issue and maintain principles-based Australian accounting and external reporting standards and guidance that meet user needs and enhance external reporting consistency and quality.<sup>5</sup>
- 6 To meet those objectives (both the project objectives and, more broadly, the Board's strategic objectives), this project aims to:
- (a) Develop climate-related financial reporting requirements that can be applied independently of a sustainability-related reporting framework and requirements that may be developed in future. Such an approach will ensure relevant entities are able to meet growing user demand for climate-related financial information and keep up with international climate-related financial reporting developments while the Board continues to develop an appropriate approach to broader sustainability reporting that meets the needs of Australian stakeholders in the long-term (see Agenda Paper 5.2 *Developing climate-related financial reporting requirements for Australia*).
  - (b) Prioritise alignment with international climate-related financial reporting requirements by referring to existing work by global climate-related financial reporting standard-setters and framework providers. For example, the International Sustainability Standards Board's (ISSB) [draft] IFRS S2 *Climate-related Disclosures*, the TCFD Recommendations, and the New Zealand External Reporting Board's (NZ XRB) Climate Standards.

### Key matters this project aims to address

- 7 At its February 2022 (M185) meeting, the Board decided that the initial focus of the [draft] Sustainability Reporting project plan should be develop a separate suite of sustainability reporting standards alongside the existing Australian Accounting Standards and while climate

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<sup>2</sup> Being existing and potential investors, lenders and other creditors.

<sup>3</sup> Note that international alignment is considered to be a priority in meeting the evolving needs of primary users of general purpose financial reporting.

<sup>4</sup> See page 104 of the [October 2022-23 Budget Paper No. 4 Agency Resourcing](#).

<sup>5</sup> See [AASB Strategy, 2022-23](#).

will likely be the first sustainability reporting topic to be addressed, the Board intends to address other sustainability reporting topics at a later stage.<sup>6</sup>

8 In March 2022 the ISSB published two draft standards for public consultation which addressed [general requirements for sustainability-related financial reporting](#) ([draft] IFRS S1) and [climate-related disclosures](#) ([draft] IFRS S2). These [draft] standards were developed on the basis of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD Recommendation).

9 There is currently no national approach to climate-related financial reporting in Australia. This has led to the development of a diverse range of legislation and guidance by individual Australian government and industry bodies. This project will aim to address the following:

- (a) developing a national approach to climate-related financial reporting which prioritises alignment with international climate-related financial reporting requirements; and
- (b) improving the consistency and comparability of climate-related financial reporting.

10 Based on international climate-related financial reporting requirements (see paragraphs 31-34) and recent outreach with Australian stakeholders, this project will seek to develop climate-related financial reporting requirements for large businesses and financial institutions to meet the information needs of primary users of general purpose financial reporting. In the short-term, staff anticipate the following will need to be considered by the Board (see paragraph 40 for a detailed overview of the project timeline):<sup>7</sup>

Anticipated timeline	Description of key activities
March 2023	<ul style="list-style-type: none"> <li>• Commence project deliberations</li> <li>• Consider a draft sustainability reporting standard-setting framework for implementation in developing climate-related financial reporting requirements</li> </ul>
April-May 2023	<ul style="list-style-type: none"> <li>• Finalise project deliberations based on the ISSB’s issued standards</li> <li>• Publication of an exposure draft on climate-related financial reporting requirements</li> </ul>
June-July 2023	<ul style="list-style-type: none"> <li>• Outreach on the exposure draft</li> </ul>
July-September 2023	<ul style="list-style-type: none"> <li>• Analysis of feedback to the exposure draft</li> <li>• Project redeliberations based on feedback to the exposure draft</li> <li>• Commence drafting of a final climate-related financial reporting standard</li> </ul>
October-November 2023	<ul style="list-style-type: none"> <li>• Drafting of a final climate-related financial reporting standard (continued)</li> <li>• Issue voluntary standard on climate-related financial reporting</li> </ul>

<sup>6</sup> See February 2022 (M185) [Agenda Paper 3.8 Positioning sustainability reporting requirements in Australia](#) and [Agenda Paper 3.9 The proposed Australian perspective](#).

<sup>7</sup> Note that this anticipated project timeline is dependent on (i) the ISSB issuing the final [draft] IFRS S1 and [draft] IFRS S2 standards by the end of March 2023; (ii) the ISSB’s drafting of those final standards (i.e. how much the final standards depart from the Exposure Drafts); and (iii) outcomes from AASB Board meetings on project deliberations.

- 11 Note that, consistent with the [draft] Sustainability Reporting project plan, while staff will not target engagement with NFP sector stakeholders, we will continue to engage with them should they wish to do so. That is, whilst NFP sector stakeholders will not be targeted as part of this project, their feedback will not be excluded.

**Key stakeholders**

- 12 Climate-related financial reporting will impact a broad range of stakeholders due to the nature of the topic and public interest.

<b>Impacted stakeholders</b>	<b>Why?</b>
Primary users of general purpose financial reporting—existing and potential investors, lenders and other creditors	Users
Other users—NFP public sector government entities (e.g. the Australian Bureau of Statistics (ABS), the Department of Climate Change, Energy, the Environment and Water (DCCEE)), Australian society, employees, etc.	Users
For-profit sector entities—large businesses and financial institutions	Preparers
Australian Securities and Investments Commission (ASIC)	Regulator of for-profit sector entities
Clean Energy Regulator (CER)	Regulator of the National Greenhouse and Energy Reporting Act 2007, National Greenhouse and Energy Measurement Determination 2008 and Carbon Credits (Carbon Farming Initiative) Act 2011
Australian Prudential Regulation Authority (APRA)	Supervisor of relevant financial institutions (e.g. banking, insurance and superannuation).
Australian Stock Exchange (ASX)	Supervisor of listed for-profit entities and regulator of the ASX Listing Rules and ASX Corporate Governance Principles and Recommendations
Professional services firms and professional bodies (including non-accounting professional services firms and bodies)	Assurance providers, consultants & advisors (e.g. climate and emissions experts)

Impacted stakeholders (cont.)	Why?
For-profit sector entities—other entities <sup>8</sup>	Preparers
NFP public and private sector entities <sup>8</sup>	Preparers

## Objectives and project outcomes

### Objectives and outcomes of the project

- 13 Consistent with the [draft] Sustainability Reporting project plan, the objective of this project is to:
- (c) help preparers of general purpose financial reports meet the evolving information needs of primary users by developing reporting requirements for climate-related financial information; and
  - (d) improve the consistency, completeness, comparability and verifiability of climate-related financial reporting.

- 14 Subject to future Board decisions, global developments and feedback from stakeholders, the project will occur as outlined in paragraphs 10 and 40.

#### *Expected benefits*

- 15 Staff consider that the expected benefits of this project will be:
- (a) improved usefulness of climate-related financial disclosures through better meeting the information needs of primary users of general purpose financial reporting; and
  - (b) improved consistency, completeness, comparability and verifiability of climate-related financial information disclosed as part of general purpose financial reporting.
- 16 The expected benefits are consistent with the guiding principles in the IFRS/AASB *Conceptual Framework for Financial Reporting* and the AASB's Strategic Objectives.

#### *Priority of the Climate-related Financial Reporting project*

- 17 Staff consider the priority and importance of this project to be **high** as a result of:
- (a) the rapid pace of related global developments<sup>9</sup> in climate-related financial reporting;<sup>9</sup> and
  - (b) feedback from sustainability reporting stakeholders:
    - (i) [ITC 46 AASB Agenda Consultation 2022-2026](#)—almost all respondents to ITC 46 acknowledged that climate should be the first topic to be addressed as part of a broader project addressing sustainability reporting;<sup>10</sup>

<sup>8</sup> Note that other for-profit and NFP public and private sector entities have been included due to the increasing demand for climate-related financial reporting requirements from all sectors—that is, staff anticipate that regardless of which entities fall within the proposed scope of the climate-related financial reporting requirements, other types of entities will seek to apply them in order to meet demand from their stakeholders.

<sup>9</sup> For example, the ISSB anticipates issuing IFRS S2 *Climate-related Disclosures* as soon as possible in 2023 and the GRI has commenced a project on updating all climate-related disclosure requirements in the GRI Standards to better align to international developments.

<sup>10</sup> See February 2022 (M185) [Agenda Paper 3.4 Sustainability Reporting: Feedback summary—ITC 46 AASB Agenda Consultation 2022-2026](#).

- (ii) [ITC 48 Extended External Reporting](#)—many respondents to ITC 48 highlighted that climate was appropriate as an initial sustainability reporting topic;<sup>11</sup> and
- (iii) [ED 321 Request for Comment on ISSB Exposure Drafts on \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#)—almost all respondents to ED 321 supported the Board’s proposed approach to developing sustainability reporting requirements as a separate suite of standards to Australian Accounting Standards. This included support for climate being the first sustainability reporting topic to be addressed.<sup>12</sup>

*AASB Strategic objectives*

18 This project supports the [AASB’s Strategic Objectives](#) in the following ways:

#	AASB Strategic Objectives	Link to this project
1	Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For ‘publicly accountable’ entities maintain IFRS compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.	Directly linked—this project seeks to develop climate-related financial reporting requirements. This will improve the usefulness of external reporting through improved transparency, consistency and comparability of climate-related financial information that (i) better meets the needs of primary users; and (ii) is capable of being assured and enforced.
2	With the Auditing and Assurance Standards Board (AUASB), play a leading role in reshaping the Australian external reporting framework by working with regulators to develop objective criteria on: <ul style="list-style-type: none"> <li>• who prepares external reports (including financial reports)</li> <li>• the nature and extent of assurance required on these external reports.</li> </ul>	Directly linked—this project seeks to lay the foundation for the future development of an Australian sustainability reporting framework by focusing initially on climate-related financial reporting. Throughout this project, it is the staff’s intention to work with the AUASB and relevant regulators in order to meet this strategic objective.
3	Actively influence IASB, IPSASB standards and other international accounting and external reporting standards and guidance by demonstrating thought leadership and enhancing key international relationships.	Indirectly linked—this project can inform and influence the work of the ISSB and other national and international standard-setters seeking to address climate-related financial reporting in their jurisdictions. Where appropriate to do so, this project will seek to contribute directly to the work of the ISSB, GRI, IPSASB and other relevant standard-setters and framework providers.

<sup>11</sup> See February 2022 (M185) [Agenda Paper 3.5 Sustainability Reporting: Feedback summary—ITC 48 Extended External Reporting](#).

<sup>12</sup> See November 2022 (M191) [Agenda Paper 3.2.2 Sustainability Reporting: Feedback summary—ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#).

#	AASB Strategic Objectives	Link to this project
4	Attain significant levels of key stakeholder engagement through collaboration, partnership and outreach.	Directly linked—undertaking this project will require significant collaboration with a broad range of stakeholders—both accounting and non-accounting (see paragraph 12).
5	Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.	Directly linked—one of the objectives of this project is to develop climate-related financial reporting requirements to help preparers meet the evolving information needs of primary users.
6	Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards and guidance, including changing technologies.	Directly linked—this project will directly address the emerging issues related to climate-related financial reporting through the development of climate-related financial reporting requirements.  See also AASB Strategic Objective #1.
7	Develop guidance and education initiatives, or promote development by others, to enhance consistent application of accounting and external reporting standards and guidance.	Directly linked—one of the objectives of this project is to improve the consistency, completeness, comparability and verifiability of climate-related financial reporting.  See also AASB Strategic Objectives #1 and #6.

### Cross-cutting projects

- 19 Staff note there are several existing and potential cross-cutting projects relating to climate-related financial reporting:
- (a) AASB Sustainability Reporting—Consistent with the [draft] Sustainability Reporting project plan, the Board will continue to deliberate its long-term approach to developing sustainability reporting requirements in Australia. Staff anticipate that this project will take longer than the Climate-related Financial Reporting project to finalise given the complexity of stakeholder feedback on the scope of the Board’s work on sustainability reporting and Australian-specific matters.<sup>13</sup>
  - (b) ISSB Climate-related Disclosures—As a result of the urgent need for better information about climate-related financial risks and opportunities, a component of the strategic direction provided by the Trustees of the IFRS Foundation to the ISSB was to initially focus its efforts on climate-related financial disclosures. Published for comment in March 2022, [draft] IFRS S2 *Climate-related Disclosures* would require an entity to provide material information about its significant climate-related risks and opportunities using the four pillars of the TCFD Recommendations, being governance, risk management, strategy, and metrics and targets. The ISSB anticipates issuing the final standard in Q1 2023.
  - (c) ISSB General Sustainability-related Requirements—As part of the package of proposals published for public consultation in March 2022, the ISSB published [draft]

<sup>13</sup> See Agenda Paper 5.2.

IFRS S1 *General Requirements for Disclosure for Sustainability-related Financial Disclosures*. [Draft] IFRS S1 acts as both a conceptual framework and general requirements for the disclosure of sustainability-related financial disclosures and is expected to be finalised and issued at the same time as [draft] IFRS S2.

- (d) International Accounting Standards Board (IASB) Climate-related Risks in the Financial Statements—in the IASB’s Third Agenda Consultation,<sup>14</sup> stakeholders expressed a view there may be:
- (i) inconsistent application of IFRS Accounting Standards to climate-related risks; and
  - (ii) insufficient information disclosed about climate-related risks in the financial statements.

In response to that feedback, the IASB decided to add to the maintenance project pipeline a project on Climate-related Risks in the Financial Statements, which will aim to:

- (i) research the causes of stakeholders’ concerns about inconsistent application and insufficient information;
- (ii) research whether the IFRS Foundation’s educational material on the effects of climate-related matters on financial statements and the application of the ISSB’s future standard on climate-related disclosures help to address these concerns; and
- (iii) consider whether and, if so, what narrow-scope actions might be needed.

Staff note that this project is unlikely to be addressed by the IASB in the short-term.

- (b) IASB Pollutant Pricing Mechanisms—in response to feedback on its Third Agenda Consultation, the IASB decided to create a reserve list of projects which will be added to the work plan if, and only if, additional capacity becomes available before the IASB’s next five-yearly agenda consultation. One of these projects is the Pollutant Pricing Mechanisms project which would aim to develop specific requirements for pollutant pricing mechanisms. Initial research would consider whether the project should aim to address:

- (i) all types of pollutant pricing mechanisms, or only some, such as emission trading schemes; and
- (ii) accounting by traders and scheme administrators, or limit the project to companies that are required to (or choose to) participate in such schemes.

Staff note that this project is unlikely to be addressed by the IASB in the short-term.

- (c) IFRS Foundation’s International Financial Reporting Standards Interpretations Committee (Interpretations Committee)—historically, the Interpretations Committee has considered several climate-related reporting topics. For example, [Negative Low Emission Vehicle Credits—IAS 37 Provisions, Contingent Liabilities and Contingent Assets](#)—the Interpretations Committee tentatively concluded that, the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine whether, in the specific facts and circumstances described in the submission, an entity has an obligation that meets the definition of a liability in IAS 37.

Staff expect that, as sustainability-related financial reporting becomes more prominent as a result of the work of the ISSB and sustainability-related topics are

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<sup>14</sup> In March 2021 the IASB published the [Request for Information Third Agenda Consultation](#).



considered jointly by both the IASB and ISSB, the Interpretations Committee will receive further submissions on sustainability-related and climate-related topics which could affect the Climate-related Financial Reporting project.

### Project team and responsibilities

Name	Role	Responsibility
Siobhan Hammond	Acting Director	<ul style="list-style-type: none"> <li>• Strategic and technical advice</li> <li>• Review and project direction</li> <li>• Content expert</li> <li>• Outreach with key/strategic stakeholders</li> </ul>
Evelyn Ling Joanna Spencer John Purcell	Acting senior project staff	<ul style="list-style-type: none"> <li>• Planning and resource oversight</li> <li>• Technical drafting and recommendations (for example, submissions to other standard-setting bodies)</li> <li>• Content expert</li> <li>• Subject matter expertise – e.g. public sector and GRI Standards</li> <li>• Project planning and management</li> <li>• Outreach with stakeholders</li> <li>• Stakeholder engagement</li> </ul>
Tom Frick Climate specialist (see paragraphs 20-21)	Acting project manager	<ul style="list-style-type: none"> <li>• Assisting with technical drafting and/or recommendations (for example, submissions to other standard-setting bodies)</li> <li>• Assisting with project management</li> <li>• Subject matter expertise – climate and materiality</li> <li>• Assisting with research activities</li> <li>• Assisting with stakeholder engagement and outreach</li> </ul>
Aanchal Bhandari	Acting assistant project manager	<ul style="list-style-type: none"> <li>• Assisting with technical drafting and/or recommendations (for example, submissions to other standard-setting bodies)</li> <li>• Assisting with stakeholder engagement and outreach</li> </ul>

### Specialist knowledge and how to source it

20 Climate-related financial reporting primarily relates to the effects of climate change on a reporting entity and their impact on climate through the disclosure of an entity's greenhouse

gas (GHG) emissions (i.e. transition risk). For example, the ISSB’s [draft] IFRS S2 addresses the seven greenhouse gases listed in the Kyoto Protocol.<sup>15</sup>

- 21 Given the nature of climate-related financial reporting and the anticipated requirements related to the disclosure of GHG-related emissions, climate and emissions reporting specialists will need to be consulted. Subject to available resources, staff recommend that, where appropriate, the expertise of external consultants or secondees be sought to assist with the development of climate-related financial reporting requirements.

*Sustainability Reporting Project Advisory Panel*<sup>16</sup>

- 22 The Sustainability Reporting Project Advisory Panel is an expert panel jointly formed by the AASB and AUASB. The Panel is an informal consultative group only, not a formal decision-making group. Panel members act in an advisory capacity, providing specific and industry technical expertise and the perspective(s) of the Panel member and their organisation.

## Assumptions, risks and other considerations

### Assumptions and constraints

- 23 Assumptions made in this draft project plan are:
- (a) the Board will continue to be the government body responsible for developing sustainability reporting and climate-related financial reporting requirements;
  - (b) there will be sufficient resources to complete this project, including funding and external resources potentially needed for current and future stages of the project which may go beyond the current funding period ending 30 June 2023;
  - (c) the ISSB will provide a suitable baseline off which to develop climate-related financial reporting requirements that are appropriate for the Australian market; and
  - (d) the ISSB will meet their anticipated deadline of issuing final standards in Q1 of 2023.
- 24 Constraints on this project include:
- (a) resourcing—given the specific nature of climate-related financial reporting (for example, GHG emissions and carbon credits), securing relevant expertise during the development of related reporting requirements will likely be challenging given that, as highlighted by many respondents to ED 321, there is currently limited expertise in the Australian market;<sup>17</sup>
  - (b) pace of global developments—despite the rapid pace of global developments, the Board will begin its work on climate-related financial reporting prior to [draft] IFRS S2 being issued by the ISSB. Furthermore, the project timeline is entirely dependent on the ISSB issuing [draft] IFRS S1 and [draft] IFRS S2 in Q1 2023. Should the ISSB not meet this deadline, the Board would likely need to delay the project timeline proposed in paragraphs 10 and 40; and
  - (c) timing—given the rapid pace of global developments and the sense of urgency around climate-related financial reporting, comment periods on documents open for public consultation may be shorter than usual and could affect the quality of feedback staff can obtain.

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<sup>15</sup> Appendix A to [Draft] IFRS S2 defines *greenhouse gases* as “the seven greenhouse gases listed in the Kyoto Protocol—carbon dioxide (CO<sub>2</sub>); methane (CH<sub>4</sub>); nitrous oxide (N<sub>2</sub>O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF<sub>3</sub>); perfluorocarbons (PFCs); and sulphur hexafluoride (SF<sub>6</sub>)”.

<sup>16</sup> Details of the Sustainability Reporting Project Advisory Panel and its membership can be found [here](#).

<sup>17</sup> See November 2022 (M191) [Agenda Paper 3.2.2 Sustainability Reporting: Feedback summary—ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#).

## Key project delivery risks

Risk	Risk assessment	Potential impacts	Mitigation strategy	Residual risk
Low engagement during outreach as a result of stakeholder burnout (i.e., due to the pace of international developments staff note there has already been increased outreach on a range of publications such as exposure drafts, discussion papers and other consultation papers)	High	Issues may not be identified in a timely manner, causing delays and possible implementation issues	Build on and continue to manage existing sustainability reporting stakeholder database and develop targeted communication strategies based on the outreach being sought.  Identify and target subject matter experts.	Moderate
Low engagement during outreach as a result of not having access to the most appropriate stakeholders	High	Issues may not be identified in a timely manner, causing delays  The quality of feedback may be compromised by irrelevant feedback	Build on and continue to manage existing sustainability reporting stakeholder database.  Leverage off relationships with existing sustainability reporting stakeholders and identify and build relationships with appropriately qualified stakeholders.	Low
Staff resourcing	High	Delays caused by lack of staff resources	Securing sufficient staff with the relevant level of expertise (see paragraphs 20-22).	Moderate
Staff resourcing changeover	Low	Delays caused by handover activities	Detailed project planning and documentation for managed handovers.	Low

<b>Risk</b>	<b>Risk assessment</b>	<b>Potential impacts</b>	<b>Mitigation strategy</b>	<b>Residual risk</b>
Unexpected feedback/issues causing delay	High	More resourcing and/or time may be required to resolve and consult on solutions to identified issues resulting in delays	Timely outreach on key proposals and publications to identify and manage any issues early.	Moderate
Lack of specific sustainability reporting standard-setting frameworks and processes governing the Board	High	Reputational damage due to a perceived lack of transparency and appropriate due process	Develop a draft sustainability reporting standard-setting framework to pilot as part of the Climate-related Financial Reporting project.  Identify which other AASB <a href="#">Standard Setting Policies &amp; Processes</a> will be applied as part of the Climate-related Financial Reporting project.	Low

#### **Questions to Board members**

- Q1:** Are there any additional risks that Board members expect could affect project delivery that have not been identified by staff?
- Q2:** Do Board members have any additional views on how the risks identified can be best mitigated? For example, do Board members have any additional views on how best to mitigate the risk of low stakeholder engagement due to stakeholder fatigue?

### Specific sector and jurisdictional considerations

- 25 Due to the nature of climate change and sense of urgency around climate-related financial reporting requirements, the project seeks to develop related reporting requirements for large businesses and financial institutions in the for-profit sector (see Agenda Paper 5.2).
- 26 Consistent with the NZ XRB’s approach to developing climate-related financial reporting requirements, staff expect that industry-based requirements will not be considered at this stage. At least initially, this project will seek to develop climate-related reporting requirements that can be applied regardless of which industry an entity operates in (i.e. the focus of the project will be on developing appropriate cross-industry climate-related financial reporting requirements). Staff plan to bring further analysis and recommendations on this matter to a future Board meeting.

### Relevant Standards, Legislation and Regulations

- 27 There is currently no national approach to climate-related financial reporting in Australia, which has led to a diverse range of legislation and guidance being developed by individual Australian government and industry bodies.
- 28 The Australian legislation and guidance identified in this project plan are not for broad application. The key Australian legislation and guidance included in this project plan generally applies to specific market participants and are not broadly applied outside of their intended scope.
- 29 Staff identified the following Australian legislation and guidance via:<sup>18</sup>
- (a) Outreach—as part of outreach meetings for ITC 46, ITC 48 and ED 321, staff asked preparers about which sustainability standards and frameworks they are familiar with (including any sustainability or climate-related Australian legislation or guidance); and
  - (b) Research—in February 2022, staff reviewed sustainability reports issued by the largest 20 companies listed on the Australian Stock Exchange (ASX) to identify which sustainability standards and frameworks (including any sustainability-related Australian legislation or guidance) they applied when preparing their reports.
- 30 Outreach and research identified the following key pieces of climate-related Australian legislation and guidance:

Relevant legislation and guidance	Reason relevant
National Greenhouse and Energy Reporting Act 2007 and National Greenhouse and Energy Measurement Determination 2008	The national framework for measuring, reporting and disseminating company information about greenhouse gas emissions, energy production, energy consumption and other information specific under NGER legislation.
Carbon Credits (Carbon Farming Initiative) Act 2011	A voluntary national carbon offset scheme, it sets up a scheme for the issue of Australian carbon credit units in relation to eligible offsets projects.

<sup>18</sup> See February 2022 (M185) [Agenda Paper 3.3 Sustainability Reporting: Australian and selected jurisdictional perspectives](#).

Relevant legislation and guidance	Reason relevant
ASIC Regulatory Guides	<p>In September 2018, ASIC set out their recommendations relating to the consideration and disclosure of climate risk in <a href="#">Report 593 <i>Climate risk disclosure by Australia's listed companies</i></a> (Report 593).</p> <p>In August 2019 ASIC updated its existing regulatory guidance to address the disclosure of climate-related risks and opportunities. The updates were made to:</p> <ul style="list-style-type: none"> <li>• <a href="#">Regulatory Guide 228 <i>Prospectuses: Effective disclosure for retail investors</i></a> (RG 228); and</li> <li>• <a href="#">Regulatory Guide 247 <i>Effective disclosure in an operating and financial review</i></a> (RG 247).</li> </ul>
Australian Stock Exchange (ASX) <i>Corporate Governance Principles and Recommendations</i>	<p>Issued in February 2019 for application for financial years beginning on or after 1 January 2020, the ASX Corporate Governance Council's <a href="#">fourth edition of the ASX <i>Corporate Governance Principles and Recommendations</i></a> (ASX <i>Principles and Recommendations</i>) now make reference to climate-related risk.</p>
APRA Prudential Practice Guide CPG 229 <i>Climate Change Financial Risks</i>	<p>In November 2021, APRA issued <a href="#">Prudential Practice Guide CPG 229 <i>Climate Change Financial Risks</i></a> (CPG 229). While not mandatory, CPG 229 aims to assist APRA-regulated institutions in complying with Prudential Standards CPS 220 <i>Risk Management</i>, SPS 220 <i>Risk Management</i>, CPS 510 <i>Governance</i>, SPS 510 <i>Governance</i> and, more generally, to outline prudent practices in relation to climate change financial risk management.</p>

### International alignment and interaction with the international standards and frameworks

- 31 In February 2022, the Board tentatively decided to use the work of the ISSB as a foundation for sustainability-related financial reporting requirements (including climate), with modifications for Australian matters and requirements. Staff note that Australian stakeholders have consistently highlighted international alignment as being of a high priority in sustainability reporting. Staff also note the continued fragmentation of jurisdictional approaches to sustainability reporting and the lack of widespread adoption, or commitments to future adoption, of the ISSB's initial two standards. That is, at this stage the staff are not able to say that the IFRS Sustainability Disclosure Standards are widely accepted as the leading international standards for sustainability and climate-related financial reporting. However, we do note there does appear to be general consensus that the TCFD Recommendations are most appropriate when considering climate-related financial reporting.
- 32 Consequently, to prioritise international alignment and be consistent with the proposed scope of both this project and the [draft] Sustainability Reporting project plan, staff will continue to engage with other national and international standard-setters and sustainability reporting standard-setters and framework providers. In particular, as respondents to ITC 46, ITC 48 and ED 321 observed that the GRI Standards are most commonly applied in Australia

for broader sustainability reporting, staff will continue to engage with the GRI to minimise any perceived or potential areas of conflict.<sup>19</sup>

33 That is, consistent with the [draft] Sustainability Reporting project plan, the work of the ISSB will be the Board’s starting point. Staff will then engage in a range of outreach, including outreach with (i) relevant Australian stakeholders; (ii) other sustainability reporting and national and international standard-setters; and (iii) the GRI; to develop appropriate climate-related financial reporting requirements that meet the needs of Australian stakeholders.

34 In considering international alignment staff have identified the following relevant leading international and jurisdictional climate-related reporting standards that could affect Australian climate-related financial reporting requirements:

<b>Relevant Standards</b>	<b>Reason relevant</b>
GRI 302 <i>Energy</i> (2016) <sup>20</sup>	Contains disclosures for entities to report information about their energy-related impacts, and how they manage these impacts.
GRI 305 <i>Emissions</i> (2016) <sup>20</sup>	Contains disclosures for entities to report information about their emissions-related impacts, and how they manage these impacts. This GRI Standard addresses emissions into air, which are the discharge of substances from a source into the atmosphere. Types of emissions include: greenhouse gases, ozone-depleting substances (ODS), and nitrogen oxides (NO <sub>x</sub> ) and sulphur oxides (SO <sub>x</sub> ), among other significant air emissions.
<a href="#">[Draft] IFRS S2 Climate-related Disclosures</a>	Expected to be finalised and issued in early 2023, [draft] IFRS S2 sets out the requirements for identifying, measuring and disclosing climate-related financial risks and opportunities, including an entity’s GHG emissions. [Draft] IFRS S2 aligns with the TCFD Recommendations.
<a href="#">Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD Recommendations)</a>	The TCFD Recommendations are designed to solicit decision-useful, forward-looking financial information for investors that can be included in mainstream financial filings. The TCFD Recommendations are structured around four thematic areas that represent core elements of how entities operate: governance, strategy, risk management, and metrics and targets.
<a href="#">[Draft] ESRS E1 Climate Change</a>	Derived from the European Union’s (EU) Corporate Sustainability Reporting Directive (CSRD), [draft] ESRS E1 addresses disclosure requirements related to climate change mitigation, climate change adaptation and energy (including disclosure requirements related to greenhouse gases). [Draft] ESRS E1 covers disclosure requirements regarding climate-related hazards that can lead to physical climate risks for the undertaking and adaptation solutions that can reduce these

<sup>19</sup> In March 2022, the GRI and IFRS Foundation signed a Memorandum of Understanding seeking to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures (see: <https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/>).

<sup>20</sup> As part of the GRI’s Climate Change project, it is likely that GRI 302 and GRI 305 will be updated in an effort to align the GRI’s climate-related disclosure requirements with international developments.

Relevant Standards	Reason relevant
	risks. It also covers transition risks arising from the adaptation needs to climate-related hazards.  [Draft] ESRS E1 is expected to be effective from 1 January 2024.
<a href="#">[Draft] ESRS E2 Pollution</a>	Derived from the EU's CSRD, [Draft] ESRS E2 addresses disclosure requirements related to pollution of air (both indoor and outdoor), water (including groundwater), soil, substances of concerns, most harmful substances and enabling activities in support of prevention, control and elimination of pollution. That is, it partially addresses climate in that it addresses ozone depleting substances, nitrogen oxides (NO <sub>x</sub> ) and sulphur oxides (SO <sub>x</sub> ) and other significant air emissions.  [Draft] ESRS E2 is expected to be effective from 1 January 2024.
<a href="#">US Securities and Exchange Commission (SEC) Proposed Rules: The Enhancement and Standardisation of Climate-related Disclosures for Investors</a>	The US SEC is proposing to introduce rules that would require registrants to provide certain climate-related information in their registration statements and annual reports. The proposed rules would require information about a registrant's climate-related risks that are reasonably likely to have a material impact on its business, results of operations, or financial condition. The required information about climate-related risks would also include disclosure of a registrant's GHG emissions, which have become a commonly used metric to assess a registrant's exposure to such risks. In addition, under the proposed rules, certain climate-related financial metrics would be required in a registrant's audited financial statements.
<a href="#">NZ CS 1 Climate-related Disclosures</a>	The main disclosure standard, NZ CS 1 is based on the TCFD Recommendations and provides a consistent framework for entities to consider the climate-related risks and climate-related opportunities that climate change presents for their activities over the short, medium and long term. The objective of NZ CS 1 is to enable primary users to assess the merits of how entities are considering those risks and opportunities, and then make decisions based on these assessments.
<a href="#">NZ CS 2 First-time Adoption of Aotearoa New Zealand Climate Standards</a>	In recognition that it may take time to develop the capability to produce high-quality climate-related disclosures, NZ CS 2 provides a limited number of first-time adoption provisions from the disclosure requirements in Aotearoa New Zealand Climate Standards.
<a href="#">NZ CS 3 General Requirements for Climate-related Disclosures</a>	The objective of NZ CS 3 is to establish principles and general requirements to enable the provision of high-quality climate-related disclosures.

### Interaction with the AUASB

- 35 Respondents to ITC 46 and ED 321 highlighted that as the Board considers the development of sustainability reporting requirements (including climate-related financial reporting requirements), it should also consider the assurability of such information. Furthermore, feedback to the ISSB's [draft] IFRS S2 highlighted a number of concerns in relation to whether the proposals provide a suitable basis for auditors and regulators to be able to assess



compliance.<sup>21</sup> The November 2021 FRC, AASB and AUASB [Position Statement on Extended External Reporting and Assurance](#) also stated that the AUASB intends to simultaneously update relevant assurance standards while the AASB develops relevant reporting requirements.

- 36 Where appropriate, staff will be liaising with relevant AUASB staff. One way in which staff are already working together is through the Sustainability Reporting Project Advisory Panel (see paragraph 22). Staff also plan to include relevant AUASB staff in outreach meetings where appropriate.

#### **Consideration of New Zealand climate-related financial reporting standards**

- 37 In September 2020 the New Zealand Government announced its intention to implement mandatory reporting on climate risks and opportunities to build on the progress already made to tackle the climate crisis. To support the establishment of a climate-related disclosure framework, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill 2021 (the Bill) allows for the External Reporting Board (XRB) to issue guidance on ESG matters. As part of this process, the XRB was tasked with establishing a climate-related disclosure framework that:
- (a) is based on the TCFD Recommendations;
  - (b) is expected to be accompanied by guidelines; and
  - (c) will include a series of transitional provisions to enable climate reporting entities to begin their disclosure journey.
- 38 In July 2022 the NZ XRB published three Exposure Drafts on NZ CS 1, NZ CS 2 and NZ CS 3. The comment period closed 26 September 2022. The NZ Climate Standards were issued in December 2022 and are effective for annual reporting periods beginning on or after 1 January 2023.
- 39 While a detailed comparison of the requirements of NZ CS 1, NZ CS 2 and NZ CS 3 to the ISSB's recently published Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 has yet to be performed, staff note that both the work of the NZ XRB and the ISSB has been based off the TCFD Recommendations. Consequently, while we expect there may be some differences, we anticipate that the climate-related financial reporting requirements of the NZ XRB and ISSB will be predominantly aligned.

#### **Project timeline**

- 40 The following project timeline focuses on the initial development of climate-related financial reporting requirements for large for-profit businesses and financial institutions and is solely dependent on the ISSB meeting their anticipated deadline of issuing [draft] IFRS S1 and [draft] IFRS S2 in Q1 2023. Should the ISSB issue the standards later than Q1 2023, the proposed project timeline will need to be amended.

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<sup>21</sup> See November 2022 (M191) [Agenda Paper 3.2.2 Sustainability Reporting: Feedback summary—ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#) and [Agenda Paper 3.2.4 Sustainability Reporting: Feedback summary—ISSB Exposure Draft on \[Draft\] IFRS S2](#).

Milestone	Target (Board, stakeholders, other)	Date
<p><b>Project deliberations</b></p> <p>Climate-related financial reporting topics considered as part of the February 2023 Board meeting:</p> <ul style="list-style-type: none"> <li>• [draft] standard-setting framework for climate-related financial reporting</li> </ul> <p>Should the Board agree with the staff recommendations in February 2023, staff anticipate commencing Board discussion on the following topics in March 2023:</p> <p><u>Amending or adding to the ISSB baseline</u></p> <ul style="list-style-type: none"> <li>• making direct reference to the National Greenhouse Gas and Energy Reporting Act 2007</li> <li>• adding back the cross-industry requirement related to GHG emissions intensity should the ISSB’s final drafting remove this requirement</li> <li>• removing references to the SASB Standards and the related non-mandatory industry-based guidance in Appendix B to [draft] IFRS S2</li> <li>• removing the cross-industry metric on remuneration disclosures</li> <li>• removing the cross-industry metric on internal carbon prices</li> <li>• aligning to the ASX Corporate Governance Principles and Recommendations if necessary</li> <li>• transitional arrangements<sup>22</sup></li> </ul> <p><u>Approach to ISSB [draft] IFRS S1:</u></p> <ul style="list-style-type: none"> <li>• the concept and definition of value chain</li> <li>• connected information</li> <li>• location of climate-related financial disclosures</li> <li>• comparative information</li> <li>• sources of estimation and outcome uncertainty</li> <li>• errors</li> <li>• statement of compliance</li> </ul>	Board	March – May 2023

<sup>22</sup> This discussion will be dependent outcomes from the Treasury public consultation and the final drafting of [draft] IFRS S2.

Milestone	Target (Board, stakeholders, other)	Date
<p><b>Exposure Draft – development and approval</b></p> <p>Using the work of the ISSB on [Draft] IFRS S2 (including subsequent decisions made by the ISSB since the publication of the related Exposure Draft) as a starting point, staff to develop solutions based on outcomes of project deliberations. Staff will also seek Board input in developing the preface and questions for the climate-related financial reporting exposure draft.</p>	Board	May – June 2023
<p><b>Exposure Draft - outreach</b></p> <ul style="list-style-type: none"> <li>• Develop and issue communications, including details of outreach events, upon publishing the exposure draft</li> <li>• Outreach</li> </ul>	Stakeholders	June – July 2023
<p><b>Summary of feedback and deliberation</b></p> <ul style="list-style-type: none"> <li>• Summary of outreach results</li> <li>• Project redeliberations</li> <li>• Determination of effective date</li> </ul>	Board	July – September 2023
<p><b>Drafting final pronouncements and approval<sup>23</sup></b></p> <ul style="list-style-type: none"> <li>• Recommendation and decision on option to progress to final pronouncement stages</li> <li>• Updating the proposals based on amendments agreed with the Board</li> <li>• Final standard/s expected to be issued in H2 2023</li> </ul>	Board	October 2023
<p><b>Post-issuing pronouncements</b></p> <ul style="list-style-type: none"> <li>• Non-authoritative guidance (e.g., Australian-specific implementation or other guidance if needed)</li> </ul>	Stakeholders	October – December 2023

**Question to Board members**

**Question to Board members**

**Q3:** Do Board members have any comments or questions on the anticipated milestones and timing in the project timeline?

<sup>23</sup> Note that this anticipated timeline would be subject to the [AASB Due Process Framework for Setting Standards](#)—that is, this timeline does not include the potential need for the proposals to be re-exposed.

## Stakeholder engagement and communication

### Planned outreach

- 41 To obtain detailed and useful feedback on all aspects of the anticipated proposals from both accountants and non-accountants, staff plan to engage in the following outreach should time allow:<sup>24</sup>
- (a) **Proactive stakeholder engagement**—for example, through one-on-one meetings, meetings with existing AASB advisory committees, tailored outreach events and requesting submissions directly from sustainability reporting stakeholders. Staff intend to target specifically:
    - (i) those stakeholders (both accounting and non-accounting) that provided feedback on sustainability reporting in their responses to ITC 46, ITC 48 and ED 321 either through formal submissions, attendance at outreach events on ED 321, or one-on-one meetings with staff; and
    - (ii) other sustainability reporting stakeholders (both accounting and non-accounting) which have been identified as being potentially impacted by climate-related financial reporting—for example, such as climate scientists and regulators.
  - (b) **Survey**—for example, through the development of a survey aimed at engagement with those stakeholders that lack the time and resources to engage with the AASB directly or prepare a formal submission.

### Research activities

- 42 The following climate-related research activities are planned or have been performed:
- (a) Climate Scenario Disclosure (prepared by the University of Melbourne research team lead by Brad Potter)—this research focuses on climate scenario disclosure by the top 100 companies listed on the Australian Stock Exchange (ASX 100). Staff plan to bring the final research report to the Board’s March 2023 meeting.
  - (b) The AUASB’s current scholar is Dr. Shan Zhou. Dr. Zhou focuses on research on Extended External Reporting, which is a strategic priority area for the AUASB. In May 2022 Dr. Zhou completed a literature review on the reporting and assurance of climate-related and other non-financial information, which was issued as [AUASB Research Report 7 A Literature Review on the Reporting and Assurance of Climate-related and Other Non-financial Information](#).
  - (c) At its February 2022 meeting, the Board discussed a preliminary academic literature review that focused on:<sup>25</sup>
    - (i) climate-related disclosures in a global setting; and
    - (ii) the boundaries of leading sustainability reporting standards and frameworks.
  - (d) In December 2022 Jean You (UNSW, Sydney) and Roger Simnett (Deakin University) completed a research report providing an overview of climate-related disclosures and associated assurance practices in annual reports of Australian listed entities, which was issued as [AAAB-AUASB Research Report Climate-related disclosures and assurance in the annual reports of ASX listed companies](#).

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<sup>24</sup> Where appropriate staff will also include and liaise with the AUASB staff as part of all planned outreach.

<sup>25</sup> See February 2022 (M185) [Agenda Paper 3.6 Sustainability Reporting: Preliminary academic literature review](#).

- (e) The AASB and AUASB have jointly issued a research grant to the University of Sydney to help support their research on the reporting of climate risk internationally.
- (f) In December 2022 the AASB and RMIT jointly hosted the 2022 AASB Research Forum which highlighted the following sustainability and climate-related research projects:
  - (i) [Exploring the Horizons of Financial Reporting](#) (Michael Davern, Dean Hanlon, Ram Subramanian, Nikole Gyles and Brad Potter);
  - (ii) [Reporting and Assurance of Material Climate Change-Related Risk Disclosures: Evidence from Australia](#) (Kevin Thai, Yang Xu and Kathleen Herbohn); and
  - (iii) [Improving the Visibility of Soil Health and Risks in Corporate Reporting](#) (Nick Pawsey, Francisco Ascui and Mark Frost).

### Questions to Board members

#### Questions to Board members

**Q4:** Do Board members have any comments or questions on the project plan?

**Q5:** Do Board members agree to proceed with implementing the project plan?