



[Draft] AASB Due Process Framework for Setting Australian Sustainability Reporting Standards

Note to Board: Staff recommend that this Framework be a separate document from the existing *AASB Due Process Framework for Setting Standards* (September 2019), which addresses the process for setting the AASB's Australian Accounting Standards, because:

- the Sustainability and Accounting Standards will be separate suites of Standards; and
- the documents have a different focus; in particular, the Accounting document has a focus on adopting IFRS Standards whereas this document refers to alignment with domestic legislation and a broader range of possible international precedents.

Staff recommend not amending the AASB's existing due process framework for Accounting Standards for the time being, but note that there may be consequential amendments to be made in the future, including renaming the document *AASB Due Process Framework for Setting Accounting Standards*.

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Purpose of the AASB Due Process Framework for Setting Australian Sustainability Reporting Standards

Note to Board: This 'Purpose' section is based on the language from Agenda Paper 14, AASB meeting March 2023.

- 1 This Due Process Framework sets out the Australian Accounting Standards Board's (AASB's) approach to developing, issuing and maintaining Australian Sustainability Reporting Standards.
- 2 This Framework is designed to ensure Australian Sustainability Reporting Standards are principle-based, meet the needs of external report users, and are capable of being assured and enforced. Consequently, the Due Process Framework depicted in this document is founded on the principles of strategic national and international influence, transparency, appropriate consultation and accountability to stakeholders.

Note to Board: The above paragraph uses the term 'external report users', which is also used in the AASB Due Process Framework for Setting [Accounting] Standards. This provides some flexibility for having a broader set of users than 'primary users'.

The reference to "capable of being assured and enforced" is from the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 1.1.

- 3 This Framework is intended to provide stakeholders with confidence in the standard-setting process and is to be adapted when necessary to meet urgent standard-setting needs. The AASB will exercise judgement in applying this Framework and may vary the sequence in which due process steps are undertaken to respond effectively to developments in a dynamic regulatory environment.

Note to Board: The above paragraph is designed to give the AASB some flexibility in applying the Framework and is loosely based on content from EFRAG's *Due Process Procedures for EU Sustainability Reporting Standard-Setting*, paragraph 1.5.

- 4 Australian Sustainability Reporting Standards, as far as practicable, are sector neutral, so 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. There may be circumstances in which the AASB considers the need for Australian Sustainability Reporting Standards or guidance that is specific to particular types of entities, for example for-profit entities, not-for-profit entities or public sector entities.

Note to Board: The above paragraph includes content drawn from Agenda Paper 14, AASB meeting March 2023, and various parts of the AASB Due Process Framework for Setting [Accounting] Standards.

- 5 This Framework operates in conjunction with the *AASB and AUASB Board Charter* and the [draft] *AASB Sustainability Reporting Standard-Setting Framework*. The



Standard-Setting Framework sets out the principles to determine the content of standards, and this Due Process Framework sets out principles by which the standards are set.

- 6 This Framework has been prepared by the AASB and ratified by the AASB's oversight body, the Australian Financial Reporting Council (FRC).

Note to Board: The above paragraph has been included:

- in view of the FRC's obligation to "establish appropriate consultative mechanisms" [ASIC Act section 225(1)(f)]; and
- to provide some sense of comfort around the process for establishing this Framework, given that the preparation process has been truncated.

Principle-based Standards

- 7 Australian Sustainability Reporting Standards are intended to be principle-based. The AASB considers principle-based Standards achieve the most useful reporting outcomes as they enable entities to exercise judgement in applying the requirements to suit an entity's particular facts and circumstances. The AASB's development of a conceptual framework for Australian Sustainability Reporting Standards will enhance its ability to set principle-based Standards and provide context for stakeholders in responding to proposed Standards and in understanding and applying the Standards. In the absence of a specific conceptual framework addressing sustainability reporting, the AASB may refer to the principles and guidance in its existing *Conceptual Framework for Financial Reporting* (for for-profit entities) and *Framework for the Preparation and Presentation of Financial Statements* (for not-for-profit entities).

Note to Board: The middle sentence in the above paragraph is drawn largely from Agenda Paper 14, AASB meeting March 2023.

Although the above paragraph dates the document (to a time before the AASB has a Sustainability Reporting Standards conceptual framework in place), it helps explain why we're talking about some concepts in the document without reference to a particular conceptual framework document.

Sustainability reporting in the context of general purpose financial reporting

Note to Board: This section assumes sustainability disclosures are within general purpose financial reporting without discussing where sustainability disclosures might sit within general purpose financial reporting since.

Agenda Paper 14, AASB meeting March 2023, referred to the objective of GPFR, which goes beyond the objective of GPFS in our existing conceptual framework. However, until we have the sustainability conceptual framework, that broader issue has not been raised in this section.

- 8 The AASB sets Standards and develops reporting requirements and guidance for general purpose financial reporting. Financial and other related information reported applying Australian Sustainability Reporting Standards is a component of general purpose financial reporting.



Note to Board: The language in the above paragraph, including ‘Financial and other related information’, is from the proposed ASIC Act changes [s. 224(a)], as set out in the Treasury Laws Amendment (2023 Measures No. 1) Bill 2023.

That language will need to be checked against the final amendments for consistency.

- 9 The focus of Australian Sustainability Reporting Standards is on requiring sustainability-related information that meets the needs of external report users. Those users may include existing and potential resource providers (such as investors, lenders, other creditors, donors and taxpayers), recipients of goods and services (such as customers and beneficiaries) and parties performing policymaking, review or oversight functions (such as advisers and members of parliament).

Note to Board: The above paragraph includes reference to parties performing policymaking functions, which is an addition to the ‘conventional’ list of users in the AASB Due Process Framework for Setting [Accounting] Standards – on the basis that to some degree sustainability disclosures will be driven by government’s public policy objectives.

- 10 The AASB acknowledges that some users, including some regulators, may also seek specific sustainability-related information to meet their particular needs, which is in addition to, and potentially different from, the information required by Australian Sustainability Reporting Standards.

AASB’s legislative functions and powers

Note to Board: The language in this section is from the proposed ASIC Act changes in the 2023 Measures No. 1 Bill.

The language will need to be checked against the final amendments for consistency.

- 11 Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) identifies the following functions of the AASB in respect of sustainability reporting standards:
- (a) develop a conceptual framework for the purpose of evaluating proposed sustainability standards and international sustainability standards [section 227(1)(a)(ii)];
 - (b) formulate sustainability standards [section 227(1)(ca)]; and
 - (c) participate in and contribute to the development of a single set of sustainability standards for world-wide use [section 227(1)(d)(ii)].
- 12 Part 12 of the ASIC Act also identifies that the AASB:
- (a) may formulate sustainability reporting standards by issuing the text of an international sustainability standard [section 227(4)];



- (b) may modify an international sustainability standard to the extent necessary to take account of the Australian legal or institutional environment and ensure that the standard is appropriate to the Australian legal or institutional environment [section 227(5)];
- (c) in formulating sustainability reporting standards, must have regard to the suitability of a proposed standard for different types of entities and may apply different sustainability requirements to different types of entities [section 229(3)]; and
- (d) in performing its functions, must follow a broad strategic direction determined by the AASB’s oversight body, the Financial Reporting Council [section 232].

Types of AASB pronouncements and international pronouncements

Note to Board: This section refers to the full suite of types of pronouncements as per the AASB Due Process Framework for Setting [Accounting] Standards. While the Board may not issue some of them (such as Practice Statements) for some time, it seems useful to flag them all since:

- it helps to highlight that staff anticipate the need for a lot of guidance to support implementation; and
- non-accounting stakeholders might otherwise assume that there will only ever be 'Standards'.

13 The AASB issues the following types of pronouncements and guidance.

Pronouncement	Authority	Issued by
Standards, Interpretations and application guidance	Mandatory	AASB Board
Conceptual Framework documents	Non-mandatory	AASB Board
Practice Statements	Non-mandatory	AASB Board
Agenda Decisions	Supportive	AASB Board
Guidance		
Frequently Asked Questions (FAQs), Staff articles, presentations, newsletters and other educational materials	Supportive	AASB staff

14 Each Standard normally would be accompanied by additional material that is not an integral part of the Standard, such as (but not limited to):

- (a) preface/introduction;
- (b) illustrative examples;



- (c) Basis for Conclusions; and
- (d) Impact Analysis or similar document.¹

15 Australian Sustainability Reporting Standards are developed by the AASB domestically and may be based on globally accepted sustainability reporting standards and frameworks to support international alignment. Globally accepted sustainability reporting standards include, but are not limited to:

- (a) IFRS Sustainability Disclosure Standards and pronouncements issued by the International Sustainability Standards Board (ISSB);
- (b) International Public Sector Accounting Standards and pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB);
- (c) jurisdictional sustainability-related reporting standards or frameworks that may significantly affect Australian entities, such as the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG);
- (d) pronouncements and guidance issued by the United Nations (UN)—e.g. UN Sustainable Development Goals;
- (e) standards or frameworks developed by international taskforces addressing particular sustainability-related topics, such as climate or nature-related financial disclosure; and
- (f) Global Reporting Initiative (GRI) Standards and pronouncements issued by the Global Sustainability Standards Board (GSSB).

Compliance and enforcement

- 16 Compliance and enforcement of Australian Sustainability Reporting Standards and other pronouncements is not the responsibility of the AASB.
- 17 The extent of compliance required with Australian Sustainability Reporting Standards or other pronouncements is determined by the legislative or regulatory requirements of other regulators (e.g. the Australian Securities and Investments Commission and the Australian Charities and Not-for-profits Commission) and/or an entity's constituting or other documents, in conjunction with the application paragraphs of the Standards and other pronouncements.

Principles underpinning due process

- 18 This Framework is underpinned by the following principles.

¹ The information required in an Impact Analysis may be satisfied by another document prepared by the AASB, including a Basis for Conclusions.



- (a) Strategic international influence – maximising Australian input and influence with international, regional and national standard-setters, including, but not limited to, the ISSB and the IPSASB.
- (b) Appropriate consultation –consulting in a genuine and timely way with interested and affected entities, professional bodies, community organisations and individuals, to achieve high-quality Standards. It also includes consulting with other regulators to avoid creating cumulative or overlapping regulatory burdens. Consultation is typically conducted both formally, which involves the issue of draft documents for public comment, and informally, which involves targeted outreach with key stakeholders. Having an appropriate level of consultation will typically involve balancing competing objectives of achieving timely outcomes as set by the AASB and Australian Government policy, and providing opportunities for stakeholder input. At times, this balancing may result in shorter consultation periods.
- (c) Transparency – making public the information on which the AASB bases its decisions at the earliest opportunity, including public board papers and meetings, and timely notification of tentative and final decisions. The *AASB and AUASB Board Charter* outlines the main corporate governance principles that the AASB applies to achieve this principle. The development of domestic sustainability reporting requirements may be reliant on or led by Australian Government policy. At times, this may mean the AASB is unable to make public all of its decisions and the related board papers until Australian Government policy has been finalised.
- (d) Accountability – a cost/benefit analysis is performed for new and amending Standards, either in the form of an Impact Analysis or similar document (for Standards affecting private sector entities – refer to the ‘Accountability’ section below) or in the Basis for Conclusions, analysing the potential effects of the proposals on affected parties and explaining the rationale for why decisions were made. Standards are also periodically reviewed to test their continuing relevance (refer to the ‘Post-implementation reviews’ section below). The AASB aims to assess the relative costs and benefits of the requirements in proposed Standards, bearing in mind that the development of domestic sustainability reporting requirements may be reliant on or led by Australian Government policy.
- (e) Facilitating meeting sustainability reporting obligations – designing Standards to ensure that directors and others responsible for the governance of reporting entities have clear requirements that enable them to discharge their sustainability reporting obligations under Australian legislation on a timely basis.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 4.1. The equivalent of paragraph 4.2 (which addresses Regulation Impact Statements, or RISs) relates to the ‘Impact Analysis’ the Board is required to perform for decisions affecting the private sector and is located in the sub-section below on ‘Accountability’ on the basis that an Impact Analysis is essentially an accountability exercise for the AASB as the ‘decision maker’.



This paragraph is establishing the broad principles the Board will apply to developing pronouncements that affect all types of entities, not just private sector entities.

Strategic international influence

- 19 The principle of strategic international influence is designed to support the alignment of sustainability reporting standards across jurisdictions on the basis that, to the extent feasible, international convergence is needed to minimise the costs and maximise the benefits of sustainability reporting, particularly for preparers, users and other stakeholders operating internationally. This is also critical as varying approaches to sustainability reporting are already underway internationally and it will be important to engage with other National Standard-Setters as well as international sustainability reporting standard-setters and framework providers.

Note to Board: The above paragraph is based largely on content from Agenda Paper 14, AASB meeting March 2023, modified to make the focus generic, rather than on influencing the ISSB.

- 20 To maximise Australia's input and influence on the development of internationally aligned sustainability reporting requirements, the AASB:
- (a) promotes the establishment of a global baseline of sustainability reporting requirements in light of Australia's experience in the endorsement of IFRS Accounting Standards;
 - (b) builds relationships and influence with significant international stakeholder groups relevant to the AASB;
 - (c) issues consultation documents from significant international sustainability reporting standard-setters and framework providers concurrently in Australia to seek Australian input and, where relevant, makes submissions on issues likely to be of relevance to Australian entities. The AASB takes input received from Australian stakeholders into account when forming a view as to the appropriateness of options considered by those standard-setters and framework providers and in preparing the related submissions;
 - (d) participates in outreach activities of significant international sustainability reporting standard-setters and framework providers where relevant, and co-hosts outreach activities in Australia where appropriate;
 - (e) establishes Australian transition resource groups, project advisory panels and other stakeholder forums to assist in providing relevant Australian input to significant international sustainability reporting standard-setters and framework providers;
 - (f) develops effective working relationships with Board members and staff of those significant international sustainability reporting standard-setters and framework providers to provide direct input on issues of concern to Australia;



- (g) identifies and promotes the appointment of high-quality Australian representatives on relevant bodies, panels or groups of significant international sustainability reporting standard-setters and framework providers;
- (h) identifies, designates and prepares technical staff with appropriate expertise and capacity to represent AASB internationally, and promotes secondments (including staff exchanges) of AASB staff to international and national standard-setters and framework providers;
- (i) communicates outcomes from international engagement to the AASB Board members, technical staff and other stakeholders to assist in identifying major concerns with international proposals;
- (j) participates in international sustainability reporting events and forums where appropriate;
- (k) participates in international and regional sustainability reporting standard-setting forums, such as the International Forum of Accounting Standard Setters (IFASS);
- (l) develops and presents at relevant international forums thought leadership material on topics important to Australian stakeholders that are not being addressed by significant international sustainability reporting standard-setters and framework providers;
- (m) works closely with Australian representatives on key international bodies to provide relevant Australian input;
- (n) wherever possible, maintains Trans-Tasman consistent sustainability reporting standards for for-profit publicly accountable entities set by the New Zealand External Reporting Board;
- (o) regularly attends (in person or remotely) key meetings and conferences of international sustainability reporting bodies to ensure adequate analysis and input, and express Australian views; and
- (p) develops effective working relationships with other key national standard-setters, including developing joint thought leadership documents, and coalitions to further support key Australian views.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 5.1.

Appropriate consultation

- 21 The AASB's due process is iterative in nature, with a strong emphasis on consultation at all stages of the process. Feedback and input are constantly evaluated and incorporated in developing Standards and guidance.



Note to Board: The above paragraph is from the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.1.

Consultation processes

- 22 The AASB encourages stakeholders to participate actively throughout the standard-setting process by:
- (a) meeting with interested stakeholders on technical issues;
 - (b) issuing media and information releases relating to its activities, including an alert after each Board meeting to keep stakeholders informed of the AASB's deliberations, and a periodic newsletter reporting on the AASB's sustainability reporting activities and recent developments;
 - (c) maintaining a website on which the AASB publishes Exposure Drafts and other consultative documents, Standards and Interpretations, approved minutes of its meetings and relevant board agenda papers; and
 - (d) publishing on its website its strategy, corporate plan, work program and priorities, and key policy documents.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.3.1.

- 23 In addition, the AASB undertakes the following types of targeted consultation:
- (a) Project Advisory Panels, Implementation or Transition Resource Groups, User Advisory Committee, Academic Advisory Panel and other specialist Advisory Panels comprising subject matter experts to advise the Board on topics requiring specialist input;²
 - (b) roundtables and education sessions to seek specific engagement with, and comment from, stakeholders on selected topics; and
 - (c) direct consultation with stakeholders, either out-of-session or through presentations to AASB meetings.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.3.2. The footnote is from paragraph 8.4.4.

² Where the issue is complex, the AASB may form an Advisory Panel. An Advisory Panel would typically comprise the Chair, one other Board member and other people with a range of relevant skills and experience to provide different perspectives on the topic. Existing Advisory Panels may be used where relevant or a specific Advisory Panel established. Feedback from an Advisory Panel is provided to the AASB.



- 24 Where appropriate, the AASB arranges for Board members and/or staff of significant international sustainability reporting standard-setters and framework providers to participate in Australian outreach events.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.3.3.

Types of consultative documents

- 25 The consultative documents typically issued include:
- (a) *Discussion Papers and Consultation Papers* – Discussion Papers (DP) and Consultation Papers (CP) usually outline a wide range of possible policies on a particular topic. They are typically used to refine the number of options being considered as the solution to an issue. Discussion Papers and Consultation Papers may be issued by the AASB, the ISSB, or other relevant standard-setters or framework providers. The AASB may decide to issue international documents in Australia for comment, sometimes with an Australian Preface added to explain the context;
 - (b) *Invitations to Comment* – Invitations to Comment (ITC) precede or accompany a Discussion Paper or Exposure Draft and set out matters on which the AASB is seeking feedback;
 - (c) *Exposure Drafts* – an Exposure Draft (ED) typically is a draft of a proposed Standard or other pronouncement or a draft amendment to a Standard or other pronouncement. An ED is issued when there is a specific proposal and includes a basis for conclusions and, if relevant, alternative views. An ED is a mandatory due process consultative document. A Fatal-Flaw Review Draft is a form of ED;
 - (d) *Draft Interpretations* – a Draft Interpretation is a draft of a proposed Interpretation of a Standard and is the equivalent of an ED for a Standard. A Draft Interpretation is a mandatory due process consultative document; and
 - (e) *Request for information* – consultation on a specific aspect of one of the AASB’s projects. It normally helps the AASB to prepare an ED or finalise a pronouncement.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.4.

Mandatory due process steps

- 26 To ensure appropriate consultation, the due process steps for new and amending pronouncements include exposing for public comment a draft of any proposals. An indicative outline of the types of consultation documents issued and the public comment process is shown in the following table.



Indicative outline of consultation documents issued and public comment process		
Pronouncement	Consultation document	Comment process
Standard (including amending Standards)	Exposure Draft	<p>Ideally, a minimum 120-day comment period.</p> <p>In the case of a document issued by a significant international sustainability reporting standard-setter or framework provider – where feasible, the AASB’s comment period typically would end 4-6 weeks prior to the comment deadline to enable the AASB to consider submissions before responding to the consultation document.</p> <p>Domestic standards – ideally, no less than a 90-day comment period.</p> <p>If a project is sufficiently narrow in scope or urgent, no less than a 30-day comment period.</p>
Interpretation or other mandatory or authoritative documents	Draft Interpretation or other mandatory or authoritative document	<p>Ideally, a minimum 90-day comment period.</p> <p>In the case of a document issued by a significant international sustainability reporting standard-setter or framework provider – where feasible, the AASB’s comment period typically would end 4-6 weeks prior to the comment deadline to enable the AASB to consider submissions before responding to the consultation document.</p> <p>Domestic Interpretations – ideally, no less than a 90-day comment period.</p> <p>If a project is narrow in scope and urgent, no less than a 30-day comment period.</p>
Guidance (non-mandatory and non-authoritative) ³	Draft guidance document	As above for Interpretations or other mandatory or authoritative documents.

Note to Board: The above paragraph with table is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.5(d). The last row of the table relating to Guidance is not from paragraph 6.5, but is consistent with paragraph 7.10.

27 Depending on the AASB’s assessment of stakeholder feedback, public consultation on revised proposals may be required in finalising a pronouncement.

3 The application of such guidance is at the discretion of the entities applying the relevant pronouncements or may be made mandatory by other regulators.



- 28 The feedback on consultation documents received from stakeholders through submissions and from outreach activities is considered in public. Submissions received and summaries of outreach events are made publicly available. When relevant, information gathered from other targeted consultations is made public, after having been anonymised. Submissions would be treated as confidential only if the AASB Chair determines that this is warranted on public interest grounds.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 7.5.1. The reference to anonymity for targeted consultations is not from that Framework but reflects recent practice.

Comply or explain due process steps

- 29 Other due process steps that the AASB considers, and documents its reasons if it determines that a step is not necessary, include the following:

- (a) publishing a discussion document before an Exposure Draft is developed:

Consultation document	Minimum comment period
Discussion Paper, Consultation Paper, Invitation to Comment, research paper, agenda consultation	Ideally, a minimum 120-day comment period. In the case of an international document, where feasible the AASB’s comment period typically would end 4-6 weeks prior to the comment deadline to enable the AASB to consider submissions before responding to the consultation document.
Other requests for information (e.g. agenda decisions)	Ideally, a minimum 60-day comment period. In the case of an international document, where feasible the AASB’s comment period typically would end 4 weeks prior to the comment deadline to enable the AASB to consider submissions before responding to the consultation document.

- (b) establishing a project advisory panel, implementation or transition resource group or other type of specialist advisory group, ensuring broad representation of relevant stakeholders, with at least one Board member;
- (c) holding roundtables and education sessions to solicit feedback; and
- (d) undertaking fieldwork.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.6. The international references have been simplified. The same comment periods for both IASB-related and domestic consultation documents are indicated in paragraph 6.6.



Accountability

- 30 By applying this Framework, the AASB's standard-setting activities are subject to a range of accountability mechanisms. This includes addressing, through the due process in this Framework, the seven Impact Analysis questions of the *Australian Government Guide to Policy Impact Analysis*:
- (1) what is the problem you are trying to solve and what data is available?
 - (2) what are the objectives, why is government intervention needed to achieve them, and how will success be measured?
 - (3) what policy options are you considering?
 - (4) what is the likely net benefit of each option?
 - (5) who did you consult and how did you incorporate their feedback?
 - (6) what is the best option from those you have considered and how will it be implemented?
 - (7) how will you evaluate your chosen option against the success metrics?

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 4.2, updated for the new 'Policy Impact Analysis' (March 2023) terminology. Policy impact analysis has replaced the regulation impact assessment used in preparing Regulation Impact Statements (RIS), which paragraph 4.2 addresses.

The AASB Due Process Framework for Setting [Accounting] Standards will also need to be updated at some stage for the new policy impact analysis regime.

- 31 As an alternative to preparing a formal Impact Analysis, the AASB is able to prepare an Impact Analysis Equivalent document, which certifies for the Office of Impact Analysis that a Standard has been prepared through a process equivalent to that required in the Australian Government Guide and has addressed all seven Impact Analysis questions. Those questions normally would be addressed in the Basis for Conclusions accompanying a Standard. The certification is provided to the Office of Impact Analysis prior to the AASB voting to make a Standard.

Note to Board: The above paragraph is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 7.8.12. The Australian Government Guide refers to this special case as an Impact Analysis Equivalent.

Cost/benefit analysis

Note to Board: This section is based on the AASB Due Process Framework for Setting [Accounting] Standards, paragraphs 7.8.5 and 7.8.6.



- 32 In assessing the likely net benefit of each option (question 4 above), the AASB assesses from a public interest perspective whether the costs of implementing the requirements would exceed the benefits to be derived from their implementation. In assessing the impact of the proposed requirements, the AASB considers the parties affected and the costs, benefits and risks to those parties. The AASB also considers whether further consideration is needed for certain parties – such as for the not-for-profit sector.
- 33 Although costs are typically incurred by preparers of general purpose financial reports, the costs can extend in various direct and indirect ways to other stakeholders, especially when considering value chain reporting. Consequently, in assessing the costs, the AASB considers the comparative advantage preparers have in developing information, compared with the costs stakeholders would incur to identify supplementary information and develop surrogate information. The AASB recognises that the costs of implementing new requirements might not be borne evenly by participants in the financial reporting system and, at times, the costs may exceed the benefits for both users and preparers. However, the AASB also considers that stakeholders (including preparers and users) benefit from the improvements in reporting that facilitate the functioning of capital markets, including improved access to resources, informing government policy and efficient action on meeting sustainability objectives, including emission reductions.

Facilitating the discharge of sustainability reporting obligations

Note to Board: This section is largely new text to emphasise the link between government policy and the due process.

- 34 Australian Government policy on meeting sustainability-related objectives is accompanied by a need for entities to report information on sustainability-related matters as an accountability mechanism and to keep key stakeholders apprised of entities' progress and status on sustainability-related matters.
- 35 Clear requirements that enable entities to discharge their sustainability reporting obligations under Australian legislation on a timely basis help to minimise the costs of compliance and to maximise the benefits to be gained from the reported information by users. A consultative due process that is open and transparent helps to ensure that finalised requirements are both understood by those who need to apply them and supported by adequate guidance.

Developing Standards and/or guidance

Identifying and prioritising issues for standard-setting action

- 36 To ensure the effective use of resources, the due process includes the following.
- (a) Identifying the sustainability reporting issue(s) to be addressed, the scope of the issue(s) and the rationale for needing a standard-setting solution. The issue(s) identified may be the result of legislative requirements to report sustainability



information and feedback from key stakeholders. A formal agenda consultation process seeking stakeholder input is conducted at least once every five years.

- (b) The AASB debating proposals intended to address sustainability reporting issue(s) in one or more meetings. Given the development of domestic sustainability reporting requirements may be reliant on or led by Australian Government policy, there may be circumstances where the AASB is unable to debate proposals publicly due to confidentiality requirements. However, the related decisions made by the AASB and agenda papers will be made public after Australian Government policy has been finalised and made public.
- (c) Using an evidence-informed approach to standard-setting to ensure standard-setting action is warranted, including when required completing before finalisation a Policy Impact Analysis or similar assessments in a Basis for Conclusions.

Note to Board: The above paragraph is based largely on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 6.5.

37 The following factors might typically be the source of issues requiring standard-setting action in the form of sustainability reporting standards, amendments, guidance or examples:

- (a) Australian-specific legislation with sustainability reporting implications is proposed or issued, or parliamentary or other government enquiries make recommendations for standard-setting to address particular sustainability-related matters;
- (b) a new or amended IFRS Sustainability Disclosure Standard or other pronouncement is proposed or issued;
- (c) application of an IFRS Sustainability Disclosure Standard or Australian Sustainability Reporting Standard reveals issues that need to be addressed, including diversity in sustainability reporting practices, which may be identified through formal agenda consultation, post-implementation review, outreach activities, AASB research, or written or verbal submissions from Australian stakeholders; and
- (d) a new or amended sustainability disclosure standard or other pronouncement is proposed or issued by a reputable standard setter other than the ISSB, such as the IPSASB.

Note to Board: The above paragraph is based largely on text from Agenda Paper 14, AASB meeting March 2023.



- 38 Once an issue is clearly identified, evidence is sought to determine the nature and extent of the issue.⁴ In prioritising individual projects on its work plan and allocating resources to them, the AASB considers various factors, including:
- (a) the importance of the issue to the Australian Government, including where Australian Government policy and objectives may affect sustainability reporting;
 - (b) the importance of the issue to stakeholders, including the range and extent of those to whom the issue might apply, and whether it affects for-profit entities, not-for-profit entities, private sector entities or public sector entities;
 - (c) the urgency of addressing the issue, considering input of other relevant regulators and evidence of the impact of not addressing the issue;
 - (d) interactions with other current or possible projects;
 - (e) the complexity and breadth of the problem to be resolved, and the feasibility of possible solutions being developed;
 - (f) the capacity of stakeholders to respond to proposals, both as individual proposals and across the work program as a whole;
 - (g) the overall balance of the work plan and the overall balance in the pipeline of research projects that may ultimately come forward for standard-setting, including a balance of for-profit, not-for-profit, public sector and other projects; and
 - (h) the availability of sufficient resources, including staff and Board time.

Note to Board: The above paragraph is based largely on the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 7.2.3.

Key steps for standard-setting action

- 39 In developing proposals for standard-setting action, the AASB considers:
- (a) the relevant academic and related literature and research for insights, where that evidence exists;
 - (b) consistency with the AASB's Conceptual Frameworks (as relevant);
 - (c) when relevant, the IFRS Sustainability Disclosure Standards or other international pronouncements (refer to the next section);
 - (d) consistency with existing Australian Sustainability Reporting Standards (including Interpretations); and

⁴ The [AASB Evidence-Informed Standard-Setting Framework](#) is employed to gather evidence related to the issue.



- (e) consistency with existing Australian Accounting Standards (including Interpretations).

Note to Board: The above paragraph is an amalgam of text from Agenda Paper 14, AASB meeting March 2023, and from the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 7.2.4.

Use of IFRS Sustainability Disclosure Standards

- 40 The AASB acknowledges that Australian stakeholders view international alignment of sustainability reporting as a high priority. At this stage the AASB observes that global consensus on sustainability reporting is yet to be achieved. The AASB considers that while the work of the ISSB is currently intended to result in a minimum set of requirements on which jurisdictions can build, it may provide the opportunity for developing internationally aligned sustainability-related financial reporting requirements⁵. However, the AASB also observes that this will depend on the international uptake of IFRS Sustainability Disclosure Standards.

Note to Board: The above paragraph is 'new' text aimed at indicating ISSB Standards may be the basis for achieving internationally aligned sustainability reporting without committing to the ISSB's Standards, so as to leave the AASB's options open.

- 41 The AASB considers each IFRS Sustainability Disclosure Standard (including any related guidance) issued by the ISSB as a foundation for an Australian Sustainability Reporting Standard to the extent it is suitable for meeting Australian stakeholder needs. IFRS Sustainability Disclosure Standards can be a useful starting point for the following reasons.
- (a) Aligning with IFRS Sustainability Disclosure Standards as the foundation for Australian Sustainability Reporting Standards and guidance may help maintain domestic and international confidence in the Australian economy (including its capital markets) in the event that they are successfully established as a global baseline. Consequently, it may also allow Australian for-profit and not-for-profit entities to obtain the benefits of international competitiveness and comparability, facilitate the movement of professionals across sectors and borders, and help ensure the costs of complying with Australian Sustainability Reporting Standards do not outweigh their benefits.
 - (b) IFRS Sustainability Disclosure Standards are developed by the ISSB, a standard-setting board of the IFRS Foundation. As such, they are expected to complement the IFRS Accounting Standards on which Australian Accounting Standards are based. At this stage, the ISSB has clarified that IFRS Sustainability Disclosure

5 The AASB notes that the GRI (and its standard-setting body the GSSB) is a global leader for developing requirements for reporting information about entities' impacts on the environment, economy and people to meet the needs of multiple stakeholders, which include primary users of general purpose financial reports but are not limited to those users. Consequently, the scope of the GRI's Standards address a potentially wider range of sustainability-related financial disclosures than intended for Australian Sustainability Reporting Standards.



Standards operate independently to IFRS Accounting Standards and have been developed to work alongside jurisdictional accounting requirements – that is, compliance with IFRS Sustainability Disclosure Standards does not require an entity to also comply with IFRS Accounting Standards.

- (c) The ISSB’s intention is to develop IFRS Sustainability Disclosure Standards that bridge the perceived gap between broader sustainability reporting and the financial statements and present a ‘global baseline’ of sustainability-related financial disclosures for for-profit entities while recognising that jurisdictions may have specific limitations or requirements.

- 42 The process for assessing the suitability of IFRS Sustainability Disclosure Standards as an appropriate foundation for developing Australian requirements may include considering whether they align with Australian Government policy and objectives and issuing Exposure Drafts of IFRS Sustainability Disclosure Standards in Australia for comment, consistent with the consultation process outlined in paragraphs 22-24.

Note to Board: The above two paragraphs are ‘new’ text aimed at indicating ISSB Standards may be the basis for achieving internationally aligned sustainability reporting without committing to the ISSB’s Standards. Adapted from Agenda Paper 14, AASB meeting March 2023. This is intended to leave open the AASB’s options to potentially pursue other avenues for international alignment.

- 43 Requirements and guidance in IFRS Sustainability Disclosure Standards suitable as a foundation for Australian Sustainability Reporting Standards nevertheless may need to be modified to cater for the Australian environment in order to meet Australian stakeholder needs.
- 44 Modifications from an IFRS Sustainability Disclosure Standard would be explained and justified in the Basis for Conclusions to the corresponding Australian Sustainability Reporting Standard.
- 45 Modifications may include changes to the requirements to make the requirements better suited to the Australian regulatory environment, including aligning to legislative requirements, and to meeting Australian-specific user needs. Those changes could include, but are not limited to, adding, removing or modifying requirements or guidance to address:
- (a) Australian-specific issues (e.g. to better support the development of sector-neutral sustainability reporting requirements applicable to entities in all sectors, including the not-for-profit and public sectors);
 - (b) the impacts of Australian Government policy and particular types of Australian Government-led schemes relating to sustainability;
 - (c) factors affecting sustainability that are more relevant, or less relevant, in the Australian environment due to their relative prevalence or rarity in Australia; and
 - (d) the deferral of the application of any requirements.



Note to Board: The above three paragraphs are ‘new’ text aimed at highlighting the potential for, and possible reasons for, modifications.

- 46 Circumstances in which the AASB may consider modifications could include:
- (a) requirements in IFRS Sustainability Disclosure Standards would not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice that warrants Australian-specific requirements or guidance;
 - (b) requirements in IFRS Sustainability Disclosure Standards would not deliver user benefits that outweigh any undue cost or effort for preparers;
 - (c) requirements in IFRS Sustainability Disclosure Standards would not achieve international alignment or else would conflict with globally accepted sustainability reporting practices;
 - (d) disclosure requirements in Australian legislation (such as the *National Greenhouse and Energy Reporting Act 2007*) already meet an objective of the IFRS Sustainability Disclosure Standards and standard-setting action would result in duplicate disclosure or reporting for Australian entities; and
 - (e) the information and models to generate information needed to meet the IFRS Sustainability Disclosure Standards are not yet available or are currently too costly to apply, warranting deferral of the application date.

Note to Board: The above paragraph is based on the circumstances outlined in Agenda Paper 14, AASB meeting March 2023.

Final pronouncements

Effective dates

- 47 The AASB seeks to have an effective date for each Australian Sustainability Reporting Standard that ensures stakeholders have adequate time to prepare for their implementation.⁶ The AASB typically will permit entities to apply requirements early should they wish to do so.⁷ In setting an effective date, the AASB would have regard to the benefit of alignment with the effective date of any corresponding Standards, such as IFRS Sustainability Disclosure Standards.

Note to Board: The above paragraph is based on content from the AASB Due Process Framework for Setting [Accounting] Standards, paragraphs 7.9.1 and 7.9.2.

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- 6 Under Australian legislative practice, the AASB is unable to issue Standards that impose new or revised requirements where the effective date precedes the date on which the Standard is made. However, the AASB is able to specify the effective date as reporting periods ‘ending on or after’ a future date, rather than reporting periods ‘beginning on or after’ a historic date.
- 7 For Australian Accounting Standards, the AASB will usually provide at least two years between issuing a Standard and its effective date.



The footnote is based on content from the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 7.9.1.

- 48 The AASB would also balance the duration of the period between issuing a Standard and its effective date with Australian Government policy mandating disclosure within a particular timeframe.

Note to Board: The above paragraph is 'new' and designed to flag that the Board may find itself with no choice but to provide less preparation time than would ordinarily be the case.

Transition

- 49 In determining any transitional relief, the AASB balances user needs for comparable information against preparer readiness.⁸ Transitional relief may include permitting an entity to:
- (a) not provide any of the disclosures specified in a Standard for any period before the date of initial application;
 - (b) not provide particular disclosures specified in a Standard until a period after the period of initial application, which might be conditional on an entity providing alternative information; and/or
 - (c) continue to use transitional relief for the purposes of presenting information as comparative information in subsequent reporting periods.

Note to Board: The above paragraph is based on content from the AASB Due Process Framework for Setting [Accounting] Standards, paragraph 7.9.3 and the transition relief provided in IFRS S2. The content above is confined to 'disclosure' at this stage, whereas the AASB Due Process Framework for Setting [Accounting] Standards also considers recognition and measurement on transition.

Legislative instruments

- 50 Australian Sustainability Reporting Standards are made under the *Corporations Act 2001* and registered on the Federal Register of Legislation (FRL). Some pronouncements may not be made under the Corporations Act (such as Interpretations and Practice Statements) and need not be registered. However, all documents issued by the AASB are available on the AASB website.
- 51 As delegated legislation, Australian Sustainability Reporting Standards made under the Corporations Act section 334 are disallowable instruments and therefore are tabled in Parliament for scrutiny.

⁸ Given the nature of sustainability-related matters and the stage of maturity of sustainability reporting, there are aspects of sustainability reporting that are complex and may require significant investment by preparers to upskill their workforce and develop the systems and processes needed to comply with related Standards.



Note to Board: The above two paragraphs are based on content from the AASB Due Process Framework for Setting [Accounting] Standards, paragraphs 7.12.1 and 7.12.2.

Post-implementation review

- 52 The AASB performs a post-implementation review (PIR) of each Australian Sustainability Reporting Standard, which normally begins after the requirements have been applied for at least two years. The timing of a PIR would have regard to whether a PIR is being conducted for any corresponding Standard, such as an IFRS Sustainability Disclosure Standard, or guidance. When relevant, the Board may perform a PIR earlier than two years after the requirements are applied or it may defer the performance of a PIR to gather more evidence.
- 53 A PIR typically involves:
- (a) review of any relevant research, including research by AASB staff or academics;
 - (b) collation of any issues notified to the AASB prior to the PIR commencing;
 - (c) consultation seeking implementation issues and views on the pronouncement;
 - (d) consideration of any feedback received;
 - (e) publication of the findings of the PIR; and
 - (f) any recommendations for changes to the pronouncement follow a separate consultation process.

Note to Board: The above two paragraphs are based on content from the AASB Due Process Framework for Setting [Accounting] Standards, paragraphs 7.15.1 and 7.15.2.

Review of this Framework

- 54 The FRC monitors the effectiveness of the consultative arrangements used by the AASB [ASIC Act, section 225(1A)(f)].
- 55 The AASB will periodically review this Framework in light of its application experience and changes to the regulatory environment, including changes in Australian legislation and international developments in sustainability reporting standard-setting.

Note to Board: Given the lack of due process to develop this Framework, and in view of the FRC's function of "monitoring the effectiveness of the consultative arrangements used by the AASB and the AUASB " [ASIC Act, proposed section 225(1A)(f)], staff consider it useful to include this section. It also covers a narrower point included in Agenda Paper 14, AASB meeting March 2023, on the FRC monitoring the criteria for modifying IFRS Standards.



Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the AASB Due Process Framework for Setting Australian Sustainability Reporting Standards.

Note to Board: The AASB Due Process Framework for Setting [Accounting] Standards does not have a Basis for Conclusions. However, staff consider that it is relevant to have a Basis for Conclusions for the AASB Due Process Framework for Setting Australian Sustainability Reporting Standards because:

- stakeholders may not be fully aware of the circumstances in which it has been prepared; and
- it provides an opportunity to communicate the Board's current thinking on matters that may not be relevant for inclusion in the Framework itself.

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB's) considerations in developing its *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards*. Individual Board members gave greater weight to some factors than to others.

Environment in which the due process has been established

BC2 The AASB notes that its legislative powers under Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) in respect of:

- (a) sustainability reporting standards, including the formulation of sustainability standards [section 227(1)(ca)]; and
- (b) developing a conceptual framework for the purpose of evaluating proposed sustainability standards and international sustainability standards [section 227(1)(a)(ii)];

have yet to come into effect at the time of preparing this Due Process Framework for Setting Australian Sustainability Reporting Standards. Accordingly, some of the architecture that ideally would be in place when establishing a due process are yet to be developed. This includes the conceptual framework, which is under development.

BC3 The AASB has developed the *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* based on its existing *AASB Due Process Framework for Setting Standards*, which addresses Australian Accounting Standards, because:

- (a) both sets of Standards need to be developed in a manner that addresses the seven Impact Analysis questions of the *Australian Government Guide to Policy Impact Analysis*; and
- (b) stakeholders who supported the AASB expanding its scope of work to address sustainability reporting highlighted the AASB's high-quality and transparent due process as a key reason for that support. The AASB Due Process Framework for



Setting [Accounting] Standards has proved to be a robust and balanced basis for establishing requirements and guidance over a long period and is comparable to international best practice in accounting standard setting.

- BC4 However, the AASB observed that there are significant differences in aspects of the two Due Process Frameworks because the development of Sustainability Reporting Standards is at an early stage relative to Accounting Standards. In addition, the application of the Frameworks may differ, given that sustainability reporting can at times overlap significantly with Australian Government policy and objectives and the legislative arrangements for sustainability reporting are less settled than for financial reporting under Accounting Standards. For example, this may mean shorter consultation timelines for Sustainability Reporting Standards in comparison with Accounting Standards, particularly in the early stages of sustainability reporting standard-setting.
- BC5 In relation to the maturity of the development of Standards, when the AASB Due Process Framework for Setting [Accounting] Standards was last significantly revised, there was:
- (a) a stable platform of IFRS Accounting Standards addressing a broad range of topics that had been developed over the preceding decades;
 - (b) a conceptual framework for financial reporting in respect of Accounting Standards and financial statements;
 - (c) a general acceptance that IFRS Accounting Standards formed the basis for a common financial reporting language across most major financial markets based on legislative backing in key jurisdictions;
 - (d) a clear work program for developing new Accounting Standards and reviewing existing Accounting Standards; and
 - (e) a well-established practice in Australia of using the same Accounting Standards and conceptual framework for financial reporting for the same transactions, events and other conditions across the for-profit, not-for-profit, private and public sectors to the extent feasible and only modifying them when relevant based on accepted criteria set out in the AASB's Standard-Setting Frameworks.
- BC6 In contrast, in respect of sustainability reporting at present, there are various relevant internationally recognised standards and frameworks that can be used as benchmarks for Australian Sustainability Reporting Standards and key jurisdictions are adopting a wide variety of approaches. As a result, there is no clear path to a common international language to support sustainability reporting at this stage.
- BC7 Accordingly, in preparing the *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* the AASB has carefully balanced support for the development of an appropriate baseline of international sustainability reporting requirements with meeting domestic stakeholder needs and Australian Government policy and objectives (including legislation).



BC8 The AASB also noted that, while some of the stakeholders involved in sustainability reporting will be the same stakeholders currently involved in financial reporting as required by Accounting Standards, many of the stakeholders will come from other backgrounds. The AASB is expecting that the *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* will need to engage stakeholders in specialist areas such as finance, forecasting and business planning, risk management, climate and other sciences, public policy, governance, legal and actuarial activities. Accordingly, the AASB recognises that it may need to be innovative in its approach to engaging stakeholder groups who traditionally have not been involved in a standard-setting process.

Developing a conceptual framework and roadmap

BC9 The AASB notes that one of the key steps identified in the due process is to assess proposed requirements for consistency with a conceptual framework for sustainability reporting, while acknowledging that this framework is being developed. The AASB plans to have a conceptual framework in place as soon as feasible.

BC10 The *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* has been designed to cater for future developments, however the AASB will revise the Framework if the need arises. At this stage, the AASB expects:

- (a) the roadmap for its standard-setting activities, including the pace of changes in the work program, will be driven largely by the Australian legislative framework for sustainability reporting;
- (b) the initial focus of the work program is on the development of climate-related financial disclosure requirements;
- (c) the work program will progressively broaden to encompass other sustainability-related matters, such as environmental matters (including biodiversity, ecosystems and ecosystem services), social matters (including equality and human capital) and a broader range of governance matters;
- (d) the roadmap will evolve and become progressively clearer once the conceptual framework for sustainability reporting is developed and as jurisdictional approaches to sustainability reporting develop internationally; and
- (e) the pronouncements developed under the Framework will likely include Interpretations as well as Standards once there is more implementation experience.