



Project:	Climate-related Financial Disclosure	Meeting	AASB August 2023 (M197)
Topic:	Evaluation and assessment activities	Agenda Item:	4.1.0
		Date:	24 July 2023
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		Decision-Making:	-
		Project Status:	Development of an exposure draft

Objective

- 1 The objective of this paper is to provide the Board with an update on the evaluation and assessment activities that support the Climate-related Financial Disclosure project.
- 2 The findings contribute to the consideration of whether any modifications, which may involve departing from, amending or adding to the baseline of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, should be made while developing the Australian equivalents to IFRS S1 and IFRS S2. Where relevant, detailed outcomes of these activities have been summarised in relevant staff analyses and Agenda Papers.
- 3 This paper is for information purposes only and does not ask the Board to make any decisions.

Attachments

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|--------------------|---|
| Agenda Paper 4.1.1 | Comparison of IFRS S2 with GRI Standards [Supporting Material—Board Only] |
| Agenda Paper 4.1.2 | Comparison of IFRS S1 and IFRS S2 with ASX CGPR [Supporting Material—Board Only] |
| Agenda Paper 4.1.3 | Comparison of IFRS S1 with AASB-AUASB joint submission [Supporting Material—Board Only] |
| Agenda Paper 4.1.4 | Comparison of IFRS S2 with AASB-AUASB joint submission [Supporting Material—Board Only] |
| Agenda Paper 4.1.5 | Glossary of common terms [Supporting Material—Board Only] |

Structure

- 4 This paper is structured as follows:

- (a) Background (paragraphs 5-8)
- (b) Overview of evaluation and assessment activities (paragraphs 9-20)
- (c) Ongoing evaluation and assessment activities (paragraphs 21-23)
- (d) Question to Board members.

Background

- 5 At its February 2023 (M193) meeting, the Board decided on the following criteria to apply when considering departing from, amending or adding to the baseline of IFRS Sustainability Disclosure Standards:¹
- (a) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice warranting Australian-specific requirements or guidance;
 - (b) requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers;
 - (c) requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or else will conflict with global sustainability reporting practices;
 - (d) the Board identifies equivalent disclosure requirements in Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards and would result in duplicate disclosure or reporting for Australian entities. In making this assessment, the Board would consider relevant Australian legislation such as the National Greenhouse and Energy Reporting Act 2007; and
 - (e) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs and/or time when compared with international counterparts, warranting deferral of the application date.²
- 6 As part of the process of assessing international alignment³ and identifying equivalent disclosure requirements in Australian legislation, staff have conducted high-level comparisons of IFRS S1 and IFRS S2 with:
- (a) Global Reporting Initiative Standards (GRI Standards)⁴—see Agenda Paper 4.1.1 and paragraphs 9-13; and
 - (b) [ASX Corporate Governance Principles and Recommendations](#) (ASX CGPRs)—see Agenda Paper 4.1.2 and paragraphs 14-16.
- 7 The conclusions drawn in this paper are of staff view based on the high-level comparisons. Staff plan to gather stakeholder feedback on whether any concerns may arise from the differences in the reporting requirements.

1 https://aasb.gov.au/media/cl0lkzct/approvedaasbminutesm193_01feb23.pdf

2 Subject to the passage of legislation, Treasury has indicated that mandatory climate-related financial disclosures will be implemented from 1 July 2024 and a phased approach will apply to reporting entities that meet prescribed thresholds and are required to lodge financial reports under Chapter 2M of the *Corporations Act 2001*. Refer to pages 6 to 11 of the Climate-related financial disclosure. Consultation paper: <https://treasury.gov.au/sites/default/files/2023-06/c2023-402245.pdf>.

3 Note that the assessment of international alignment is still ongoing—see paragraphs 20-22 for more detail.

4 An assessment against GRI Standards would be useful because (i) many Australian companies state compliance with some or all aspects of the GRI Standards already and the intent is not to disrupt, or create significant conflicts with, existing practise wherever possible; and (ii) the [draft] European Sustainability Reporting Standards (ESRS) predominantly align with GRI Standards.

- 8 In addition, to help with the identification of Australian-specific matters which may require further consideration by the Board, staff have also conducted a high-level comparison of IFRS S1 and IFRS S2 with the [joint AASB and Auditing and Assurance Standards Board \(AUASB\) submission to ISSB Exposure Drafts on \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#) (see Agenda Papers 4.1.3 and 4.1.4 and paragraphs 17-20).

Overview of evaluation and assessment activities

Comparison of IFRS S2 with GRI Standards

- 9 Stakeholder feedback received to ITC 46 AASB *Agenda Consultation 2022-2026* (ITC 46)⁵ and [ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#) (ED 321)⁶ indicated that GRI Standards are the dominant multi-stakeholder sustainability reporting standards applied by many entities in Australia and globally.
- 10 The GRI Standards have a broader focus than IFRS S2. Unlike the IFRS Sustainability Disclosure Standards, GRI Standards are sector-neutral, modular system comprising three series of Standards:
- (a) The GRI Universal Standards, which apply to all entities and consists of the following:
 - (i) GRI 1: Foundation 2021 defines the objectives of the GRI Standards, explains key concepts, and provides guidance on how to apply them. It outlines the requirements for entities to comply with when reporting using the GRI Standards.
 - (ii) GRI 2: General Disclosures 2021 contains cross-industry disclosures about an entity's structure and reporting practices; activities and workers; governance; strategy; policies; practices; and stakeholder engagement. These disclosures provide insight into an entity's profile and scale and help the entity and users of its sustainability report understand its impacts within a broader context.
 - (iii) GRI 3: Material Topics 2021 provides guidance on determining material topics and explains how the GRI Sector Standards are used in the process.
 - (b) The GRI Sector Standards aim to enhance the quality, integrity, and consistency of reporting by entities. These Standards identify sustainability reporting topics that are typically material for entities operating in a specific industry (or sector) and provide recommended disclosures on those topics.
 - (c) GRI Topic Standards contain disclosures specific to various sustainability reporting topics, such as waste, occupational health and safety, and tax transparency. Each GRI Topic Standard includes an overview of the topic and disclosures related to how an entity manages its associated impacts.
- 11 Using IFRS S2 as the starting point, staff conducted a high-level comparison of each paragraph in IFRS S2 with the relevant topics and disclosure requirements in the GRI Standards. Since the GRI Standards are interconnected, an overview approach was employed to identify similar themes across the GRI Standards instead of pinpointing specific paragraphs that align with IFRS S2. It is important to note that while IFRS S2 focuses on climate-related financial disclosures, the GRI Standards cover a wider range of topics and address sustainability reporting information, that is, not only sustainability-related financial information. Therefore, the analysis primarily identifies overarching themes and principles rather than exact disclosure requirements.

5 See [February 2022 \(M185\) Agenda Paper 3.4 Sustainability Reporting: Feedback summary—ITC 46 AASB Agenda Consultation 2022-2026](#).

6 See [November 2022 \(M191\) Agenda Paper 3.2.2 Sustainability Reporting: ED 321 Feedback summary—ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2 \(Australian-specific questions\)](#).

12 Agenda Paper 4.1.1 summarises the comparison conducted. Overall, although there are different disclosure requirements, staff did not identify any significant concerns or conflicts between the IFRS Sustainability Disclosure Standards and GRI Standards.

13 However, staff note that the GRI is currently seeking to revise all of its climate-related requirements as part of its [Project for Climate Change Standard\(s\)](#).⁷ An exposure draft is expected to be issued in Q4 2023 for public consultation.

Comparisons of IFRS S1 and IFRS S2 with ASX CGPRs

14 The [ASX Corporate Governance Principles and Recommendations \(4th Edition\)](#) set out recommended corporate governance practices for entities listed on the Australian Securities Exchange (ASX). These practices, as determined by the ASX Corporate Governance Council, are deemed likely to achieve adequate governance outcomes and meet the reasonable expectations of most investors in most situations. Per ASX Listing Rule 4.10.3, ASX-listed entities are encouraged to adopt the ASX CGPRs and are required to disclose the extent to which the entity has followed the ASX CGPRs.

15 As IFRS S1 and IFRS S2 include disclosure requirements related to an entity's governance over sustainability and climate-related financial risks and opportunities, and similar information is recommended for disclosure by the ASX CGPRs, staff performed a comparison of the governance requirements paragraphs 26-27 of IFRS S1 and paragraphs 5-7 of IFRS S2 with the ASX CGPRs.

16 Agenda Paper 4.1.2 provides a summary of the comparison conducted. Overall, staff did not identify any significant concerns or conflicts between the governance disclosure requirements in IFRS S1 and IFRS S2 and the ASX CGPRs.

Comparisons of IFRS S1 and S2 with AASB-AUASB joint submission

17 In July 2022, after considering feedback from stakeholders, the AASB and AUASB provided comments on the ISSB Exposure Drafts on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*, where were published on 31 March 2022.

18 Staff conducted analyses to evaluate whether comments provided in the joint submission to the ISSB were addressed in the final Standards IFRS S1 and IFRS S2. Agenda Paper 4.1.3 presents a summary of the comparison between IFRS S1 with the AASB-AUASB joint submission, while Agenda Paper 4.1.4 provides a summary of the comparison between IFRS S2 with the AASB-AUASB joint submission.

19 To conduct the analysis, staff identified the following three categories:

- (a) Alignment between IFRS S1 and IFRS 2 with the AASB-AUASB joint submission or majority alignment whereby differences appear minor in nature;
- (b) Notable differences between IFRS S1 and IFRS S2 with the AASB-AUASB joint submission or IFRS S1 and IFRS S2 have included new requirements compared to the Exposure Draft that were not exposed in Australia; and
- (c) Misalignment between IFRS S1 and IFRS S2 with the AASB-AUASB joint submission or IFRS S1 and IFRS S2 have new requirements compared to the Exposure Draft that were not exposed in Australia.

20 In general, the majority of comments included in the joint submission were taken into account and addressed in IFRS S1 and IFRS S2. However, as outlined in Agenda Paper 4.1.3 and Agenda Paper 4.1.4, there are certain items that were not addressed and may necessitate further consideration or action by the Board such as providing additional

⁷ <https://www.globalreporting.org/standards/standards-development/project-for-climate-change-standard-s/>

feedback to the ISSB as part of its submission to the ISSB's [Request for Information \(RFI\) Consultation on Agenda Priorities](#) (May 2023).

Ongoing evaluation and assessment activities

- 21 Staff note that at this stage, jurisdictional approaches to climate-related financial disclosure and reporting continue to differ. Consequently, to support ongoing work related to monitoring international alignment, staff are also in the process of conducting a high-level comparison of IFRS S1 and IFRS S2 with:
 - (a) [draft] European Sustainability Reporting Standards; and
 - (b) Aotearoa New Zealand Climate Standards.
- 22 Staff also considered conducting a high-level analysis comparing IFRS S1 and IFRS S2 with the US Securities and Exchange Commission's (US SEC) proposed [Enhancement and Standardization of Climate-related Disclosures for Investors](#). However, given the significant degree of uncertainty around the proposals and their progress, we decided to defer this work until such a time as the US SEC provides more clarity around the potential structure and content of any resulting requirements.
- 23 As part of the continuous evaluation and assessment process, stakeholders are strongly encouraged to provide feedback and express concerns.

Question to Board members

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