Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	AASB August 2023 (M197)
Topic:	**Staff suggested modifications to IFRS S1 and IFRS S2 to support sector neutrality**	**Agenda Item:**	10.2
		Date:	24 July 2023
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		Decision-Making:	Medium
		Project Status:	Development of an exposure draft

Objective

1 The objective of this paper is for the Board to consider staff analysis and proposals related to modifications to:

(a) IFRS S2 *Climate-related Disclosures;* and

(b) IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* where relevant to the application of IFRS S2

that would make available for use Australian climate-related financial disclosure requirements for not-for-profit (NFP) entities in the private and public sectors, while maintaining alignment with the baseline of IFRS S2.

Structure of this paper and summary of staff proposals

2 This paper includes examples of amendments and additions that the staff consider could be made to the baseline of IFRS S1 and IFRS S2 to facilitate the Board's discussion on whether sector-neutral climate-related financial disclosure requirements could be developed as part of an Australian exposure draft. The Board is not expected to decide on the exact drafting of any proposed amendment or addition to IFRS S1 and IFRS S2 at this meeting. Rather, staff are seeking the Board's input on whether these considerations could be incorporated into an exposure draft on Australian-equivalents to IFRS S1 and IFRS S2.

3 Staff reviewed the requirements of IFRS S2 paragraph-by-paragraph and considered what modifications may be needed to better support sector neutrality. This paper only identifies those instances where staff consider further clarification or requirements would be needed to achieve that objective.

4 Staff proposals are discussed in four sections. The following table includes a high-level summary of the staff proposals related to each section.

Section	Staff suggest incorporating the following modifications to IFRS S1 and IFRS S2 in an exposure draft:
Section 1: Information needs of users of NFP entities' general purpose financial reports (GPFRs)	Modify the objective of IFRS S1 and IFRS S2, and related defined terms, as follows: (a) clarify the concepts of "the entity's prospects" and "business model" so that NFP entities would be required to consider effect of climate-related risks and opportunities on "the entity's ability to further its objectives over the short, medium and long term"; (b) replace the definitions of "general purpose financial reports", "primary users of general purpose financial reports" and "users of general purpose financial reports" with references to the AASB's Conceptual Frameworks; and (c) modify the definitions of "climate-related physical risks" and "climate-related transition risks" to clarify that those risks could also affect an entity's ability to further its objectives.
Section 2: Scalability of climate-related financial disclosure requirements and cost-benefit considerations	Extending the practical expedients available in IFRS S2 (which are limited to certain quantitative disclosures) to provide an overarching practical expedient for NFP entities to prepare both qualitative and quantitative climate-related financial disclosures subject to reasonable and supportable information available to the entity at the reporting date without undue cost or effort, taking into consideration the skills, capabilities and resources available to the entity for climate-related financial disclosures.
Section 3: Public interest relating to entities that do not have material climate-related risks and opportunities	Requiring entities (in all sectors) that do not have material climate-related risks and opportunities to disclose this fact in their GPFRs and disclose information about its governance body(s) responsible for oversight of the entity's climate-related risks and opportunities.
Section 4: NFP public-sector modification regarding governance	Requiring NFP public sector entities, where relevant, to disclose the legislation or policy that sets out the governance body(s) responsible for oversight of the entity's climate-related risks and opportunities.

5 Appendix A includes extracts of the *Framework for the Preparation and Presentation of Financial Statements* (the NFP Conceptual Framework) for the Board's ease of reference.

Section 1: Information needs of users of NFP entities' GPFRs

6 Consistent with the IASB, the ISSB defines primary users of GPFRs as existing and potential investors, lenders and other creditors.[1] However, as stated in paragraph AusOB2.1 of the NFP Conceptual Framework (reproduced in Appendix A), NFP entities' GPFRs have a broader range of users, including members of the community.

7 Paragraph AusOB3.1 of the NFP Conceptual Framework (reproduced in Appendix A) notes the common information needs of users of GPFRs of NFP entities are generally not concerned with obtaining a financial return on an investment in the entity, but rather the ability of the entity to achieve its objectives.

8 Consistent with the NFP Conceptual Framework, feedback from Australian stakeholders obtained during the outreach activities related to AASB ED 321 *Request for Comment on ISSB [Draft] IFRS S1 and [Draft] IFRS S2* and in submissions to the IPSASB on its Consultation Paper (CP) *Advancing Public Sector Sustainability Reporting* (see paragraph 7(d) of the Cover Memo (Agenda Paper 10.1)) expressed a similar view that:

(a) NFP entities' GPFRs have a broader range of users than the primary users of for-profit entities' GPFRs identified by the IASB and ISSB; and

(b) users of NFP entities' GPFRs are more concerned about whether and how sustainability-related matters affect the entity's ongoing operations and its ability to further its objectives, than the effect on the entity's financial return or enterprise value.

Staff analysis and proposal

9 To address user needs more broadly, staff are of the view that the objective of IFRS S1 and IFRS S2 (including relevant defined terms and underlying concepts) could be modified to support the application of climate-related financial disclosure requirements by NFP entities. In the staff's view, these modifications would not alter the outcomes from applying the requirements (i.e. would remain aligned to the baseline of IFRS S2) but would expand the scope of the requirements so as to be more accessible to NFP entities as well as for-profit entities.

10 Staff's example modified text to the objective of IFRS S1 and IFRS S2, and related defined terms, are shown in mark-up text in the box in paragraph 11 and the tables in paragraphs 12 and 13. The following table includes explanation of the staff proposals and references to the relevant marked-up text in those paragraphs.

Staff proposed modification	Reference
(a) Clarify the ISSB's concepts of "the entity's prospects" and "business model" as "the entity's ability to further its objectives over the short, medium and long term". The staff-suggested phrase is consistent with: (i) the concept in paragraph AusOB3.1 of the NFP Conceptual Framework (reproduced in Appendix A) that users of NFP entities'	Paragraphs Aus2 and Aus4 Modified text in the table in paragraph 12

1 Paragraph 1.2 of IASB's *Conceptual Framework for Financial Reporting* and Appendix A of IFRS S1.

Staff proposed modification	Reference
GPFRs would be "concerned with the ability of the entity to achieve its objectives (whether financial or non-financial)"; and (ii) the phrase "transactions where the consideration to acquire an asset is significantly less than fair value principally to enable a not-for-profit entity to further its objectives" the Board added to AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* to prescribe the accounting treatment for income received by NFP entities.	
(b) Replace the definitions of "general purpose financial reports", "primary users of general purpose financial reports" and "users of general purpose financial reports" with references to the AASB's Conceptual Frameworks for Financial Reporting. Staff suggest this change because: (i) staff did not identify a reason why those definitions are needed in IFRS Sustainability Disclosure Standards since those terms are not defined in IFRS Accounting Standards; (ii) in the absence of a sustainability reporting-specific conceptual framework, staff suggest replacing those defined terms with references to AASB's Conceptual Frameworks; and (iii) referencing the AASB NFP Conceptual Framework allows the Board to expand the scope of IFRS S2 to NFP entities with minimal modification.	Modified text in IFRS S1 paragraph 1 and paragraph Aus1 Modified text in IFRS S2 paragraph 1 and paragraph Aus3
(c) Modify the definitions of "climate-related physical risks" and "climate-related transition risks" to clarify that those risks could also affect an entity's ability to further its objectives.	Modified text in the table in paragraph 13

Example modified text based on users' information needs

11 The following box includes staff suggested modified text to the objective of IFRS S1 and IFRS S2 based on the staff analysis noted in the table in paragraph 10. Deleted IFRS text is shown in ~~red with strikethrough~~ and new text is shown in blue with underline. New paragraphs are shown in blue with underline and identified by 'Aus' in the numbering prefix.

Objective of IFRS S1

1 The objective of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to ~~*primary users of general purpose financial reports*~~ primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

Aus1 Primary users of general purpose financial reports for a for-profit entity are those described in paragraph 1.2 of the *Conceptual Framework for Financial Reporting*. Primary users of general purpose financial reports for a not-for-profit entity are those described in paragraph AusOB2.1 of the *Framework for Preparation and Presentation of Financial Statements*.

2	Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows and further its objectives over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's *value chain*. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity.
3	This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital, and its ability to further its objectives over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.
4	This Standard also prescribes how an entity prepares and reports its *sustainability-related financial disclosures*. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to primary users in making decisions relating to providing resources to the entity and assessing the entity's ability to further its objectives.
Aus2	For the purposes of this Standard and other Australian Sustainability Reporting Standards, a not-for-profit entity shall regard each reference to "the entity's prospects" as "the entity's ability to further its objectives over the short, medium and long term".
Objective of IFRS S2	
1	The objective of IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its *climate-related risks and opportunities* that is useful to ~~*primary users of general purpose financial reports*~~ primary users of general purpose financial reports in making decisions relating to providing resources to the entity.
Aus3	Primary users of general purpose financial reports for a for-profit entity are those described in paragraph 1.2 of the *Conceptual Framework for Financial Reporting*. Primary users of general purpose financial reports for a not-for-profit entity are those described in paragraph AusOB2.1 of the *Framework for Preparation and Presentation of Financial Statements*.
2	This Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital, and its ability to further its objectives over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.
Aus4	For the purposes of this Standard, a not-for-profit entity shall regard each reference to "the entity's prospects" as "the entity's ability to further its objectives over the short, medium and long term".

12 As mentioned in (a) and (b) of the table in paragraph 10, staff propose:

(a) modifying the definition of "business model"; and

(b) omitting the definitions of “general purpose financial reports”, “primary users of general purpose financial reports” and “users of general purpose financial reports from Appendix A of IFRS S1 and IFRS S2.

Defined term	Definition
business model	**Definition in IFRS S1:** An entity’s system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity’s strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term. **Staff’s suggested modification for NFP entities:** For the purposes of applying this Standard, a not-for-profit private sector entity’s business model is defined as an entity’s system of transforming inputs through its activities into outputs and outcomes that aims to ~~fulfil~~ further the entity’s objectives ~~strategic purposes and create value for the entity and hence generate cash flows~~ over the short, medium and long term.
~~general purpose financial reports~~	~~Reports that provide financial information about a reporting entity that is useful to primary users in assessing the entity’s making decisions relating to providing resources to the entity. Those decisions involve decisions about:~~ ~~(a) buying, selling or holding equity and debt instruments;~~ ~~(b) providing or selling loans and other forms of credit; or~~ ~~(c) exercising rights to vote on, or otherwise influence, the entity’s management’s actions that affect the use of the entity’s economic resources.~~ ~~General purpose financial reports include – but are not restricted to – an entity’s general purpose financial statements and sustainability-related financial disclosures.~~
~~primary users of general purpose financial reports (primary users)~~	~~Existing and potential investors, lenders and other creditors.~~
~~users of general-purpose financial reports (users)~~	~~See primary users of general purpose financial reports (primary users). These definitions describe the same population.~~

13 The Appendix A of IFRS S2 contains definitions to specific climate-related terms. Staff propose no changes to those definitions, expect for the following terms:

Defined term	Definition
climate-related physical risks	Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and

Defined term	Definition
	temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance and its ability to further its objectives could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.
climate-related transition risks	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance and its ability to further its objectives could also be affected by shifting ~~consumer~~ demands from recipients of its goods and services (e.g. consumers) and the development and deployment of new technology.

Questions for Board members

Q1: Do Board members have any comments on the staff analysis for suggesting the modifications to the objective of IFRS S1 and IFRS S2, and related defined terms, explained in paragraphs 6–10?

Q2: Do Board members agree with the staff suggestion to propose in an exposure draft an objective of the Australian climate-related financial disclosure requirements, and related defined terms, incorporating the content described in the staff suggested modified text set out in the box in paragraph 11 and the tables in paragraphs 12 and 13 (subject to staff addressing any comments from Board members on those suggested modified text)?

Section 2: Scalability of climate-related financial disclosure requirements and cost-benefit considerations

14 Stakeholder feedback to ED 321 highlighted:

(a) the scalability of IFRS Sustainability Disclosure Standards as a significant barrier to implementation for small-to-medium sized entities (SMEs) and NFP private and public sector entities; and

(b) the significant skill and resource gap in the domestic and international markets—an issue which would be exacerbated in the NFP sector due to their more limited resources.

15 Consistent with the feedback to ED 321, in recent years, stakeholders have highlighted that many NFP entities (particularly those in the private sector), lack the skills, capabilities and resources to address complex financial reporting requirements. For example, these stakeholders previously highlighted that NFP entities struggle with adequately preparing general purpose financial reports under Tier 1 or Tier 2 described in AASB 1053 *Application of Tiers of Australian Accounting Standards* which led to the commencement of the Tier 3 NFP Reporting project.[2]

16 Based on recent outreach activities related to sustainability reporting, as noted in paragraph 14(b), staff are of the view that many NFP entities (other than perhaps whole-of-governments and entities that have significant assets or operations vulnerable to climate change or give rise to significant greenhouse gas (GHG) emissions) would not have the skills, capabilities and resources to:

(a) fully understand the requirements of IFRS S2 without incurring undue costs or efforts; and

(b) adequately prepare climate-related financial disclosures required by IFRS S2, including certain qualitative disclosures.

17 Furthermore, regarding cost-benefit considerations for NFP public sector entities, HoTARAC commented in its submission on ED 321 that "[HoTARAC] members have expressed concern about implementation and ongoing costs, and we think opportunities should be taken to further develop generic models, tools and guidance to simplify application and reduce costs through minimising the need for external assistance." The Australasian Council of Auditors-General (ACAG) expressed a similar view to the IPSASB in their submission to the IPSASB CP.

18 Paragraph 30(h) of the *AASB Not-for-Profit Entity Standard-Setting Framework* states that justifiable circumstances for NFP-specific amendments to IFRS Accounting Standards include the costs of preparing and disclosing information outweigh the benefits to users. Accordingly, to avoid NFP entities undertaking exhaustive efforts to comply with IFRS S2 or its Australian equivalent, particularly when there is very limited understanding about the information needs of users of NFP entities' climate-related financial information, staff consider that it would be appropriate to explore the possibility of providing some practical expedients to better support scalability of Australian climate-related financial disclosure requirements for NFP entities.

2 The Tier 3 NFP Reporting project explores developing a third-tier of reporting requirements with simplified accounting recognition and measurement requirements for smaller NFP entities.

Staff proposal to better support scalability of Australian climate-related financial disclosure requirements for NFP entities

19 Staff observed that the ISSB has provided practical expedients for entities to not make certain **quantitative** disclosures based on the grounds of potential undue cost or effort and the entity's available skills, capabilities and resources for preparing those disclosures.[3] Staff agree with these practical expedients and are of the view that a similar expedient applicable to NFP entities may be helpful. However, staff consider that many NFP entities might not have the skills, capabilities and resources to comply with all qualitative disclosure requirements in IFRS S2 without incurring exhaustive costs and effort.

20 Accordingly, staff suggest proposing in an exposure draft, by extending the practical expedients available in IFRS S2 (which are limited to certain quantitative disclosures), an overarching practical expedient for NFP entities to prepare both **qualitative and quantitative** climate-related financial disclosures related to strategy, risk management and metrics and targets, as described in the paragraph Aus5 below. Consistent with the practical expedients provided by the ISSB, such an expedient would be subject to reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

21 Paragraphs 3 and 4 of IFRS S2 are reproduced below to provide context to example paragraphs Aus5 and Aus6 (discussed in Section 3).

Scope

3 This Standard applies to:

(a) climate-related risks to which the entity is exposed, which are:

(i) *climate-related physical risks*; and

(ii) *climate-related transition risks*; and

(b) climate-related opportunities available to the entity.

4 Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this Standard.

Aus5 For the purposes of this Standard, a not-for-profit entity need not undertake exhaustive efforts to prepare disclosures related to strategy, risk management and metrics and targets set out in paragraphs 8–37. However, an entity shall disclose material information required in those paragraphs to the extent that reasonable and supportable information is available to the entity at the reporting date without undue cost or effort, taking into consideration the skills, capabilities and resources available to the entity for climate-related financial disclosures.

Question for Board members

Q3: Do Board members agree with the staff suggestion to propose in an exposure draft such an overarching practical expedient for NFP entities as described in paragraph Aus5?

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3 The ISSB provided a practical expedient for disclosing quantitative information about: (a) the current or anticipated financial effects of a climate-related risk or opportunity (paragraphs 18–20 of IFRS S2); (b) climate-related scenario analysis to assess an entity's climate resilience (paragraphs B1 and B6–B7 of IFRS S2); (c) to determine the scope of its value chain, measurement approach, inputs and assumptions regarding scope 3 GHG emissions (paragraphs B36, B39 and B54 of IFRS S2); and (d) the amount and percentage of assets or business activities related to climate-related transition risks, physical risks and opportunities (paragraph 30 of IFRS S2).

Section 3: Public interest relating to entities that do not have material climate-related risks and opportunities

22 Staff consider that entities that do not have significant assets or operations vulnerable to climate change or give rise to material GHG emissions would likely determine that they do not have material information to disclose under IFRS S2. Staff acknowledge that, in accordance with the nature of GPFRs reporting and disclosing information limited to matters that are material to the reporting entity, it can be argued that such entities would not be required to make any climate-related financial disclosures.

23 However, due to the increasing public interest in climate-related financial disclosures, staff are of the view that there may be merit in requiring such entities to provide some disclosures in their GPFRs that would provide confidence to users that those entities have considered climate-related risks and opportunities in their operations.

24 Accordingly, staff suggest proposing in an exposure draft a requirement for entities that do not have material climate-related risks and opportunities to disclose this fact in their GPFRs and disclose information about its governance body(s) responsible for oversight of the entity's climate-related risks and opportunities, as described in paragraph Aus6 below.

25 Additionally, staff consider that the staff view and proposal described in paragraphs 22–24, is useful for application in the for-profit sector as well and should not be limited to NFP entities. Therefore, staff suggest paragraph Aus6 be applicable to entities in all sectors.

Scope

Aus6 For the purposes of this Standard, if an entity determines that there is no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, such an entity shall disclose the following in its general purpose financial reports:

(a) a description of the nature of the entity's operations and its principal activities, or cross-reference to the disclosure note prepared in accordance with paragraph 138(b) of AASB 101 *Presentation of Financial Statements*;

(b) the fact that:

(i) the entity does not have assets, operations or principal activities vulnerable to material climate-related transition and physical risks;

(ii) the entity's operations and principal activities do not give rise to material greenhouse gas emissions; and

(iii) the entity has determined that there are no material climate-related opportunities that could reasonably be expected to affect the entity's prospects; and

(c) material information about governance in accordance with paragraphs 5–Aus7. [**Note to Board members:** Draft paragraph Aus7 is discussed in Section 4]

Question for Board members

Q4: Do Board members agree with the staff suggestion to propose in an exposure draft a requirement for entities in all sectors that do not have material climate-related risks and opportunities to disclose information described in paragraph Aus6?

Section 4: NFP public-sector modification regarding governance

26 Staff did not identify any NFP-specific or public-sector-specific reasons for modifying the disclosure requirements on governance set out in IFRS S2 paragraphs 5–7. However, staff suggest proposing in an exposure draft a requirement for NFP public sector entities to disclose the legislation or policy that sets out the governance body(s) responsible for oversight of the entity's climate-related risks and opportunities, as described in paragraph Aus7 below.

27 This is because:

(a) in many cases, a public sector entity's responsibilities are specified in legislation or a government policy; and

(b) often it is the central agency of the department to which a government entity belongs, under the direction or delegation of the relevant Minister, that has the main responsibility for overseeing the entity's climate-related risks and opportunities.

> **Governance**
>
> Aus7 Further to paragraphs 5–7, where relevant, a not-for-profit public sector entity shall disclose legislation and policies setting out the governance body(s), including other public sector entities, responsible for oversight of the entity's climate-related risks and opportunities.

> **Question for Board members**
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> Q5: Do Board members agree with the staff suggestion to propose in an exposure draft a requirement for NFP public sector entities to disclose the legislation or policy that sets out the governance body(s) responsible for oversight of the entity's climate-related risks and opportunities?

Staff's overall view on developing sector-neutral standard based on IFRS S2

28 Subject to the Board's consideration of (a)–(c) below, staff did not identify any other NFP-specific or public-sector-specific reasons for modifying the disclosure requirements on strategy, risk management or metrics and targets set out in paragraphs 8–37 and Appendix B of IFRS S2:

(a) other Agenda Papers related to the Climate-related Financial Disclosures project for this meeting;

(b) the staff proposals in Section 1 to modify the objective of IFRS S2, including clarifying the concepts of "business model" and "entity's prospects"; and

(c) the staff proposal in Section 2 to provide an overarching practical expedient for NFP entities to prepare qualitative and quantitative climate-related financial disclosures related to strategy, risk management and metrics and targets subject to reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, as described in the draft paragraph Aus5.

29 This is because, subject to cost-benefit considerations, the effects of climate-related risks and opportunities on an entity's financial results would be relevant to users of NFP entities' GPFRs, albeit might not be a key focus area. Paragraph AusOB3.1 of the NFP Conceptual Framework (reproduced in Appendix A) states that users "are concerned with the ability of the

entity to achieve its objectives … which in turn may depend, **at least in part, on the entity's prospects for future net cash inflows** …"

30 Staff are of the view that the staff proposals and suggested modifications to IFRS S1 and IFRS S2 in this paper would:

(a) help achieve the Board's objective of developing sector-neutral Australian climate-related financial disclosure requirements that would align with the baseline of IFRS S2; and

(b) address the stakeholder views noted in paragraph 14, about the scalability of Australian climate-related financial disclosure requirements for NFP entities and the limited skills and resources in the domestic and international markets available for climate-related financial disclosure.

31 Subject to the Board's comments on the staff suggestions and proposals in this paper, staff propose adding Specific Matters for Comment (SMCs) in an exposure draft to obtain input from stakeholders on:

(a) whether the proposed modifications to IFRS S2 suggested in this paper would be adequate in addressing the stakeholder views noted in paragraph 14; and

(b) any other potential modifications that can be made to IFRS S2 to assist NFP entities comply with Australian climate-related financial disclosure requirements without undue cost or effort.

32 Depending on the feedback to be received on an exposure draft, the Board may, at a later stage, decide to remove or amend certain proposals from the baseline of IFRS S2.

Questions for Board members

Q6: Subject to the Board's consideration of the information outlined in paragraph 28, at this stage, do Board members agree with the staff view that no NFP modification is needed to the requirements on strategy, risk management and metrics and targets set out in paragraphs 8–37 and Appendix B of IFRS S2? If Board members disagree, what modifications would you recommend making to those paragraphs?

Q7: Do Board members agree with the staff proposal to add SMCs in an exposure draft to request input from stakeholders regarding the matters noted in paragraph 31?

Other public-sector-specific considerations

33 Based on the feedback from Australian stakeholders noted in paragraphs 7(b), 7(d) and 7(g) of the Cover Memo (Agenda Paper 10.1) and informal feedback from public sector stakeholders received as part of the Board's outreach activities on ED 321, staff consider that further input from stakeholders on the matters described in (a) and (b) below would be needed when considering whether to make Australian climate-related financial disclosure requirements applicable to NFP public sector entities:

(a) Whether climate-related financial disclosure requirements based on IFRS S2 should be adopted by public sector entities on a mandatory or voluntary bases, and for which level of government entities. Stakeholders provided the following comments:

(i) mandatory vs voluntary – preparers of public sector entities' financial statements commented to the Treasury that climate-related reporting standards should not be mandated for the NFP public sector entities until the requirements have been appropriately tailored for the NFP context and can be implemented in a cost effective and meaningful manner;

(ii) user needs and practical application – HoTARAC and ACAG are of the view that users of public sector sustainability information, including climate-related information, would focus on the activities at the whole-of-government (WoG) level rather than on an individual federal/state/territory entity level. Additionally, because investment in sustainable development would usually be funded from a combination of reductions in other expenditure, additional taxes or debt, opportunities and risks for sustainable development may not always be able to be assessed at the individual entity level or a department level and may need to be assessed at the WoG level; and

(iii) cost-benefits – preparers of public sector entities' financial statements commented that many public sector entities, including local councils, manage a high number of assets and have diverse services to the community; therefore, the cost of preparing climate-related financial disclosures would be high. The cost of preparing such disclosures needs to be balanced with the benefits of such disclosures, particularly when climate-related impact reporting rather than financial disclosures seems to be the main interest area from users.

(b) How to determine the value chain of WoG and public sector entities with multi-stakeholder groups for the purposes of IFRS S2. The ISSB defines value chain as the "full range" of interactions, resources and relationships related to an entity's business model and the external environment in which it operates. The cost to comply with IFRS S2 requirements would likely outweigh the benefits, if governments and public sector entities would be required to undertake extensive analysis of the underlying sources of taxation and grant revenue, and certain types of expenses such as grants, subsidies and social benefits in determining its value chain.

34 Staff recommend adding SMCs in an exposure draft to request input from stakeholders on the matters described above.

Question for Board members

Q8: Do Board members agree with the staff recommendation to add SMCs in an exposure draft to request input from stakeholders regarding the matters described in (a) and (b) of paragraph 33?

Appendix A: Extracts from the NFP Conceptual Framework

Paragraphs AusOB2.1 and AusOB3.1 of the *Framework for the Preparation and Presentation of Financial Statements* have been reproduced below for ease of reference.

AusOB2.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph OB2. For example, parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity, taxpayers decide who should represent them in government, donors decide whether to donate resources to an entity, and recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers. In relation to not-for-profit entities, where pertinent, all references in this Framework to 'existing and potential investors, lenders and other creditors' (and related terms) should be read as a reference to this broader range of users.

AusOB3.1 In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows. Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, references in this Framework to 'assessing prospects for future net cash inflows' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph.