



Project:	Sustainability Reporting	Meeting	AASB March 2023 (M194)
Topic:	[draft] Sustainability Reporting Standard-Setting Framework	Agenda Item:	14.1
		Date:	20 February 2023
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		Decision-Making:	High
		Project Status:	Consideration of draft standard-setting framework

Objective

- 1 The objective of this staff paper is to present a [draft] AASB Sustainability Reporting Standard-Setting Framework for the Board's consideration.

Attachments

- Agenda Paper 14.1.1 [draft] AASB Sustainability Reporting Standard-Setting Framework
- Agenda Paper 14.1.2 Minutes of the January 2023 meeting of the Sustainability Reporting Project Advisory Panel *[Supporting Material – Board only]*

Structure

- 2 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraphs 3-4).
 - (b) Background (paragraphs 5-6).
 - (c) Overview of changes (paragraphs 7-9).
 - (d) Staff recommendations and questions to Board members (paragraphs 10-11).

Summary of staff recommendations

- 3 Staff recommend the Board pilot the [draft] AASB Sustainability Reporting Standard-Setting Framework provided as Agenda Paper 14.1.1 as part of the Climate-related Financial Disclosure project.¹
- 4 The [draft] Framework will help ensure that any Australian sustainability reporting requirements developed by the Board are robust, consistent, and fit for purpose. Further, consistent with the Climate-related Financial Disclosure project plan, such an approach would help to mitigate the risk of reputational damage to the Board should it develop

¹ See February 2023 (M193) [Agenda Item 5.3.0 \[Draft\] Climate-related Financial Reporting project plan](#).

climate-related financial disclosure requirements without a transparent and documented framework / process in place.

Background

- 5 At its February 2023 (M193) meeting, the Board decided:²
- (a) to use the AASB For-Profit Entity Standard-Setting Framework as a starting point for the development of a [draft] sustainability reporting standard-setting framework; and
 - (b) on the proposed criteria for departing from, amending or adding to the baseline of IFRS Sustainability Disclosure Standards, being:
 - (i) 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;
 - (ii) requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers;
 - (iii) requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or else will conflict with global sustainability reporting practices;
 - (iv) 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;
 - (v) 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.
- 6 Based on the Board's feedback and decisions at its February 2023 (M193) meeting, staff have developed a [draft] AASB Sustainability Reporting Standard-Setting Framework for implementation in the Climate-related Financial Disclosure project.

Overview of changes

- 7 Where possible, staff have sought to limit the number of changes to the baseline of the AASB For-Profit Entity Standard-Setting Framework to ensure that the [draft] sustainability reporting standard-setting framework is aligned with the Board's [existing accounting standard-setting frameworks and processes](#). However, staff have modified the following

² See February 2023 (M193) [Action Alert](#).

areas of the standard-setting framework to adapt the baseline for the purpose of developing sustainability reporting requirements for Australia:

- (a) Updating key terms and references—for example, “[draft] Australian Sustainability Reporting Standards” replaced “Australian Accounting Standards”, and “IFRS Sustainability Disclosure Standards” replaced “IFRS Standards”;
- (b) Removing information beyond the scope of a sustainability reporting standard-setting framework—for example, removal of subsections focused on special purpose financial statements and Tier 2 disclosure requirements;
- (c) Inserting information to reflect the Board’s decision-making—for example, incorporating criteria for departing from the baseline of IFRS Sustainability Disclosure Standards; and
- (d) General amendments to reflect differences between a sustainability reporting and accounting context—for example, contextualising the role of the AASB in developing sustainability reporting requirements and the assumptions underpinning the framework.

8 Based on feedback from the Board at its February 2023 (M193) meeting staff also made the following revisions to the criteria for departing from, amending or adding to the baseline of IFRS Sustainability Disclosure Standards:

- (a) revised wording to clarify that “depart from” means “there may be a need to depart from, amend or add to requirements in an issued IFRS Sustainability Disclosure Standard”;
- (b) revised the order of the criteria so that the criteria focused on Australian-specific matters appears first in the list;
- (c) removed the example previously incorporated into the criteria focused on a lack of international alignment or conflict with global sustainability reporting practices or standards; and
- (d) removed the list of examples of legislation identified in the criteria focused on equivalent legislative disclosure requirements.

9 The [draft] AASB Sustainability Reporting Standard-Setting Framework is presented in Agenda Paper 14.1.1.

Staff recommendations and questions to Board members

10 Staff are of the view that having established frameworks and processes to guide its sustainability reporting standard-setting activity will help ensure that the Board’s issued Australian sustainability reporting requirements are robust, consistent, and fit for purpose. Consistent with the Climate-related Financial Disclosure project plan,³ the [draft] AASB Sustainability Reporting Standard-Setting Framework will help mitigate the risk of reputational damage to the Board should it develop climate-related financial disclosure requirements without a transparent and documented framework / process in place. Consequently, staff recommend the Board pilot the [draft] AASB Sustainability Reporting Standard-Setting Framework as part of the Climate-related Financial Disclosure project.

³ See Agenda Paper 16.1 *Climate-related Financial Disclosure project plan*.

- 11 However, the rapidly evolving nature of sustainability reporting practices and requirements, both domestically and internationally, means that certain information contained in the [draft] AASB Sustainability Reporting Standard-Setting Framework will be subject to change. Consequently, the [draft] AASB Sustainability Reporting Standard-Setting Framework will not be finalised until the Board has had the opportunity to publicly consult on it as part of the Climate-related Financial Disclosure project.⁴

Questions to Board members

Q1: Do Board members have any questions about the information in this paper and the [draft] AASB Sustainability Reporting Standard-Setting Framework?

Q2: Do Board members agree with the staff recommendation to pilot the [draft] AASB Sustainability Reporting Standard-Setting Framework (see Agenda Paper 14.1.1) as part of the Climate-related Financial Disclosure project?

⁴ Staff plan to continue to apply the [AASB Evidence-Informed Standard-Setting Framework](#) and the [AASB Due Process Framework for Setting Standards](#) as they already broadly make reference to external reporting (which includes sustainability reporting). However, we also note that in future the Board may want to update these to explicitly make reference to its sustainability reporting standard-setting activity, or alternatively develop a separate evidence-informed standard-setting framework and due process framework specifically for sustainability reporting.