



Project insights:  
**Developing sustainability-related  
financial reporting standards in Australia**

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## Introduction

In response to the growing global demand for more consistent and comparable disclosures of sustainability-related financial information, in November 2021, the IFRS Foundation announced the establishment of the International Sustainability Standards Board (ISSB). The objective of the ISSB is to develop, in the public interest, a comprehensive global baseline of high-quality sustainability disclosure standards to meet investor information needs. The ISSB is an independent ‘sister’ board to the International Accounting Standards Board (IASB) and, consistent with the IASB, is overseen by the IFRS Foundation Trustees.

In March 2022, the ISSB published Exposure Drafts on [\[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) and [\[Draft\] IFRS S2 Climate-related Disclosures](#). The comment period for both Exposure Drafts spans 120 days and closes on 29 July 2022. This comment period supports rapid global developments and we expect the ISSB to issue final standards by the end of the year.

This article aims to provide a snapshot of the proposed Australian approach to developing sustainability-related financial reporting standards and to highlight some of the key elements of that proposed approach.

# What is sustainability-related financial information, and how does it fit with the existing financial reporting framework?

Sustainability-related financial information is defined in [Draft] IFRS S1 as being ‘information that gives insight into sustainability-related risks and opportunities that affect enterprise value,<sup>1</sup> providing a sufficient basis for users of general purpose financial reporting to assess the resources and relationships on which an entity’s business model and strategy for sustaining and developing that model depend.’

As demonstrated by *Figure 1: Nested materiality diagram*, sustainability-related financial information is intended for use by a subset of broader stakeholders being primary users of general purpose financial reporting.<sup>2</sup>

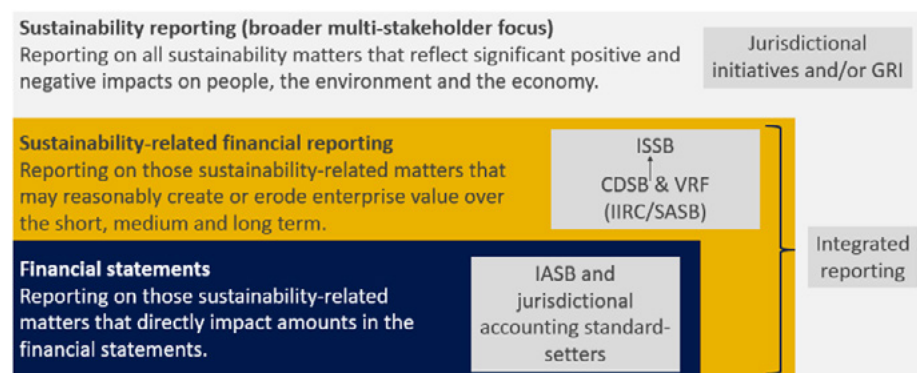


Figure 1 Nested materiality diagram  
 (Source: *Reporting on Enterprise Value: Illustrated with a prototype climate-related financial disclosure standard*)

While the information needs of broader stakeholders and primary users generally align, the scope of primary users’ information needs is more specific than that of broader stakeholders. Consequently, the intention is not to replace broader, multi-stakeholder sustainability reporting such as that governed by the Global Reporting Initiative (GRI) but to bridge the gap between broader multi-stakeholder sustainability reporting and general-purpose financial statements.

1 *Enterprise value* is defined in [Draft] IFRS S1 as being ‘the total value of an entity. It is the sum of the value of the entity’s equity (market capitalisation) and the value of the entity’s net debt.’  
 2 *Primary users of general purpose financial reporting* are defined in [Draft] IFRS S1 as ‘existing and potential investors, lenders and other creditors.’ This definition is consistent with the definition of primary users of general purpose financial reporting and statements in the IFRS *Conceptual Framework for Financial Reporting* and IAS 1 *Presentation of Financial Statements*.



## What is the AASB's role in setting standards for sustainability-related financial information?

Consistent with the *Australian Securities and Investments Commission Act 2001* (ASIC Act), the AASB's mandate includes developing, issuing and maintaining accounting and external reporting standards and guidance that are principles-based, meet the needs of external report users and are capable of being assured and enforced.<sup>3</sup> Sustainability-related financial reporting falls within the scope of external reporting.

In November 2021, the Financial Reporting Council (FRC), the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) published a [Position Statement on Extended External Reporting and Assurance](#). The Position Statement announced the AASB's intention to be responsible for developing a reporting framework and requirements for sustainability-related matters in Australia and the AUASB's intention to update relevant assurance standards simultaneously. The AASB subsequently added a sustainability reporting project to its work plan in February 2022 following outreach on the AASB's *Agenda Consultation 2022-26*, which indicated significant support for the AASB to expand its activities to include sustainability reporting.

The objective of the project is to:

- develop reporting requirements for sustainability-related financial information in general purpose financial reporting to meet the evolving information needs of primary users; and
- improve the consistency, completeness, comparability and verifiability of sustainability-related financial disclosures.

<sup>3</sup> See the [AASB Due Process Framework for Setting Standards](#).





## What is the AASB's proposed approach to sustainability-related financial standards in Australia?

To meet the project objectives, the AASB seeks to:

- develop a separate, or independent, suite of standards that specifically address sustainability-related financial disclosures made as a part of general-purpose financial reporting; and
- prioritise international alignment by using the work of the IFRS Foundation's ISSB as a baseline, with modifications for Australian matters and requirements when necessary to meet the needs of Australian stakeholders.

### **Why is the AASB proposing this approach?**

The AASB is seeking to position Australian sustainability-related reporting requirements as a separate suite of standards because such an approach:

- aligns more broadly with the approaches of international sustainability-related reporting standard-setters and framework providers (such as the IFRS Foundation) and jurisdictions (such as New Zealand, the United Kingdom, Canada, and the European Union);
- allows the AASB more flexibility to develop sustainability-related financial reporting requirements that can address the reporting of a broad range of sustainability-related financial information (such as information related to biodiversity and human rights) either as part of general purpose financial reporting or as a separate reporting exercise; and
- is consistent with the approach to Australian Accounting Standards by leaving the decision to mandate sustainability-related financial reporting with the relevant Australian legislators.



The alternative approach would mean developing sustainability-related financial reporting requirements as part of existing Australian Accounting Standards and result in sustainability-related financial disclosures forming part of an entity's general purpose financial statements.

The AASB is also seeking to use the work of the ISSB as the baseline for its work on sustainability-related financial reporting, with modifications for Australian matters and requirements where necessary to meet the needs of Australian stakeholders. After considering a number of jurisdictional and international approaches and stakeholder feedback, the AASB concluded that the ISSB framework would be most appropriate for Australian circumstances.

To inform any possible future development of a separate suite of Australian sustainability-related financial reporting standards, the AASB published [Exposure Draft 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#) (ED 321). The AASB decided to publish these Exposure Drafts in Australia to:

- gather feedback to assist the AASB in providing input into the ongoing work of the ISSB; and
- to inform the AASB as to the appropriateness of, and support for, its proposed approach to sustainability-related financial reporting in Australia.

#### **What are the potential implications of the proposed approach?**

The proposed work of the ISSB is intended as a minimum set of requirements upon which jurisdictions can build. Accordingly, there a number of Australian-specific issues the AASB is currently considering:

- **The need for Australian-specific matters and requirements**—the proposed work of the ISSB is only intended as a baseline. Where relevant, the AASB will need to consider modifying, or adding to, the ISSB's baseline to address Australian-specific matters and requirements and meet the needs of Australian stakeholders. For example, [Draft] IFRS S2 refers to the use of the *Greenhouse Gas Corporate Protocol Standard* in measuring and reporting an entity's greenhouse gas emissions. However, Australian entities currently report in line with the *National Greenhouse and Energy Reporting Act 2007* (Cth). Consequently, as part of its public consultation on ED 321 the AASB is asking stakeholders about Australian-specific matters and requirements that should be considered in the context of the ISSB Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2.



- **Meeting the users' demand for sustainability-related financial information**—the proposals in Exposure Draft on [Draft] IFRS S1 and [Draft] IFRS S2 are extensive and at times seek to provide users with granular information beyond the required level for general purpose financial statements. The AASB is considering the costs and benefits of requiring preparers to provide that information and whether there are other, less granular disclosures that could also provide users with sufficient information about an entity's sustainability-related risks and opportunities to inform their assessment of an entity's enterprise value. The AASB is also working with the AUASB to consider the auditability and assurability of the proposals. Consequently, as part of its public consultation on ED 321 the AASB is asking stakeholders about the potential costs and benefits of the ISSB's proposals, including asking about the verifiability and enforceability of those proposals.
- **International alignment**—raised by stakeholders as a high priority, both users and preparers agree that the success of sustainability-related financial reporting will be dependent on whether international alignment can be achieved. While the AASB considers that the work of the ISSB is currently the most appropriate for Australian circumstances, the future of international alignment remains uncertain, with a few individual jurisdictions developing their own approaches simultaneously (for example, Europe<sup>4</sup> and the United States of America<sup>5</sup>). Consequently, a key element of the AASB's work is to engage with, and provide input into, the ongoing work of the ISSB and other national standard-setters who are seeking to engage in sustainability-related financial reporting.

4 The European Financial Reporting Advisory Group (EFRAG) issued for public consultation [Draft European Sustainability Reporting Standards \(ESRS\) Exposure Drafts](#) in April 2022. EFRAG's proposals set out the sustainability information that companies would have to include in their sustainability statements. Relevant entities would need to provide qualitative, quantitative, forward-looking and retrospective information, including on their value chain, covering short-, medium- and long-term time horizons. The information provided is subject to double materiality, i.e. entities would be required to report both on how various sustainability matters affect the entity and on the impacts of an entity's activities on people and the environment. The information would be mandatory as part of the management report.

5 The US Securities and Exchange Commission (US SEC) issued for public consultation [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#) in March 2022. The proposals seek to enhance and standardise the climate-related disclosures provided by public companies in the US. Certain aspects of the proposed disclosures are similar to the TCFD Recommendations, however are more extensive than what is being proposed in [Draft] IFRS S2.





## Will the proposed standards be voluntary or mandatory?

Consistent with Australian Accounting Standards, this project does not seek to address whether sustainability-related financial reporting standards should be mandated for all for-profit and not-for-profit sector entities (or subsets of those entities). This project focuses on developing a separate suite of sustainability-related financial reporting standards that are neutral. This leaves the decision to mandate (and therefore regulate) sustainability-related financial reporting with the relevant Australian legislators and is consistent with the AASB's approach to Australian Accounting Standards.

Consequently, sustainability-related financial reporting would fall outside the scope of the general purpose financial statements but is within the scope of general purpose financial reporting. For example, [Draft] IFRS S1 proposes that the disclosure of sustainability-related financial information be a part of an entity's annual financial reporting package for the same reporting entity and reporting period as the financial statements.



## How can you provide feedback?

You can provide feedback to the AASB and ISSB in the following ways:

- **Comment letter to the AASB—[ED 321](#)** provides detail on, and asks stakeholders about, the Australian context for the ISSB's two Exposure Drafts. The comment period closes 15 July 2022.
- **[Survey on ED 321](#)**—to assist those stakeholders that lack the resources to prepare a formal comment letter, the AASB has developed a short survey on ED 321. The survey closes 15 July 2022.
- **Field testing**—to better understand the reporting outcomes from applying the proposals in [Draft] IFRS S2, the AASB is seeking volunteers to apply the proposals in [Draft] IFRS S2. If you are interested in volunteering for field testing, please e-mail [standard@aab.gov.au](mailto:standard@aab.gov.au).
- **Outreach events and presentations**—the AASB is engaging in a range of outreach events and presentations to receive feedback back on both the AASB's and ISSB's Exposure Drafts, including preparer and general stakeholder focused roundtables and industry-focused roundtables.
- **Comment letter to the ISSB**—Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 are open for comment until 29 July 2022. The AASB requests that if Australian stakeholders respond directly to the ISSB's Exposure Drafts, they also send the AASB a copy of their comments.



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