



<b>Project:</b>	<b>Climate-related Financial Disclosure</b>	<b>Meeting:</b>	September 2023 (M198)
<b>Topic:</b>	<b>Due Process and Standard-Setting Frameworks</b>	<b>Agenda item:</b>	7.1
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		<b>Project priority</b>	High
		<b>Decision-making</b>	High
		<b>Project status</b>	Consider Draft Framework for issue

## Objective

- The objective of this agenda item is for the Board to:
  - consider the [Draft] AASB *Due Process Framework for Setting Australian Sustainability Reporting Standards* with a view to approving it for issue; and
  - consider the [Draft] AASB *Sustainability Reporting Standard-Setting Framework* with a view to approving it for issue.

## Attachment

- Agenda Paper 7.2      [Draft] AASB *Due Process Framework for Setting Australian Sustainability Reporting Standards*
- Agenda Paper 7.3      [Draft] AASB *Sustainability Reporting Standard-Setting Framework*

## Background

- The IFRS Due Process Oversight Committee (DPOC) notes that:<sup>1</sup>
  - due process comprises the requirements followed by the International Accounting Standards Board (IASB), the International Sustainability Standards Board (ISSB) and the IFRS Accounting Standards Interpretations Committee relating to standard-setting;
  - the process laid out in the IFRS Constitution developed in consultation with stakeholders acts as a detailed ‘contract’ between the IFRS Foundation and its stakeholders, with the ‘contract’ being described in the [IFRS Foundation’s Due Process Handbook](#); and
  - the IFRS Foundation’s *Due Process Handbook* was last updated in 2020 before the ISSB was established, however, the requirements specified in the IFRS Foundation’s *Due Process Handbook* also apply to the ISSB.

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1 See IFRS [Due Process Oversight Committee](#).

3 The IFRS DPOC is expected to have a public discussion about updating the IFRS Foundation’s *Due Process Handbook* to reflect the establishment of the ISSB at its meeting in October 2023.<sup>2</sup>

#### **Due process procedures of other jurisdictions**

4 In terms of international precedents, in March 2022, the European Financial Reporting Advisory Group (EFRAG) approved its [Due Process Procedures: EU Sustainability Reporting Standard-Setting](#).

5 Staff note that the New Zealand External Reporting Board applied its existing due process and standard-setting frameworks in developing the Aotearoa New Zealand Climate Standards.

#### **Staff analysis and recommendations**

6 The AASB has the [AASB Due Process Framework for Setting \[Accounting\] Standards](#), the [AASB For-Profit Entity \[Accounting\] Standard-Setting Framework](#) and the [AASB Not-for-Profit Entity \[Accounting\] Standard-Setting Framework](#).

7 One of the primary reasons stakeholders were supportive of the Board expanding its scope of activities to address sustainability reporting was the Board’s robust due process and experience which results in high-quality Australian Accounting Standards. At its February 2023 meeting, in absence of a specific sustainability reporting-related due process framework, the Board decided to apply its existing framework.<sup>3</sup> However, there is a general expectation that the same or similar processes will be formally adapted and developed for setting Australian Sustainability Reporting Standards—for example:

- (a) the [Treasury Laws Amendment \(2023 Measures No. 1\) Bill 2023](#), which will extend the AASB’s powers and functions to sustainability reporting includes an amendment extending the Financial Reporting Council’s (FRC) role to overseeing the AASB’s processes for developing sustainability standards [see paragraphs 225(1)(a) and (b)]; and
- (b) the [Explanatory Memorandum to the Treasury Laws Amendment \(2023 Measures No. 1\) Bill 2023](#) places emphasis on the governance around the standard-setting processes [see pp. 2, 13] and leveraging the AASB’s existing experience [see p. 15].

8 Having a due process framework and standard-setting framework specific to sustainability reporting also facilitates the AASB meeting its obligations to address the seven *Impact Analysis* questions described in [the Australian Government Guide to Policy Impact Analysis](#).

9 Frameworks addressing sustainability reporting specifically that are separate from the Australian Accounting Standards Frameworks may be considered necessary on the basis that:

- (a) they will be separate suites of Standards;
- (b) the standard-setting process has a different focus in that it focuses on sector neutrality rather than transaction neutrality, and
- (c) the due process for Australian Sustainability Reporting Standards has a different focus than the due process for Australian Accounting Standards. In particular:
  - (i) where the due process for Australian Accounting Standards has a focus on aligning to and adapting IFRS Accounting Standards, the Australian Sustainability Reporting Standards due process prioritises alignment with Australian Government policy and existing or future legislation before alignment with international standards and frameworks such as IFRS Sustainability Disclosure Standards; and

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2 See [IFRS - Due Process and the ISSB](#).

3 See AASB [February 2023 \(M193\) Agenda Paper 5.2 Sustainability and Climate-related Financial Reporting: Developing climate-related financial reporting requirements for Australia](#).

(ii) because of the prioritisation of alignment with Australian Government policy and existing or future legislation, prior to issuing a public consultation document (such as a discussion paper or exposure draft), the Board may not be able to make technical decisions publicly due to issues related to legislative secrecy. However, its technical decisions would be subject to public consultation prior to a pronouncement being issued.

- 10 Staff have developed the [Draft] *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* and [Draft] *AASB Sustainability Reporting Standard-Setting Framework* using the AASB's Australian Accounting Standards Frameworks (identified in paragraph 6) as a basis and modifying them where necessary.<sup>4</sup>
- 11 Staff note that there may be consequential amendments needed to the AASB's Australian Accounting Standards Frameworks to specify their applicability to Australian Accounting Standards only. However, staff are not recommending amendments to the AASB's Australian Accounting Standards Frameworks (identified in paragraph 6) at this stage in the interests of time and keeping the current focus on climate-related financial reporting.

#### **Staff recommendation and questions to Board members**

- 12 Staff recommend approving the [Draft] *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* and [Draft] *AASB Sustainability Reporting Standard-Setting Framework*, subject to any changes that the Board decides to make.
- 13 Once approved and finalised, the Frameworks will be submitted to the FRC for consideration prior to any public consultation documents being issued by the Board.

#### **Questions to Board members**

- Q1:** Do Board members have any questions or comments about the content of this paper?
- Q2:** Do Board members have changes they wish to make to the [Draft] *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* and/or [Draft] *AASB Sustainability Reporting Standard-Setting Framework*?
- Q3:** Do Board members agree with the staff recommendation to approve the [Draft] *AASB Due Process Framework for Setting Australian Sustainability Reporting Standards* and [Draft] *AASB Sustainability Reporting Standard-Setting Framework*?

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4 The [Draft] *AASB Sustainability Reporting Standard-Setting Framework* has been discussed at previous Board meetings. See AASB [March 2023 \(M194\) Agenda Paper 14.1 Sustainability Reporting: \[Draft\] Sustainability Reporting Standard-Setting Framework](#).