



Project:	Climate-related Financial Disclosure	Meeting:	AASB August 2023 (M197)
Topic:	Approach to the baseline of IFRS S1—scope limitation	Agenda Item:	06.1
		Date:	24 July 2023
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		Decision-Making:	High
		Project Status:	Confirmation of scope limitation

Objective

- 1 The objective of this paper is for the Board to consider staff analysis and recommendations on its proposed approach to the baseline of IFRS S1 *General Requirement for Disclosure of Sustainability-related Financial Information* in light of the scope limitation being proposed in Treasury’s [Climate-related financial disclosure: Second consultation](#).

Structure

- 2 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 3)
 - (b) Background (paragraphs 4-8)
 - (c) Staff analysis (paragraphs 9-10)
 - (d) Staff recommendations and questions to the Board (paragraphs 11-13)

Summary of staff recommendations

- 3 Staff recommend that, consistent with Treasury’s most recent proposals, the Board amend the baseline of IFRS S1 to limit its scope to climate-related financial disclosure. Such an approach would ensure the guidance and requirements needed to support consistent application of an Australian equivalent to IFRS S2 *Climate-related Disclosures* could also be mandated.

Background

- 4 In February 2023, the Board decided on a climate first, but not climate only, approach to its work on sustainability reporting and added the [Climate-related Financial Disclosure project](#) to its work

program.¹ The Board also made the preliminary decision to support the development of climate-related financial disclosure requirements that can, at least initially, be applied independently of any sustainability reporting framework.²

- 5 These preliminary decisions were informed by the two Exposure Drafts published by the International Sustainability Standards Board (ISSB)³ and an initial public consultation document published by the Australian Treasury⁴. At the time, the Board acknowledged that the information contained in these documents may be subject to change and therefore concluded that any preliminary decisions would be redeliberated once the ISSB issued its final Standards.
- 6 In June 2023, the ISSB issued:⁵
 - (a) [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) (IFRS S1); and
 - (b) [IFRS S2 Climate-related Disclosures](#) (IFRS S2).
- 7 In June 2023, Treasury published [a second consultation paper](#) detailing their proposed positions on standardised and internationally-aligned climate-related financial disclosure requirements in Australia.
- 8 Consequently, this paper seeks to confirm the Board’s preliminary decisions based on the Standards issued by the ISSB and Treasury’s second consultation.

Staff analysis

- 9 Staff note the following regarding the updated Treasury consultation paper:
 - (a) the proposed positions focus solely on disclosure requirements for climate-related financial risks and opportunities in Australia—they do not propose positions relating to broader sustainability-related financial reporting in Australia;
 - (b) the proposed positions would include amendments to the Corporations Act 2001 that require entities meeting prescribed thresholds to make climate-related financial disclosures—they do not propose changes to the Corporations Act to require other sustainability-related financial disclosures;
 - (c) the proposed positions are premised on strong international alignment, however, they exclusively refer to IFRS S2 and do not refer to IFRS S1; and
 - (d) while stakeholder feedback on the design and implementation specifics for climate-related financial disclosures was mixed, there was a strong emphasis amongst stakeholders on the need for any climate-related disclosure requirements to be developed quickly.
- 10 Considering the above, staff are of the view that the Board should continue applying their preliminary decision regarding project scope and focus only on climate-related financial disclosure requirements

¹ See February 2023 (M193) [Action Alert](#).

² See February 2023 (M193) [Agenda Paper 5.2 Developing climate-related financial reporting requirements for Australia](#).

³ See [Exposure Draft on \[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) and [Exposure Draft on \[Draft\] IFRS S2 Climate-related Disclosures](#) published by the ISSB in July 2022.

⁴ See [Climate-related financial disclosure](#) published by Treasury in December 2022.

⁵ The ISSB also published related content including: [Basis for Conclusions \(IFRS S1\)](#), [Basis for Conclusions \(IFRS S2\)](#), [Effects analysis of IFRS S1 and IFRS S2](#), [Project summary for IFRS S1 and IFRS S2](#) and [Feedback statement for IFRS S1 and IFRS S2](#).

at this stage. Such an approach would be consistent with the scope of mandatory reporting being proposed by Treasury, which is limited to climate-related financial disclosure requirements only.

Staff recommendations and questions to Board members

- 11 Staff recommend that the Board continue applying their preliminary decision regarding project scope and focus only on climate-related financial disclosure requirements at this stage. Such an approach would allow the Board:
 - (a) to address demands for climate-related financial disclosure requirements in the shorter-term, while permitting the Board additional time to redeliberate its approach to sustainability reporting in the long-term;
 - (b) to establish a foundation on which it may work off to build and develop future sustainability reporting requirements should the Board be the designated body responsible for setting sustainability reporting standards in the long term; and
 - (c) to help ensure the efficient and effective management of staff resourcing.
- 12 Should the Board agree with the above recommendation, staff would commence work on amending the IFRS S1 baseline to ensure it is consistent with a focus only on climate-related financial disclosure requirements. Such changes would be consequential in their nature and aim to ensure that IFRS S1 would not require entities to report on the full range of sustainability-related risks and opportunities (e.g., replacing “sustainability-related” with “climate-related”, and seeking to remove duplication where possible between IFRS S1, IFRS S2 and the [Conceptual Framework for Financial Reporting](#)). Such consequential amendments to the baseline would ensure that, despite the limited scope, an Australian-equivalent standard would still be aligned as much as is practicable with IFRS S1.
- 13 Staff note that this approach would not preclude the Board from amending (if required) climate-related financial disclosure requirements based on future decisions made in relation to the long-term approach to sustainability reporting. For example, the limited scope of the Australian equivalent of IFRS S1 could later be expanded, and relevant ISSB-aligned requirements added back in, to address other topics beyond climate.

Question to Board members

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

Q2: Do Board members agree the staff recommendation to continue to apply its preliminary decision to focus only on climate-related financial disclosure requirements at this stage?

Q3: Do Board members agree with the staff recommendation to develop a limited scope Australian equivalent to IFRS S1 addressing general requirements for climate-related financial disclosures only?