AASB RESEARCH FORUM 2022

Research Project 2: Reporting and Assurance of Material Climate Change-Related Risk Disclosures:Evidence from Australia

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ABSTRACT

The aim of this project is to document the current state of climate-related risk disclosures and assurance in Australia to provide preliminary insights into the potential impact of the ISSB[1] [Draft] IFRS S2 Climate-related disclosures on reporting entities. Specifically, we investigate the annual reports, sustainability reports and stand-alone reports prepared by 111 ASX200 companies from 18 climate sensitive industries[2] over the period 2017 to 2020. We supplement this analysis with insights from semi-structured interviews with two assurers and three report preparers from the ASX200.

A key assumption of [Draft] IFRS S2 is that a firm's material climate-related risk disclosures are determined by the industry in which it operates. To provide guidance on appropriate industry specific climate-related disclosures, IFRS S2 draws from the Sustainability Accounting Standards Board (SASB) standards. Since the SASB standards cover a wide range of disclosure topics that are financially material to a firm, we operationalise the narrower set of climate-related risk disclosures by manually mapping the SASB disclosure requirements against the TCFD disclosure requirements to create an industry-specific, climate-related risk disclosure index.[3] Using this index, we manually scored the disclosures of the 111 ASX200 sample firms each year from 2017 to 2020. In addition, we manually collected assurance data that includes any assured climate change disclosures, the assurance criteria used, the key assurance procedures applied, the level of assurance and the assurance provider.

[1] The International Sustainability Standards Board (ISSB) was formed in November 2021, with the consolidation of the Climate Disclosure Standards Board (CDSB), the Value Reporting Foundation (VRF) and the IFRS Foundation (AASB, 2021).
[2] We use the Task Force on Climate Related Financial Disclosures (TCFD) identification of climate sensitive industries.
[3] We selected the TCFD as a benchmark to identify industry-specific SASB climate-related disclosures because both frameworks focus on financial materiality and emphasise the importance of assessing climate-related risk within an industry-specific context. This adjustment to fit the scope of climate-related risks is also consistent with suggestions of the SASB in the document 'Climate risk technical bulletin" released in 2016.

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Key findings:

Our preliminary results suggest that an albeit small but increasing number of firms are recognising the impact of climate-related risk in their financial statements (as opposed to other parts of the annual report and stand-alone reports). On average, the most common disclosures identified using our industry-specific, climate-related risk disclosure index relate to greenhouse gas (GHG) emissions, energy management, and water and wastewater management. In contrast, the least common disclosures relate to firms' analysis of their business models in terms of resilience to climate change and innovation and product specification (including future climate-related impacts).

Assurance of climate-related risk disclosure is an area for improvement. Approximately one third of sample firms assure their material climate-related risk disclosures to various degrees, with an increasing number engaging an assurance provider over the sample period. The most commonly assured disclosure items are scope 1 GHG emissions, total energy consumed, and total water extracted, whereas qualitative disclosure on climate-related risk are the least assured disclosures. Interviews with both reporters and assurance providers suggest that a lack of disclosure and the slow adoption of assurance are due to poor data quality – firms are unwilling to disclose data with a high level of uncertainty, let alone have these data assured. They suggest the poor data quality reflects of a lack of corporate climate-change expertise, a high level of resources necessary to build appropriate reporting systems, and concerns about litigation risks when making forward-looking statements.

In addition to the descriptive results, we will consider the economic consequences that flow from the documented disclosures and assurance including investors' reaction to the disclosure and valuation implications. Taken together, we provide a number of recommendations relating to the disclosure, presentation, and assurance of climate change related risk.