



Project:	Sustainability Reporting	Meeting	AASB February 2022 (M185)
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Contact(s):	Siobhan Hammond shammond@asb.gov.au Nikole Gyles ngyles@asb.gov.au	Project Priority:	High
		Decision-Making:	High
		Project Status:	Consider project direction

Objective

- 1 This paper considers a number of potential options for the Board's initial consideration in developing a separate suite of sustainability reporting standards for Australia.¹
- 2 The objective of this paper is to present preliminary staff analysis and recommendations for a draft architecture, and potential due process for sustainability reporting standards in Australia. This preliminary discussion aims to provide staff with direction for developing a draft staff project plan, and assist in framing the Board's response to ISSB developments and exposure documents.

Structure

- 3 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraphs 4-5)
 - (b) Background (paragraph 6)
 - (c) Potential approaches for the development of Australian sustainability reporting standards (paragraphs 7-23):
 - (i) Approach 1—using the ISSB standards as a basis, with modification for Australian specific matters or requirements (paragraphs 10-15)
 - (ii) Approach 2—using New Zealand's sustainability-related standards as a basis, with modification for Australian-specific matters or requirements (paragraphs 16-19)
 - (iii) Approach 3—develop Australian-specific sustainability reporting standards (paragraphs 20-21)
 - (iv) Staff recommendation and question to Board members (paragraphs 22-23)

¹ Note that this paper is only relevant should the Board agree with the preliminary staff recommendations in Agenda Paper 3.8 *Positioning sustainability reporting requirements in Australia*.

- (d) Initial scope of the sustainability reporting project (paragraphs 24-35)
 - (i) Scope of reporting for the for-profit sector (paragraphs 27-30)
 - (ii) Scope of reporting for the not-for-profit sectors (paragraphs 31-34)
 - (iii) Staff recommendation and question to Board members (paragraph 35)
- (e) Due process considerations (paragraphs 36-47)
 - (i) Approach 1—apply the existing AASB *Due Process Framework for Setting Standards* (paragraphs 37-40)
 - (ii) Approach 2—develop a due process framework specifically for sustainability reporting (paragraphs 41-44)
 - (iii) Staff recommendation and question to Board members (paragraphs 45-47)

Summary of staff recommendations

- 4 To keep pace with, and respond to, global sustainability reporting developments and support the Board commencing its Sustainability Reporting project, staff recommend that the Board:
- (a) as a starting point for developing the preliminary Sustainability Reporting project plan, use ISSB standards as a basis with modification for Australian matters and requirements (see paragraphs 7-23);
 - (b) not limit the scope of the project to specific entities in the for-profit sector (see paragraphs 24-35);
 - (c) focus initially on sustainability reporting for the for-profit sector and consider the not-for-profit sectors at a later stage (see paragraphs 24-35); and
 - (d) apply the existing AASB *Due Process Framework for Setting Standards* when commencing its work on the sustainability reporting project (see paragraphs 36-47).
- 5 It is important to note that the following staff analysis and recommendations are relevant only to commencing work on a sustainability project and, at a later stage, the Board may decide to change its approach.

Background

- 6 To support the initial development of a project plan and commencement of work on a sustainability reporting project, staff are seeking the Board's direction on the potential architecture and due process for sustainability reporting standards in Australia. In particular, staff are asking the Board to discuss:
- (a) the potential approaches for the development of Australian sustainability reporting standards—that is, the starting point from which to commence the Board's work on sustainability reporting (see paragraphs 7-23);
 - (b) the initial scope of the sustainability reporting project—that is, whether the Board should consider a phased approach for the scope of the sustainability reporting project. For example, by initially focussing on the development of sustainability reporting standards for (see paragraphs 24-35):
 - (i) listed for-profit entities;
 - (ii) all for-profit entities; or
 - (iii) all for-profit and not-for-profit entities; and

- (c) due process considerations—that is, the due process considerations for the Board’s discussion of (a) and (b) above (see paragraphs 36-47).

Potential approaches for the development of Australian sustainability reporting standards

- 7 Almost all respondents commented that the Board should prioritise international alignment when developing sustainability reporting requirements for Australia for the following reasons:
 - (a) internationally consistent and comparable sustainability reporting will likely be the key to its success in Australia;
 - (b) it would affect international competitiveness and participation if the Board developed sustainability reporting requirements that did not align internationally;
 - (c) it would likely reduce the cost of sustainability reporting for preparers because, for example, they would only need to develop a single sustainability report rather than multiple sustainability reports dependent on which jurisdiction they are reporting for; and
 - (d) international alignment would increase the relevance of sustainability reporting in Australia.
- 8 However, there were mixed views on which international and selected jurisdictional perspectives the Board should consider aligning to when developing sustainability reporting requirements. In particular, respondents highlighted:
 - (a) leveraging off the work of existing sustainability reporting standard-setters and framework providers such as the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI), the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD Recommendations) and the International Integrated Reporting Council (IIRC); and
 - (b) leveraging off the work of selected jurisdictional perspectives such as New Zealand (NZ) or the European Union (EU)—see also Agenda Paper 3.3 *Australian and selected jurisdictional perspectives*.
- 9 Staff have considered the following three perspectives for developing sustainability reporting standards in Australia:
 - (a) Approach 1—using the ISSB standards as a basis, with modification for Australian-specific matters or requirements—that is, leveraging off the existing work of the ISSB and using their standards as a starting point for the development of Australian-appropriate sustainability reporting standards. Such an approach would include engagement with a wide range of stakeholders, such as other sustainability reporting standard-setters and framework providers prevalent in Australia, and result in the modification of the baseline standards for the Australian market (paragraphs 10-15);
 - (b) Approach 2—using NZ’s sustainability reporting standards as a basis, with modification for specific issues or requirements—that is, similar to accounting standards, the Board adopts NZ sustainability reporting standards as issued, only modifying those standards where relevant to the Australian market (paragraphs 16-19); and
 - (c) Approach 3—similar to NZ and EU perspectives, developing Australian-specific sustainability reporting standards (paragraphs 20-21).

Approach 1—using the ISSB standards as a basis

- 10 While most respondents to ITC 46 commented on the establishment of the ISSB, there were mixed views on whether the Board should align with future ISSB standards, with many respondents expressing concerns about the proposed scope and direction of the ISSB’s work to date. Most respondents to ITC 46 also observed that GRI Standards are the dominant sustainability reporting standards applied in Australia.²
- 11 Staff considered taking a similar approach to IFRS Accounting Standards, that is, adopting ISSB standards with minimal or no modification. However, staff dismissed this approach because, unlike IFRS Accounting Standards, the ISSB standards are not intended to be adopted without modification. As outlined in the April 2021 IFRS Foundation’s [Feedback Statement on the Consultation Paper on Sustainability Reporting](#), the lynchpins of the ISSB’s strategic direction are:
- (a) **Investor focus for enterprise value**—the ISSB will focus on providing investors with decision-useful information;
 - (b) **Sustainability scope, prioritising climate**—the ISSB will initially focus its efforts on climate-related financial reporting, however, will also seek to meet the information needs of investors on other sustainability reporting matters;
 - (c) **Building on existing frameworks**—the ISSB will build on the work of the TCFD and the joint alliance of leading sustainability reporting standard-setters and framework providers³; and
 - (d) **Building blocks approach**—standards issued by the ISSB will provide a globally consistent and comparable sustainability reporting baseline, while also providing flexibility for coordination on reporting requirements that capture wider sustainability reporting matters.
- 12 Consequently, staff think an approach the Board could take is to leverage off the work of the ISSB and use their baseline standards as a starting point when developing sustainability reporting standards for Australia. The ISSB’s building blocks approach means that it only intends to produce baseline standards. This differs from IFRS Accounting Standards which are developed for global application as issued. That is, ISSB standards are only intended to act as baseline disclosure requirements that will, in most cases, require more adaptation and supplementation to make them relevant (or appropriate) in the Australian context.
- 13 In particular, such an approach by the ISSB highlights that there is significantly more flexibility in utilising ISSB standards than in adopting IFRS Accounting Standards. There is an expectation that the standards issued by the ISSB will, at least initially, be modified and tailored to a greater extent than would be permitted under IFRS Accounting Standards. For example:
- (a) similar to AASB Standards, although the underlying principles are applicable regardless of the size of the entity, ISSB standards will likely require more tailoring for small-to-medium (SME) entities in both the for-profit and not-for-profit sectors;
 - (b) given the nature of sustainability reporting, there will likely be a need for industry-specific standards or guidance—for example, as highlighted by feedback to ITC 46,

² See Agenda Paper 3.4 *Feedback Summary—ITC 46 AASB Agenda Consultation 2022-2026*.

³ Being the Value Reporting Foundation (made up of the IIRC and Sustainability Accounting Standards Board (SASB)), the GRI, the CDP (formerly the Carbon Disclosure Project) and the Climate Disclosure Standards Board (CDSB).

Australian stakeholders find biodiversity, indigenous rights and modern slavery to be of particular importance;

- (c) Australian stakeholders will likely require implementation guidance to assist in applying the standards—for example, because, as many respondents to ITC 46 highlighted, there is a lack of education and appropriately skilled resources in the Australian market to meet sustainability reporting demands;
- (d) Australian-specific sustainability reporting requirements (or standards) could also be developed for matters relevant to Australian stakeholders that the ISSB has yet to address (or may not address)—for example, industry-specific sustainability reporting standards or guidance for the mining and oil and gas industries may be considered as a higher priority by Australian stakeholders than by the ISSB.

14 Staff think that such an approach provides the Board with the flexibility to engage with leading sustainability reporting standard-setters and framework providers prevalent in Australia (such as the GRI) to develop the most appropriate sustainability reporting framework and standards for the Australian market, while also supporting international alignment. To clarify further, such an approach would not see the Board adopting ISSB standards as issued, instead the Board would be leveraging off the work of the ISSB to develop the most appropriate sustainability reporting standards for Australia.

15 However, staff also considered that:

- (a) such an approach is likely to be more resource intensive—that is, the Board would likely be significantly modifying (by adding to or amending) ISSB standards in order to develop the most appropriate sustainability reporting standards for the Australian market;
- (b) the ISSB is a newly established standard-setting body that lacks standard-setting experience in its field. While many jurisdictions and sustainability reporting standard-setters and framework providers have expressed their support for the proposed direction of the ISSB, none have explicitly stated that they will adopt or align to ISSB standards at this stage;
- (c) sustainability reporting matters prioritised by the ISSB may not always be of priority to Australian stakeholders—for example, while almost all respondents to ITC 46 agreed that climate reporting would likely be the best place to start, they also said that other sustainability reporting matters, such as biodiversity and indigenous rights, are of equal importance; and
- (d) the ISSB is a newly established standard-setting body and, as a result, it may take some time for them to build a suite of standards addressing a range of broad sustainability reporting matters relevant to the Australian market.

Approach 2—using New Zealand’s sustainability-related standards as a basis

16 In September 2020, the NZ Government announced its intention to implement mandatory reporting on climate risks and tasked the External Reporting Board (XRB) with developing reporting standards to support the new reporting regime (see also Agenda Paper 3.3). In response, the XRB intends to issue the following:⁴

- (a) Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS1)—the main disclosure standard which will be based on the TCFD Recommendations;

⁴ See <https://www.xrb.govt.nz/extended-external-reporting/climate-related-disclosures/>

- (b) Aotearoa New Zealand Climate Standard 2: *Adoption of Climate-related Disclosures* (NZ CS2)—an adoption standard to enable entities to begin their climate-related disclosure journey; and
 - (c) Aotearoa New Zealand *Climate-related Disclosures Concepts* (NZ CRDC)—an authoritative notice containing key concepts, like materiality.
- 17 Staff considered that an approach the Board could take to developing Australian sustainability reporting standards is to look to NZ’s sustainability reporting standards when developing Australian equivalent requirements. Consistent with the adoption of the IFRS Accounting Standards, such an approach would take into consideration the modification of any NZ sustainability-related standards for Australian-specific matters or requirements.
- 18 Such an approach has the benefits of being consistent with the [Closer Economic Relations](#) policy and being easily scoped into the Board’s existing [Due Process Framework for Setting Standards](#). That is, the Board could look to work closely with NZ’s XRB as the Board does in its current standard-setting activities. Staff also expect this approach would be the least resource intensive given, like current accounting standards, the NZ climate (or sustainability) reporting standards would be adopted with modification for Australian specific matters or requirements only where relevant.
- 19 However, staff also considered:
- (a) almost all respondents to ITC 46 observed that sustainability reporting includes climate reporting but should not be limited to climate reporting. So far, the XRB is focusing on climate reporting and staff are not certain at this stage the scope of XRB’s planned work regarding the development of standards for other sustainability reporting matters;
 - (b) almost all respondents to ITC 46 highlighted that international alignment should be considered a priority for the Board. While NZ CS1 will be developed based on the TCFD Recommendations, it is unclear at this stage whether the XRB intends to:
 - (i) also align their climate reporting standards with the future ISSB baseline standards or some other leading sustainability reporting standards or frameworks; and
 - (ii) align any future sustainability reporting standards with the future ISSB baseline standards or some other leading sustainability reporting standards or frameworks;
 - (c) sustainability reporting matters that are most relevant to NZ stakeholders may not also be most relevant to Australian stakeholders. That is, should the XRB develop standards for other sustainability reporting matters, it is likely that the XRB will focus on developing standards for sustainability reporting matters that are most relevant to NZ stakeholders, without considering the views of Australian stakeholders.

Approach 3—developing Australian specific sustainability reporting standards

- 20 There are many sustainability reporting standards and frameworks, however a relatively small number are dominant (being the VRF, CDSB, CDP and GRI). Instead of the Board deciding to adopt one or more of such a diverse range of existing sustainability reporting standards and frameworks, the Board could instead develop its own sustainability reporting standards. That is, similar to the EU and NZ jurisdictional perspectives, the Board could develop sustainability reporting standards specifically for the Australian market.
- 21 While such an approach has the benefit of being tailored to meet Australian stakeholder needs, staff do not recommend the Board adopt this approach. This is because:

- (a) almost all respondents to ITC 46 that said the Board should prioritise international alignment and leverage off the work of existing sustainability reporting standard-setters and framework providers. That is, staff consider that, even if the Board were to develop its own sustainability reporting standards, it would likely still need to align to one or more of the leading sustainability reporting standards or frameworks in order to meet Australian stakeholder needs; and
- (b) such an approach would take the longest to develop and likely result in the Australian standard-setting approach falling behind international and jurisdictional perspectives which are already well advanced in many cases. That is, Australian stakeholders would likely look to other standard-setting bodies to meet their needs should the Board take significantly longer than other standard-setters and framework providers to develop appropriate sustainability reporting standards.

Staff recommendation and question to Board members

- 22 Staff agree with those respondents that highlighted the importance of international alignment when developing sustainability reporting requirements for Australia (see paragraph 7). Furthermore, preliminary research by staff highlighted the ongoing demand for globally consistent and comparable sustainability reporting.⁵ Consequently, staff do not recommend that the Board further considers Approach 2 or 3. This is because these approaches are not representative of, and somewhat contradict, the demand for international consistency and comparability. In particular, Approach 2 and 3 do not prioritise international alignment.
- 23 Despite the considerations in paragraph 15, staff think Approach 1 would be the best approach for the Board to consider in order to commence its sustainability reporting project. That is, staff recommend the Board consider Approach 1 because staff think that in applying this approach the Board would be best positioned to strike a balance between international alignment, the existing sustainability reporting environment in Australia, and Australian stakeholder needs.⁶

Question to Board members

Q1: Do Board members agree with the staff recommendation in paragraph 23 to, as a starting point for developing the preliminary sustainability reporting project plan, use ISSB standards as a basis, with modification for Australian matters and requirements?

Initial scope of the sustainability reporting project

- 24 Almost all respondents to ITC 46 from the not-for-profit sectors commented that sustainability reporting requirements should first be developed for the for-profit sector.
- 25 A few other respondents to ITC 46 that were not supportive of mandating sustainability reporting observed that SME entities (in both for-profit and not-for-profit sectors) already find the current financial reporting requirements to be burdensome and that mandating sustainability reporting requirements would unduly burden those entities.

⁵ See the December 2021 AASB and AUASB Joint Staff Article on [Globally consistent reporting of sustainability-related information: Australian perspectives](#)

⁶ Note that staff are not wholly dismissing approaches 2 and 3. For example, regardless of which approach the Board decides to consider further, staff are planning on working closely with the NZ XRB to learn from their experience in developing climate-related disclosure standards.

- 26 Staff considered the scope of reporting for:
- (a) whether the Board should consider a phased-in approach for developing sustainability reporting standards—that is, whether the Board should initially focus the scope of sustainability reporting on for-profit entities listed on the Australian Stock Exchange (ASX) and later expanded to other for-profit entities (see paragraphs 27-30);
 - (b) whether sustainability reporting requirements for the not-for-profit sectors should be developed alongside (i.e. at the same time as) requirements for the for-profit sector (see paragraphs 31-34).

Scope of sustainability reporting—phased approach in the for-profit sector

- 27 In considering the initial scope of the project, staff considered limiting the intended users of sustainability reporting standards to for-profit entities listed on the ASX only. That is, approaching sustainability reporting by considering a phased approach which would see the scope of sustainability reporting initially focus only on ASX listed entities before later being expanded to other for-profit entities. For example, by initially limiting the entities affected by sustainability reporting standards, the Board could refine sustainability reporting requirements before expanding the scope of those standards to other for-profit entities.
- 28 However, staff considered such an approach would not wholly address the concerns that a few respondents to ITC 46 had regarding the burden of reporting for SME entities in the for-profit sector given that there are many SME entities listed on the ASX.
- 29 Furthermore, staff think limiting the initial scope of the sustainability reporting project would:
- (a) mean that entities outside that scope that want to engage in sustainability reporting may look to other sustainability reporting standard-setting bodies or framework providers for requirements and guidance in the interim. Such standard-setting bodies and framework providers may have contradicting requirements to those that may be developed for Australia and, as result, could have the unintended consequence of worsening consistency and comparability in sustainability reporting rather than improving it;
 - (b) limit the ability of larger (or listed) for-profit entities to disclose sustainability-related information in the interim. That is, sustainability reporting is generally holistic (i.e. it generally requires an entity to have a comprehensive understanding of the impacts of their up-stream and down-stream activities) and, as such, larger entities rely on SME entities they engage with throughout their supply chain to provide them with sustainability-related information. For example, in the context of a large entity's single supply chain, the Scope 1 and 2 greenhouse gas (GHG) emissions of smaller entities in that supply chain are essentially the Scope 3 GHG emissions of the large entity; and
 - (c) discourage those entities that fall outside that scope from engaging in sustainability reporting in the interim.
- 30 Staff think the more entities that elect to engage in sustainability reporting, the better, as this will help ensure the long term success of sustainability reporting in Australia. Consequently, staff do not recommend initially limiting the scope of the sustainability reporting to the for-profit sector at this stage. Instead, we recommend that, at a later stage, the Board consider alternatives that would help reduce the perceived reporting burden while supporting accessibility of sustainability reporting to all entities. For example, by:

- (a) implementing a similar approach to that of the AASB Standards by introducing tiers of reporting into sustainability standards that align with those tiers in AASB Standards; or
- (b) implementing an ‘if not, why not’ approach to selected sustainability reporting requirements—that is, subject to an explanation of why an entity was unable to provide the required disclosure, allowing smaller entities to opt out of reporting requirements that are considered to be costly in preparing, such as Scope 3 GHG emissions and scenario analysis or modelling⁷.

Scope of the sustainability reporting project for the not-for-profit sectors

- 31 Staff considered developing sustainability reporting requirements for the not-for-profit sectors (both public and private) alongside requirements for the for-profit sector. However, while respondents from all not-for-profit sectors agreed that sustainability reporting is important, respondents from the not-for-profit private sector commented that, for them, sustainability reporting is less relevant. For example, as observed by one respondent to ITC 48, charities have not identified an urgent need for sustainability reporting and suggested the Board further research and consult with the not-for-profit sectors before developing any related reporting requirements.
- 32 A few respondents from the not-for-profit public sector observed that, as part of their engagement with stakeholders (including other public sector bodies and organisations), they already report specific sustainability-related information such as information about GHG emissions and water.
- 33 Staff agree with those respondents that expressed concern over SME entities in the not-for-profit sectors (in particular, the not-for-profit private sector) may be unduly burdened by sustainability reporting requirements. Sustainability reporting is still evolving (as evidenced by recent global developments⁸) and is a relatively new reporting area when compared with financial reporting. Consequently, we think it would be most appropriate to defer the development of sustainability reporting standards for the not-for-profit sectors until:
- (a) sustainability reporting has matured; and
 - (b) the Board has had the opportunity to further research and consult with the not-for-profit sectors regarding the relevance of sustainability reporting.
- 34 However, staff also do not want to discourage those not-for-profit entities that want to engage in sustainability reporting from doing so. Consequently, while staff recommend that sustainability reporting standards should initially be aimed towards entities in the for-profit sector, staff think that input from the not-for-profit sectors should be sought and considered throughout the development of future sustainability reporting standards. We think that by actively continuing to engage with the not-for-profit sectors, future sustainability reporting standards will be best positioned (and drafted) to allow for the expansion of such standards to include the not-for-profit sectors when it is appropriate to do so.

Staff recommendation and question to Board members

- 35 For the reasons discussed in paragraphs 27-34, staff recommend that the Board:
- (a) does not limit the scope of the project to specific for-profit entities, such as ASX listed entities; and

⁷ Note that this is the approach that Canada has proposed—refer to Agenda Paper 3.3 for further details.

⁸ See Agenda Paper 3.2 *Background* and 3.3.

- (b) initially focus the project on sustainability reporting for entities in the for-profit sector; and
- (c) further research and consult with the not-for-profit sectors regarding the relevance of sustainability reporting.

Question to Board members

Q2: Do Board members agree with the staff recommendations in paragraph 35?

Due process considerations

- 36 Should the Board agree with the staff recommendation to develop a separate suite of standards for sustainability reporting, staff think there are two approaches the Board could take when considering due process:
- (a) Approach 1—apply the existing [AASB Due Process Framework for Setting Standards](#) (see paragraphs 37-40); or
 - (b) Approach 2—develop separate due process documents for sustainability reporting (see paragraphs 41-44).

Approach 1—apply the existing AASB Due Process Framework for Setting Standards (Due Process Framework)

37 Most respondents that expressed their support for the Board to expand its activities to include sustainability reporting highlighted the Board’s standard-setting experience and transparent due process as being a reason for that support.

38 As highlighted in paragraph 1.1 of the Due Process Framework, the framework already encompasses the development of external reporting standards such as sustainability reporting standards:

1.1 This Due Process Framework sets out the minimum steps the AASB must take to ensure that the accounting and external reporting standards and guidance it develops, issues and maintains are principles-based, meet the need of external report users and are capable of being assured and enforced.

39 This approach has the benefits of:

- (a) utilising the existing Due Process Framework which most respondents highlighted as being one of the reasons they support the Board commencing a project addressing sustainability reporting in Australia;
- (b) being well understood by a broad range of stakeholders;
- (c) being the approach with the best response time—that is, the Board will be better positioned to react to rapid global developments in sustainability reporting (such as the recent publication of prototype standards from the IFRS Foundation’s Technical Readiness Working Group⁹); and
- (d) being the least resource intensive—that is, the Board will not need to develop (at least initially) a new Due Process Framework specifically for sustainability reporting.

40 However, paragraph 1.3 of the Due Process Framework also states that it only covers Australian Standards based on IASB Standards (or IFRS Accounting Standards) and those developed domestically. That is, the Due Process Framework may need to be amended

⁹ See Agenda Papers 3.2 and 3.3.

depending on whether the Board decides to develop its own sustainability reporting standards (domestically developed) or adopt the standards of another standard-setting body, framework provider or jurisdiction. For example, should the Board decide to adopt the standards of another standard-setting body, this approach would need to include consideration for if and when departure from those standards may be warranted in the Australian context (that is, the Board would need to produce a corresponding Australian standard or identify why the relevant standard is not appropriate in the Australian context).

Approach 2—develop separate due process documents for sustainability reporting

- 41 Staff consider that another option the Board has in its approach to due process for sustainability reporting is to develop separate due process documents.
- 42 Given the feedback that stakeholders are supportive of the existing Due Process Framework, such an approach would likely use that Framework as a basis when developing due process documents for sustainability reporting standards. For example, where appropriate to do so, due process documents for sustainability reporting should align to the existing Due Process Framework because:
- (a) it would better link the Board’s sustainability and financial reporting activities; and
 - (b) most respondents to ITC 46 highlighted the Board’s transparent due process as one of the primary reasons for supporting the Board in developing sustainability reporting requirements for Australia.¹⁰
- 43 This approach has the benefit of using the Board’s previous standard-setting experience to develop tailored due process documents for sustainability reporting—that is, due process documents would be specifically designed to best address the approach the Board decides to take (i.e. whether the Board develops its own sustainability reporting standards or adopts the standards of another standard-setting body, framework provider or jurisdiction).
- 44 However, the Board should also consider that this approach would be more resource intensive than Approach 1 and the outcome would likely be due process documents that predominantly align to the existing Due Process Framework.
- #### **Staff recommendation and question to Board members**
- 45 Staff recommend that the Board applies Approach 1—that is, we recommend that the Board initially applies its existing Due Process Framework when considering the commencement of a project on sustainability reporting.
- 46 While both approaches would ensure a strong relationship between the Board’s sustainability and financial reporting standard-setting activities, staff consider that sustainability reporting is still in its early stages and, as a result, may experience rapid and ongoing changes in the short to medium term. For example, if the Board were to develop due process documents for sustainability reporting, significant changes in the sustainability reporting environment could result in such an approach (or aspects of that approach) being made redundant. Consequently, we think at this stage Approach 1 would be best able to support the project.
- 47 It is important to note that we are not dismissing the potential need for change in the future. For example, as the Board gains experience in standard-setting for sustainability reporting and as sustainability reporting matures globally, the Board may determine that the existing Due Process Framework is not appropriate in the long term and, at that point, may decide to develop separate and more tailored due process documents.

¹⁰ See Agenda Paper 3.4.

Question to Board members

Q3: Do Board members agree with the staff recommendation in paragraph 45 that the Board initially apply its existing Due Process Framework in the commencement of a project on of sustainability reporting?