



Project:	Climate-related Financial Disclosures	Meeting:	AASB August 2023 (M197)
Topic:	Approach to IFRS S1 and IFRS S2 – Not-for-profit considerations	Agenda Item:	10.1
		Date:	24 July 2023
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		Decision-Making:	Medium
		Project Status:	Development of an exposure draft

Objective

- For the purposes of exploring the development of sector-neutral Australian climate-related financial disclosure requirements, the objectives of this agenda item are for the Board to:
 - consider staff analysis and proposals related to modifications to IFRS S2 *Climate-related Disclosures*¹ that would make available for use Australian climate-related financial disclosure requirements for not-for-profit (NFP) entities in the private and public sectors (Agenda Paper 10.2); and
 - consider the approach to take in considering whether to develop climate-related impact reporting requirements or guidance for NFP public sector entities (as discussed in paragraphs 8–14 below).
- Staff will develop an exposure draft for the Australian-equivalent standards to IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 based on the Board’s decisions at its August and 2023 meetings.

Attachments

- Agenda Paper 10.2: Staff suggested modifications to IFRS S1 and IFRS S2 to support sector neutrality
- Agenda Paper 10.3: IPSASB’s Climate-Related Disclosures project brief (in the supplementary folder for the Board’s information)

¹ And IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* where relevant to the application of IFRS S2.

Background

- 3 At its February 2023 meeting, consistent with the scope of the IFRS Sustainability Disclosure Standards,² the Board made a preliminary decision to narrow the scope of the Climate-related Financial Disclosure project to for-profit sector entities initially, with NFP sector entities to be considered at a later stage.³
- 4 However, staff recently observed that:
- (a) there are other government projects working on aspects of climate-related disclosure requirements for NFP public sector entities and recommended that the Board seek to align related requirements wherever possible;⁴ and
 - (b) given the whole-of-value-chain concepts and requirements in IFRS S1 and IFRS S2, it is likely that for-profit entities would be requiring NFP entities to provide data consistent with the requirements in IFRS S1 and IFRS S2 in order to comply with those Standards.
- 5 Such an approach would support the consistent and comparable reporting of climate-related financial information across multiple sectors of the Australian economy. Consequently, at its June 2023 meeting the Board decided to expand the scope of the Climate-related Financial Disclosure project, previously limited to the for-profit sector, to explore the development of sector-neutral Australian climate-related financial disclosure requirements.⁵
- 6 Accordingly, staff have prepared Agenda Paper 10.2 to assist the Board to consider whether, and if so how, the concepts, descriptions and requirements underlying IFRS S1 and IFRS S2 could be amended to support the application of climate-related financial disclosure requirements for NFP entities in the private and public sectors in Australia, while maintaining alignment with the baseline of IFRS S2.

Basis of staff analysis

- 7 The staff analysis in Agenda Paper 10.2 and staff views noted in paragraphs 8–14 below include consideration of the following primary documents:⁶
- (a) [joint AASB and AUASB comment letter](#) to the ISSB. In July 2022, the Board submitted a comment letter to the ISSB jointly with the AUASB responding to the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2. While the response does not specifically highlight NFP sector-specific issues, the comment letter raised a number of considerations that are relevant for all sectors, not only for-profit sectors (for example, consideration relating to the scalability of IFRS Sustainability Disclosure Standards);
 - (b) [submission letter](#) from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) on ED 321 *Request for Comment on ISSB [Draft] IFRS S1*

2 Paragraph 9 of IFRS S1 General Requirements for Disclosures of Sustainability-related Financial Information states that: (a) IFRS Sustainability Disclosure Standards use terminology suitable for profit-oriented entities, including public-sector business entities; and (b) entities with NFP activities in the private sector or the public sector might need to amend the descriptions used for particular items of information when applying those Standards.

3 See [February 2023 AASB Meeting Minutes](#).

4 See June 2023 [Agenda Paper 3.0 Climate-related Financial Disclosure—Scope of the Climate-related Financial Disclosure project](#).

5 See [June 2023 AASB Action Alert](#).

6 Note that staff have also considered informal feedback from NFP sector stakeholders received as part of the Board's outreach activities on ED 321.

General Requirements for Disclosure of Sustainability-related Financial Information *and [Draft] IFRS S2 Climate-related Disclosures*;

- (c) [joint FRC, AASB and AUASB comment letter](#) to the IPSASB. In September 2022, the Board submitted a comment letter to the IPSASB jointly with the FRC and the AUASB responding to the IPSASB Consultation Paper (CP) [Advancing Public Sector Sustainability Reporting](#). That comment letter included public-sector-specific issues that the Board considered necessary for a standard-setter to consider in developing global public-sector-specific sustainability reporting guidance;
- (d) submission letters the IPSASB received from other Australian stakeholders on its CP:
 - (i) [submission letter](#) from HoTARAC;
 - (ii) [submission letter](#) from the Australasian Council of Auditors-General (ACAG); and
 - (iii) [joint submission letter](#) from Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia;
- (e) [AASB Not-for-Profit Entity Standard-Setting Framework](#);⁷ and
- (f) [Framework for the Preparation and Presentation of Financial Statements](#), the Conceptual Framework applicable to NFP entities in the private and public sectors; and
- (g) submissions the Treasury of the Australian Government received on its first Consultation Paper [Climate-related Financial Disclosure](#) (December 2022) from preparers of public sector entities' financial statements:
 - (i) [submission letter](#) from HoTARAC;
 - (ii) [submission letter](#) from Local Government Association of Queensland; and
 - (iii) [submission letter](#) from Logan City Council (QLD).

Climate-related impact reporting for NFP public sector entities

- 8 The requirements of IFRS S2 are limited to disclosing information in an entity's general purpose financial reports about climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (i.e. entity-specific climate-related financial disclosures). However, Australian stakeholders noted in paragraphs 7(b), 7(d) and 7(g) have expressed the view that users of NFP public sector entity's financial reports are likely to focus on how climate-related risks and opportunities, and governments' actions related to those risks and opportunities, would affect the Australian economy, environment and people.
- 9 Therefore, staff consider merit in exploring whether the scope of the Board's Climate-related Financial Disclosures project can be expanded to develop requirements or guidance for NFP public sector entities to report the effect of climate-related risks and opportunities, and related government policies, on the economy, environment and people, which is not addressed in

7 At its March 2023 meeting, the Board approved a [draft Sustainability Reporting Standard-Setting Framework](#) developed based on its existing Standard-Setting Frameworks for setting Accounting Standards. The Board decided to pilot that draft Framework (subject to the review process by the Board's subcommittee) in conjunction with the Exposure Draft on climate-related financial disclosures. This draft Standard-Setting Framework has been considered as part of these Agenda Papers.

IFRS S2. For ease of reference in this paper, staff refer to this type of reporting as “climate-related impact reporting”.

- 10 Staff consider that input from stakeholders on the following matters would be needed in considering the scope of the climate-related impact reporting work, including:
- (a) whether and how public sector reports should provide information for users to understand how a government manages public funds in achieving its climate-related objectives, and how successful a government’s policies are in driving behavioural change in its community in addressing climate-related issues;⁸
 - (b) further to point (a), whether climate-related impact reporting should be done on an individual climate-related policy level or at a whole-of-government level (or at a department or entity level), or both;
 - (c) whether and how public sector reports should provide information for users to understand the different roles and responsibilities each level of government has in addressing climate-related risk and opportunities in Australia, including how each level of government work together to drive positive climate-related outcomes. For example, staff observed:
 - (i) the federal government sets the national objective (e.g. to achieve net zero emissions by 2050) and enters into bilateral agreements with each state and territory government to assess environmental impacts on certain animals, plants, habitat and places located in a state or territory (e.g. national heritage places and water resources that relate to coal seam gas development and large coal mining development);⁹
 - (ii) each state and territory government sets legislation and policies that govern individuals and entities, including local governments, in its jurisdiction with the aim of achieving the national objectives set by the federal government; and
 - (iii) local governments act as a co-regulator with the Environmental Protection Agency established by the relevant state or territory government¹⁰ to promote pollution prevention, including air pollution caused by greenhouse gas emissions;
 - (d) the frequency of climate-related impact reporting – in some states and territories, the government publishes climate-related impact assessments every five years; it might be onerous for those entities to prepare the same assessment on a yearly basis when it is uncertain that users would be interested in, and take action on, all the in-depth analysis on a yearly basis. Given the longer-term horizon of climate change, there might not be significant movements on the impact on the economy, environment and community on a yearly basis; therefore, there might be arguments for preparing such impact reporting less frequently than yearly;
 - (e) timing of climate-related impact reporting – entities may not have the available resources to prepare such impact reporting at the same time as the financial statements. It might also create information overload for users; and

8 In the joint comment letter to the IPSASB (noted in paragraph 7(c)), it was noted that public sector entities’ sustainability reports should be required to provide such information.

9 See <https://www.dcceew.gov.au/environment/epbc/approvals/state-assessments>

10 Each state and territory government established an Environment Protection Agency as part of the bilateral agreement with the federal government.

- (f) whether there are commonalities in the current climate-related impact reporting prepared by different governments and local councils that the Board could consider as a starting point for developing climate-related impact reporting requirements or guidance.
- 11 Staff observed the IPSASB noted in its [Climate-Related Disclosures project brief](#) (Agenda Paper 10.3 in the supplementary folder) that it plans to consider most of the above issues in its project. The IPSASB plans to develop a standard that would address both:
- (a) climate-related financial disclosures (using IFRS S2 as the baseline); and
- (b) climate-related impact reporting (by drawing information from the Global Reporting Initiative's (GRI) Standards).
- 12 Paragraph 7.2 of that project brief outlines a projected timetable for the IPSASB's project, as follows:

Expected Completion		Major Project Milestone
2023	June	Approval of Project Brief
2024	June	Approval of Exposure Draft
2024	October	End of ED comment period (four months)
2025	H2	Approval of Final Standard

- 13 Staff recommend the Board:
- (a) for the reasons outlined in paragraphs 3–5, proceed to exploring the development of sector-neutral Australian climate-related **financial disclosure** requirements (discussed in Agenda Paper 10.2) without waiting for the IPSASB's project; but
- (b) defer consideration of whether to undertake a domestic standard-setting project to develop Australian climate-related **impact reporting** requirements until it has considered the results of the IPSASB's project. Staff recommend the Board formally respond to the IPSASB's forthcoming exposure draft, and exposing the exposure draft in Australia and engaging with stakeholders to discuss the IPSASB's proposals.
- 14 Staff recommend this approach because:
- (a) the IPSASB's forthcoming exposure draft on climate-related disclosures would be considered a significant consultation document that the Board would formally respond to in accordance with its policy;¹¹
- (b) based on comments from Australian stakeholders noted in paragraph 7(d), stakeholders would prefer Australian NFP public sector climate-related disclosure requirements be consistent with relevant global requirements where possible;
- (c) obtaining feedback from stakeholders on the IPSASB's proposals would likely provide sufficient information for the Board to decide whether there is a need to undertake a domestic standard-setting project to develop climate-related impact reporting requirements for Australian NFP public sector entities. Those stakeholder feedback

11 Paragraph 20 of the Board's policy document [The AASB's Approach to International Public Sector Accounting Standards](#) states: "The AASB will make formal submissions to the IPSASB in response to significant consultation documents issued by the IPSASB (such as Consultation Papers and Exposure Drafts) where there is no equivalent IFRS Standard or a known gap or practice issue in public sector accounting, or the document addresses a transaction or issue prevalent and significant to the public sector."

would also assist in determining the scope of the domestic project, if the Board decides to undertake one, without the need to issue an Australian consultative document; and

- (d) due to staff resource constraints, even if the Board decides to undertake a domestic project to develop Australian climate-related impact reporting requirements immediately without waiting for the IPSASB, it is unlikely that the Board would be able to complete its standard-setting work on climate-related impact reporting earlier than the IPSASB's proposed timetable outlined in paragraph 11.

Questions for Board members

- Q1: Do Board members agree with the staff recommendation to defer consideration of whether to undertake a domestic standard-setting project to develop Australian climate-related impact reporting requirements until it has considered the results of the IPSASB's Climate-Related Disclosures project?
- Q2: If the Board agrees with the staff recommendation in Question 1, do Board members agree with the staff recommendation to formally respond to the IPSASB's forthcoming exposure draft, and exposing the exposure draft in Australia and engaging with stakeholders to discuss the IPSASB's proposals? (If the Board agrees, this will add consideration of the IPSASB's exposure draft to the work program as a priority project in 2024.)