



<b>Project:</b>	<b>Sustainability Reporting</b>	<b>Meeting</b>	AASB February 2023 (M193)
<b>Topic:</b>	<b>[Draft] Sustainability reporting standard-setting framework</b>	<b>Agenda Item:</b>	5.4
		<b>Date:</b>	23 January 2023
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Initial consideration of a draft standard-setting framework

## Objective

- 1 The objective of this paper is for the Board to:
  - (a) commence the development of a draft sustainability reporting standard-setting framework; and
  - (b) agree on the criteria staff and the Board will apply when identifying when it is appropriate to depart from the proposed baseline of standards issued by the International Sustainability Standards Board (ISSB).

## Structure

- 2 This paper is structured as follows:
  - (a) Summary of staff recommendations (paragraphs 3-5)
  - (b) Background (paragraphs 6-8)
  - (c) Basis of a [draft] sustainability reporting standard-setting framework (paragraphs 9-12)
  - (d) Criteria for departing from IFRS Sustainability Disclosure Standards (paragraphs 13-16)
  - (e) Next steps (paragraph 17).

## Summary of staff recommendations

- 3 Consistent with the Climate-related Financial Reporting plan (see Agenda Paper 5.3), the purpose of developing a [draft] sustainability reporting standard-setting framework is to help mitigate the risk of reputational damage to the Board should it develop climate-related financial reporting requirements without a transparent and documented framework / process in place.

- 4 Staff intend that a sustainability reporting standard-setting framework be developed as a draft initially. This will mean that the draft sustainability reporting standard-setting framework will be piloted, and publicly consulted, on as part of the Board’s development of climate-related financial reporting requirements. Based on lessons learned from this process, as well as taking into consideration any future decisions of the Board on its broader Sustainability Reporting project, the staff will then seek to update the [draft] sustainability reporting standard-setting framework.
- 5 To help staff develop a draft sustainability reporting standard-setting framework, we recommend the Board:
- (a) use the [AASB For-Profit Entity Standard-Setting Framework](#) as the basis for developing a such a framework (see paragraphs 9-12);
  - (b) apply the following criteria to identify when it is appropriate to depart from the baseline of IFRS Sustainability Disclosure Standards (see paragraphs 13-16):
    - (i) the requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers;
    - (ii) the requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment (or conflict with global sustainability reporting practices or standards);
    - (iii) the Board identifies equivalent disclosure requirements in existing Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards;
    - (iv) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice; and
    - (v) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs and/or time when compared with international counterparts.

## Background

- 6 In responding to [ITC 46 AASB Agenda Consultation 2022-2026](#), most respondents said they were supportive of the Board addressing sustainability reporting due to the Board’s extensive standard-setting experience and transparent due process. In particular, these respondents highlighted the Board’s existing frameworks and processes<sup>1</sup> for developing high-quality accounting standards.<sup>2</sup> In acknowledgment of that feedback, one of the Board’s preliminary decisions on the Sustainability Reporting project has been to utilise the existing accounting standard-setting frameworks and processes until such a time as it become necessary to develop standard-setting frameworks and processes to address the development of sustainability reporting requirements.

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<sup>1</sup> See the Board’s existing Standard-Setting Policies & Processes at: <https://www.aasb.gov.au/about-the-aasb/standard-setting-policies-processes/>

<sup>2</sup> See February 2022 (M185) [Agenda Paper 3.4 Sustainability Reporting: Feedback summary—ITC 46 AASB Agenda Consultation 2022-2026](#).

- 7 The Treasury has signalled that, in addition to its accounting standards-setting function, the Board may also be charged with developing sustainability reporting standards for Australia. The Treasury has also signalled that climate-related financial reporting will be the first sustainability reporting topic that will be addressed, and that this topic will be addressed in the short-term.<sup>3</sup>
- 8 Similar to its accounting standard-setting activity, having established frameworks and processes to guide its sustainability reporting standard-setting activity will help ensure that the Board's issued Australian sustainability reporting requirements are robust, consistent, and fit for purpose. Consequently, this paper seeks to commence Board discussion on developing a draft sustainability reporting standard-setting framework.

### **Basis of a draft sustainability reporting standard-setting framework**

- 9 Staff are of the view that the most appropriate starting point for developing a sustainability reporting standard-setting framework is the AASB For-Profit Entity Standard-Setting Framework because such an approach is consistent with:
- (a) the feedback to ITC 46 which highlighted Australian stakeholder support for the Board's existing accounting standard-setting frameworks and processes (see paragraph 6);
  - (b) the Board's preliminary decision to focus on the for-profit sector initially and address sustainability reporting in the not-for-profit sector at a later stage;<sup>4</sup> and
  - (c) the [Australian Government's Budget October 2022-23](#) which allocated funding to the AASB for the purpose of developing climate-related financial reporting requirements for large for-profit entities and financial institutions.
- 10 Using the AASB For-Profit Entity Standard-Setting Framework as a baseline, staff plan to develop amendments that are necessary to address the development of sustainability reporting requirements in Australia. In particular, staff will base these amendments on:
- (a) the Board's preliminary decisions on the Sustainability Reporting project;<sup>4</sup> and
  - (b) the [\[draft\] Sustainability Reporting project plan](#) which the Board agreed to implement at its May 2022 (M187) meeting.<sup>5</sup>

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

- 11 Staff recommend that the Board use the AASB For-Profit Entity Standard-Setting Framework as the basis for developing a [draft] sustainability reporting standard-setting framework.
- 12 Note that at this stage, staff plan to continue to apply the [AASB Evidence-Informed Standard-Setting Framework](#) and the [AASB Due Process Framework for Setting Standards](#) as they already broadly make reference to external reporting (which includes sustainability reporting). However, we also note that in future the Board may want to update these to explicitly make reference to its sustainability reporting standard-setting activity, or

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<sup>3</sup> See Treasury's recent public consultations on [Empowering the AASB to deliver sustainability standards](#) (the comment period for which closed 16 December 2022) and [Climate-related financial disclosure](#) (the comment period for which closes 17 February 2023).

<sup>4</sup> See Agenda Paper 5.1 for an overview of the Board's preliminary decisions on the Sustainability Reporting project.

<sup>5</sup> See the [May 2022 \(M187\) Action Alert](#).

alternatively develop a separate evidence-informed standard-setting framework and due process framework specifically for sustainability reporting.

#### Questions to Board members

**Q1:** Do Board members agree with staff's proposed approach to use the AASB For-Profit Entity Standard-Setting Framework as the basis for developing a [draft] sustainability reporting standard-setting framework?

**Q2:** In developing a [draft] sustainability reporting standard-setting framework, do Board members want staff to consider any other elements from its other accounting standard-setting frameworks and processes such as the [AASB Not-For-Profit Entity Standard-Setting Framework](#) and [AASB's Approach to International Public Sector Accounting Standards](#)?

### Criteria for departing from IFRS Sustainability Disclosure Standards

- 13 Feedback to ITC 46 and [ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Information and \[Draft\] IFRS S2 Climate-related Disclosures](#) highlighted the importance of achieving international alignment in sustainability reporting. However, there is still no global consensus on the ongoing work of the ISSB. As a result, there continues to be mixed views about how international alignment can be achieved by the Board and whether the Board should be looking to the ISSB or to another international sustainability reporting standard-setter such as the Global Reporting Initiative (GRI).<sup>6</sup>
- 14 While staff agree with the Board's preliminary decision to use the work of the ISSB as a baseline for its work on developing sustainability reporting requirements, we are also of the view that at this stage the ISSB (and as a result the IFRS Sustainability Disclosure Standards) could be considered an experiment as global consensus on sustainability reporting has yet to be achieved. Consequently, unlike in the Board's accounting standard-setting activity, for sustainability reporting there will likely be circumstances where the baseline of IFRS Sustainability Disclosure Standards may need to be amended or modified to meet the needs of Australian stakeholders and achieve international alignment. This might be the case if the requirements in IFRS Sustainability Disclosure Standards:
- (a) do not achieve global consensus—for example:
    - (i) if jurisdictions with significant international and economic influence do not adopt IFRS Sustainability Disclosure Standards, or develop related requirements that do not align with requirements in IFRS Sustainability Disclosure Standards, the Board may need to consider how best to achieve international alignment; and
    - (ii) consistent with the [Trans-Tasman Harmonisation Policy](#), if requirements in IFRS Sustainability Disclosure Standards conflict with related requirements developed by the New Zealand External Reporting Board (NZ XRB), the Board

<sup>6</sup> See February 2022 (M185) [Agenda Paper 3.4 Sustainability Reporting: Feedback summary—ITC 46 AASB Agenda Consultation 2022-2026](#) and November 2022 (M191) [Agenda Paper 3.2.2 Sustainability Reporting: Feedback summary—ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#).

may need to consider how best to harmonise Australian requirements with those developed by the NZ XRB;

- (b) are regarded by Australian stakeholders as too complex or costly to be effectively implemented by Australian entities—for example, where the anticipated cost of disclosing certain sustainability-related information outweighs the benefits;
- (c) are so non-complementary to Australian-specific matters or legislation that alignment with the baseline is not possible—for example, where requirements in IFRS Sustainability Disclosure Standards:
  - (i) conflict with existing best practice, legislation or guidance in Australia; or
  - (ii) do not appropriately meet the needs of Australian stakeholders;
- (d) cannot be implemented by Australian stakeholders in the timeframe required by IFRS Sustainability Disclosure Standards.

15 Staff are of the view that a consistent and documented approach to identifying when it would be appropriate for the Board to depart from the baseline of IFRS Sustainability Disclosure Standards is a necessary part of maintaining the Board's reputation for developing high-quality external reporting and accounting standards in Australia. Consequently, staff have identified the following criteria for departing from the baseline of IFRS Sustainability Disclosure Standards that should be included in a [draft] sustainability reporting standard-setting framework:

- (a) the requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers, for example, because similar Australian requirements that are more stringent already exist;
- (b) the requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or conflict with global sustainability reporting practices or standards;
- (c) the Board identifies equivalent disclosure requirements in existing Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards. In making this assessment, the Board would consider relevant Australian legislation such as, but not limited to:
  - (i) the National Greenhouse and Energy Reporting Act 2007 and National Greenhouse and Energy Measurement Determination 2008;
  - (ii) Water Act 2007;
  - (iii) Modern Slavery Act 2018; and
  - (iv) Workplace Gender Equality Act 2012;
- (d) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice warranting Australian-specific requirements or guidance;
- (e) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs and/or time when compared with international counterparts, warranting deferral of the application date.

- 16 Note that the criteria are intended to act as guidelines only and are not intended to make the Board depart from the baseline even if it concludes that overall, the benefits of aligning to requirements in IFRS Sustainability Disclosure Standards outweigh the costs of doing so.

**Questions to Board members**

**Q3:** Do Board members agree with the proposed criteria for departing from the baseline of IFRS Sustainability Disclosure Standards in paragraph 15?

**Q4:** Do Board members have any additional criteria to those listed in paragraph 15 that should be considered when deciding whether to depart from the baseline of IFRS Sustainability Disclosure Standards?

**Next steps**

- 17 Staff plan to bring a [draft] sustainability reporting standard-setting framework to the Board for discussion in the March 2023 meeting.