



## Australia's first climate standards: no more waiting

With the release of Australia's climate exposure draft, entities now have a clearer picture of what to prepare for reporting from 1 July 2024

On 23 October 2023, the Australian Accounting Standards Board (AASB) released **Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (Climate ED)**. In this publication, **we outline the key differences between the Australian proposals and their international equivalents** on which they were based. In summary:

- The Climate ED contains three proposed Australian Sustainability Reporting Standards (ASRSs); ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, ASRS 2 *Climate-related Financial Disclosures* and ASRS 101 *References in Australian Sustainability Reporting Standards*
- The proposed ASRSs are based on the International Sustainability Standards Board's (ISSB) IFRS S1 and IFRS S2 with Australian amendments to **focus on climate first, apply an Australian contextual lens, meet Federal government policy and make the standards sector neutral**
- The AASB is proposing the standards would apply to financial reporting periods commencing 1 July 2024. Scoping and timing will however be determined by the Federal Government
- The Climate ED is open for feedback and comment until 1 March 2024. We encourage you to provide feedback to the AASB.

“We applaud the efforts of the AASB in drafting Australia's first climate reporting standards which we believe will drive more transparency for shareholders. While based on the ISSB standards, we recognise that they contain proposed changes for the Australian context”

**Joanne Gorton**  
Managing Partner, Audit & Assurance

## What's happening

The recently released AASB Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (Climate ED) outlines the proposed implementation of climate-related financial disclosure in Australia in the context of the proposed Federal Government policy and previous feedback from Commonwealth Treasury consultations.

The Climate ED proposes **three** Australian Sustainability Reporting Standards (ASRSs):



**ASRS 1 General Requirements for Disclosure of Climate-related Financial Information**, which is based on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. Consistent with previous AASB decisions and Government policy, this proposed standard has been “climatised” to only apply to climate-related financial disclosures only



**ASRS 2 Climate-related Financial Disclosures, which is based on IFRS S2 Climate-related Disclosures**. The scope of this proposed standard is limited to climate-related risks and opportunities related to climate change and does not include other climate-related emissions that are not greenhouse gas (GHG) emissions



**ASRS 101 References in Australian Sustainability Reporting Standards**, which is proposed to operate as a ‘service standard’ to give legal effect to references to various other documents such as the GHG Protocol and Australian and New Zealand Standard Industrial Classification (ANZSIC) (in a similar way to how AASB 1048 *Interpretation of Standards* operates for Australian Accounting Standards).



## Australian focused standards

As an overview, the following themes are evident in the Climate ED:



### Focus on climate first

- The scope of the Climate ED is limited to climate-related financial disclosures only, unlike IFRS S1 which more broadly addresses sustainability-related financial disclosures. The wording in IFRS S1 has been “climatised” to achieve this outcome
- As a result, a significant proportion of disclosures would be identical between ASRS 1 and ASRS 2 (particularly across the governance, strategy and risk management sections) and so the proposals delete the duplicate requirements in ASRS 2 and rather cross-reference to those disclosures in ASRS 1. This means that entities will need to reference both ASRS 1 and ASRS 2 to determine the disclosures required
- It is likely that entities complying only with the requirements of ASRSs will not be able to make a statement of compliance with ISSB Standards.



### Australian focus

- The Climate ED prioritises certain Australian requirements over international requirements. For instance, *National Greenhouse and Energy Reporting Act 2007* (NGER) legislation methodologies should be prioritised for the calculation of scope 1 and 2 greenhouse gas (GHG) emissions instead of the GHG Protocol

In addition to “climatising” the international IFRS S1 standard, duplicate requirements of ASRS 1 have been removed from ASRS 2

Entities should be aware that they will need to reference both standards to determine the required disclosures

**Australian focus (continued)**

- Further, if entities elect to disclose industry-specific metrics under ASRS 2, the entity should consider well-established and understood metrics associated with particular business models, activities or other features that characterise participation in the same industry grouping, as classified according to ANZSIC<sup>1</sup> classifications rather than the Sustainability Accounting Standards Board (SASB) industry classifications contained in the industry-based guidance of the ISSB standards. Further, all references to the SASB standards have been removed from the Climate ED
- As certain Australian carbon credit units (ACCU) are not “uniquely serialised” under the Australian Carbon Credit Unit Scheme, the AASB has modified the definition of “carbon credit” to include credits under the scheme.



**Meeting Federal Government policy**

- Consistent with Treasury’s consultations on climate reporting, the Climate ED requires climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022* (i.e. 1.5°C above pre-industrial levels)
- Further, it proposes the disclosure of market-based<sup>2</sup> scope 2 greenhouse gas emissions in addition to its location-based emissions (with transitional relief for the first three reporting periods)
- The AASB however decided not to include a requirement for a detailed index table suggested by Treasury’s recent consultation, instead including a more general requirement to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures.



**Sector neutrality**

- The Climate ED contains additional guidance and provisions to make IFRS S1 and IFRS S2 operative for not-for-profit entities and seeks feedback from those entities on various proposals.

**Commonwealth Treasury proposals**

Notably, the Climate ED has been released before any further announcement from Treasury, or feedback on Treasury’s most **recent consultation** (from June 2023). These proposals are summarised in our **Clarity publication**. The Basis of Conclusions provides some insight into the way forward for implementation, noting “Treasury staff informed AASB staff that the Australian Government is planning to publish a policy announcement after October 2023” providing more information about proposed legislative changes and policy settings for climate-related financial disclosure.

Critically, the Basis of Conclusions also notes that the “policy announcement may supersede some elements of prior Government announcements”, which foreshadows the possibility that the scope or timing of mandatory climate-related financial disclosures may change from the recent consultation. Consequently, the Climate ED notes that its proposals are similarly subject to change based on the anticipated Australian government policy announcement, exposure draft legislation and final amendments to the legislation.

<sup>1</sup> The Australian Bureau of Statistics’ [Australian and New Zealand Standard Industrial Classification \(ANZSIC\)](#)

<sup>2</sup> The disclosure of market-based scope 2 emissions is only proposed to apply to entities that are required to prepare climate-related financial disclosures by the *Corporations Act 2001* (and so would not apply to other entities that are required to, or choose to, comply with ASRS 2). The Climate ED proposes that for the first three annual reporting periods in which an entity applies ASRS 2, the entity would not be required to disclose market-based scope 2 GHG emissions (similarly, comparative information related to those periods would not be required).

## Comparison to global standards

The Climate ED contains tables outlining the differences between the proposed ASRS 1 and ASRS 2 and IFRS S1 and IFRS S2, which are summarised in the tables below.

### Differences between IFRS S1 and proposed ASRS 1

IFRS S1	Proposed ASRS 1	Rationale for modification
<b>Application</b>		
Terminology focused on the for-profit sector	Includes terminology applicable to not-for-profit entities	Sector neutrality
<b>Scope</b>		
Applies to sustainability-related financial information	Applies only to climate-related financial information	Consistent with Government policy to focus on “climate first”
No explicit requirement to make disclosures where the entity determines it has <i>no</i> material climate-related risks and opportunities	Contains explicit disclosures where the entity determines it has <i>no</i> material climate-related risks and opportunities	Considered to be useful information for users
<b>Sources of guidance</b>		
In identifying relevant sources of guidance to refer to in the absence of an applicable IFRS Sustainability Disclosure Standard, requires the application of SASB Standards.	Where an entity elects to provide industry-based disclosures, the entity considers “well established and understood metrics” in the same industry (classified in accordance with ANZSIC)	The AASB decided not to include references to the SASB Standards or industry-based guidance accompanying IFRS S2 until the content has been comprehensively internationalised by the ISSB and undergone AASB due process
<b>Location of disclosures</b>		
Requires identification of the report within which climate-related financial information is located	Information must be provided in a manner that enables users to locate its disclosures in accordance with ASRS Standards	To make it easier for users to locate climate-related financial disclosures
<b>Timing of reporting</b>		
Gives an example of an entity preparing climate-related financial information for a period other than 12 months and addresses interim reporting	Specifies that entities should use the same reporting period for climate-related financial information and financial statements and does not address interim reporting	To avoid confusion by stakeholders

### Differences between IFRS S2 and proposed ASRS 2

IFRS S2	Proposed ASRS 2	Rationale for modification
<b>Interaction with other pronouncements</b>		
Includes requirements related to general disclosures on governance, strategy and risk management identical to the requirements in IFRS S1	Cross referenced to ASRS S1 rather than duplicating the requirements	To avoid duplication
<b>Application</b>		
Terminology focused on the for-profit sector	Terminology focused on the not-for-profit sector	Sector neutrality
<b>Scope</b>		
Applies to climate-related risks and opportunities	Applies to climate-related risks and opportunities in relation to climate change only	To clarify that ASRS 2 does not apply to climate-related emissions other than GHG emissions. The Climate ED specifically notes that ASRS 2 does not replace any existing legislative requirements related to other sustainability related topics (e.g. water and biodiversity)

**Differences between IFRS S2 and proposed ASRS 2 (continued)**

<b>IFRS S2</b>	<b>Proposed ASRS 2</b>	<b>Rationale for modification</b>
<b>Climate resilience</b>		
Requires climate-related scenario analysis to assess climate resilience commensurate with the entity's circumstances	Requires resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set in the <i>Climate Change Act 2022</i> (i.e. 1.5°C above pre-industrial levels) <sup>3</sup>	Specifying the minimum number of scenarios and the lower-temperature scenario to assess against to ensure comparability across entities
<b>GHG emissions</b>		
Requires conversion of GHGs into a CO <sub>2</sub> equivalent value based on the latest Intergovernmental Panel on Climate Change (IPCC) assessment guidance (i.e. the 6 <sup>th</sup> IPCC assessment report)	Requires conversion of GHG's into a CO <sub>2</sub> equivalent value using the same IPCC assessment report referred to in the <i>National Greenhouse and Energy Reporting Act 2007</i> and associated regulations (NGER) and the Paris Agreement (i.e. the 5 <sup>th</sup> IPCC assessment report)	Avoids regulatory burdens for Australian entities that would be required to use Global Warming Potential (GWP) values based on the IPCC 5 <sup>th</sup> assessment report under the NGER scheme legislation
Permits the use of a method other than the GHG Protocol when required to do so by a jurisdictional authority or an exchange on which the entity is listed	Requires the prioritisation of relevant methodologies under NGER before referring to other GHG measurement methods	To align with the proposals in Treasury's second consultation
Requires the disclosure of location-based scope 2 GHG emissions	Requires the disclosure of market-based scope 2 GHG emissions in addition to location-based measures <sup>4</sup>	To align with the proposals in Treasury's second consultation
When certain conditions are met, permits the measurement of GHG emissions using information from periods that are different from its own reporting period	Scope 3 GHG emissions can be measured using data for the immediately preceding period where information is not available without undue cost or effort	To align with the proposals in Treasury's second consultation
Requires an entity to disclose the sources of its scope 3 emissions under the 15 categories taken from the GHG Protocol	Includes the 15 categories as examples that an entity could consider when disclosing sources of its scope 3 emissions (rather than requiring disclosure in accordance with the 15 categories)	The 15 categories are not referenced in the IPCC guidelines or the Paris Agreement and concerns about international alignment
Requires entities participating in asset management, commercial banking or insurance activities to make additional disclosures of its financed emissions in accordance with the GHG Protocol	Requires those entities to consider the applicability of those additional disclosures related to its financed emissions	To support sector neutrality and align the financed emissions paragraphs with the GHG Protocol regarding measurement of GHG emissions
<b>Industry-based metrics</b>		
In identifying industry-based metrics to disclose, requires an entity to apply the SASB Standards and consider industry-based metrics adapted from the SASB Standards	Requires an entity electing to make industry-based disclosures to consider industry-based metrics disclosed by entities operating in the same industry (as classified using ANZSIC)	The AASB decided not include the industry-based guidance accompanying IFRS S2 until the content has been comprehensively internationalised by the ISSB and undergone AASB due process

<sup>3</sup> The requirement for resilience assessment against at least two possible future states would only apply to entities required to prepare climate-related financial disclosures by the *Corporations Act 2001* (and so would not apply to other entities that are required to, or choose to, comply with ASRS 2).

<sup>4</sup> The disclosure of market-based scope 2 emissions is only proposed to apply to entities that are required to prepare climate-related financial disclosures by the *Corporations Act 2001* (and so would not apply to other entities that are required to, or choose to, comply with ASRS 2). The Climate ED proposes that for the first three annual reporting periods in which an entity applies ASRS 2, the entity would not be required to disclose market-based scope 2 GHG emissions (similarly, comparative information related to those periods would not be required).

## Next steps

Treasury is yet to release its next position paper which is expected to clarify the scope and timing of the ASRSs, in other words – who is caught by the standards and from when.

The Climate ED is **open for comment** until 1 March 2024. The AASB is requesting feedback on all the proposals outlined in this publication, including for example the approach that has been taken to the “climatisation” of IFRS S1. There are also some more direct requests for feedback that may impact specific sectors, e.g. the application of the proposals to entities in the superannuation sector, as well as not-for-profit and public sector entities.

Get involved by:

- Submitting a comment letter on the **AASB website**
- Completing an **online survey**, or
- Attending a roundtable discussion.

Depending on feedback received and any changes as a result of anticipated Treasury policy announcements, the AASB may publish another exposure draft or fatal flaw draft to enable further consultation as it moves toward finalisation of the proposed ASRSs in mid-2024.

In the meantime, entities should familiarise themselves with the content in the Climate ED and prepare for imminent adoption now. This, amongst other things, typically starts with a gap assessment to identify gaps between current and required reporting. **Talk to us – reach out to your Deloitte contact to support you in this journey.**

## Key resources

### Publications



- Our **Clarity publication** *Action now for mandatory climate reporting in Australia*
- **Co-authored publication by Deloitte, MinterEllison and the AICD** *A director's guide to mandatory climate reporting*



### Australian Accounting Standards Board Exposure Draft

- **Exposure Draft ED SR1** *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*



### IFRS® Sustainability Disclosure Standards

- **IFRS S1** *General Requirements for Disclosure of Sustainability-related Financial Information*
- **IFRS S2** *Climate-related Disclosures*

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