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

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Webinar and outreach

Education webcast
The educational webcast provides an overview of the key proposal.

Outreach activities

Outreach locations and dates

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<th>Victoria</th>
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<td>Date</td>
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Purpose of this session

To provide an overview of two draft Australian Sustainability Reporting Standards (ASRS)

- [Draft] ASRS 1 *General Requirements for Disclosure for Climate-related Financial Information*

- [Draft] ASRS 2 *Climate-related Financial Disclosures*
AASB and sustainability reporting

- Australian Government agency
- Responsible for developing, issuing and maintaining accounting standards including external reporting
- Legislative amendments to the ASIC Act to explicitly empower the AASB to develop sustainability reporting standards
Beyond the scope

- Scope of entities
- Legislative date for commencement of compliance
- Legal liability/director responsibilities
- Level and type of assurance

Mandatory climate-related financial disclosures

Policy position statement

The Government is committed to improving the quality of climate-related financial disclosures, providing Australians and investors with greater transparency and more comparable information about an entity’s exposure to climate-related financial risks and opportunities and climate-related plans and strategies.

Improving climate disclosures will support regulators to assess and manage systemic risks to the financial system as a result of climate change and efforts taken to mitigate its effects. A rigorous, internationally aligned and credible climate disclosure regime will support Australia’s reputation as an attractive destination for international capital and help draw the investment required for the transition to net zero. It will bring Australia in line with other jurisdictions, including the EU, UK, New Zealand and Japan.

This statement outlines the Government’s policy positions related to: the scope of the reform (including entities covered), the content required in reports, the location of reporting, assurance requirements for disclosures, and the application of liability for disclosures. These policy positions reflect Option 1b as outlined in the Policy Impact Analysis.

Climate-related financial disclosures will be mandated through amendments to the Corporations Act 2001 (Cth) (Corporations Act) and related legislation. Detailed sustainability and assurance standards will be made and maintained by the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AAASB).

Reporting entities

Who will be included?

- Large entities that are required to prepare and lodge annual reports under Chapter 2M of the Corporations Act will be required to disclose information about climate-related risks and opportunities. This includes listed and unlisted companies and financial institutions as well as registrable superannuation entities and registered investment schemes.
  - Large entities are defined using size thresholds equivalent to the existing Large Proprietary Company definition (this threshold will apply to both listed and unlisted companies).
  - Reporting by large entities will provide transparency to shareholders and support the efficient allocation of capital aligned with risks and opportunities.
- Asset owners (such as registrable superannuation entities and registered schemes) will be considered large if funds under management are more than $5 billion.
  - Reporting by asset owners will support consistent reporting of climate-related risks and opportunities across the financial sector, noting the significance of these entities in Australia’s financial system.
- Where entities are subject to both the annual reporting requirements under the Corporations Act and emissions reporting obligations under the National Greenhouse and Energy Reporting Act 2007 (Cth) (NGER Act), they will be required to disclose regardless of size.
  - Reporting by NGER-covered entities is appropriate and proportionate to the risks they face.
AASB Agenda Consultation 2022-2026

November 2021:
International Sustainability Standards Board (ISSB) established

March 2022:
[Draft] IFRS S1 and S2

Sep 2021:
AASB issued ITC 46
AASB Agenda Consultation 2022-2026 (due 18 Feb)

18 Feb 2022:
ITC 46 comment period closed

June 2023:
Issued IFRS S1 and S2

Adapted from: Kirkland & Ellis
Key international frameworks

• IFRS Foundation established the ISSB in a move to create a global baseline in the sustainability reporting landscape

• ISSB is a consolidation of several key sustainability reporting framework providers

• The draft ASRS Standards are developed based on the work of the ISSB
Overview of IFRS S1 & IFRS S2

Four core content

- Governance
- Strategy
- Risk Management
- Metrics and targets
Sustainability-related financial reporting

Sustainability reporting (broader multi-stakeholder focus)

e.g. GRI

Financial statements

Australian Sustainability Reporting Standards

Australian Accounting Standards

Annual report (GPFR)
Overview of [draft] ASRS 1 & ASRS 2

Climate-related risks and opportunities

Physical

Transition

Primary users of general purpose financial reports

Cash flows

Cost of capital

Access to finance

Ability to further objectives (NFP)
Key modifications in ED SR1

- Limit [draft] ASRS 1 scope
- Standalone service standard
- Omitting duplicate content
- References to Conceptual Frameworks
- Sector-neutrality

- Climate resilience against at least two scenarios
- Prioritising NGER Scheme legislation
- SASB industry-based metrics not required
- Requiring Scope 2 market-based GHG emissions (and relief)
- Relief for Scope 3 GHG emissions (disclose year\(t-1\) emissions in year\(t\))
Next steps

Q1 2024
- Outreach activities
- Analyse stakeholder feedback

Q2 2024
- Board deliberations and decision-making
- Issue final Standards