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**AUSTRALIAN
RESPONSE TO
GLOBAL
SUSTAINABILITY
ACCOUNTING
STANDARDS**

After the International Sustainability Standards Board (IISB) released its proposed global sustainability accounting standards, S1 and S2, in June, the Australian Accounting Standards Board (AASB) last week responded by releasing its initial exposure draft. Drawing on IISB's recommendations, AASB's draft standards aim to provide transparent financial insights for investors into climate risks and opportunities whilst aligning with international best practice.

AASB's draft standards apply to banks, insurers and listed companies, whilst SMEs are due to follow suit in 3 years. However, understanding the AASB's draft standards is essential for all Australian businesses navigating the fast evolving world of sustainability reporting.

The global backdrop

The move to develop a global sustainability accounting standard has been a long time coming. For decades, it's been regarded as the most significant obstacle to the widespread adoption of high quality sustainability accounting and reporting.

IISB is aiming to develop this holy grail of a global sustainability accounting standard. Their proposed S1 and S2 standards amalgamate the best thinking of the leading global players in this space—such as Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) for general sustainability accounting, and Task Force for Climate-related Financial Disclosures (TCFD) for climate-related disclosures. S1 and S2 will become effective for annual reporting periods beginning on or after 1st January, 2024.

Whilst the move toward IISB as the global standard is gathering pace, there are ongoing challenges to be overcome in some parts of the world.

For example, the European Sustainability Reporting Standards has recently raised questions about the ISSB standards which appear to be costing the global sustainability accounting movement some momentum. Hopefully, these questions will be resolved in the short term.

Recent developments in Australia

By way of background, after the Australian Treasury's second consultation paper on climate-related financial disclosure, the financial sector pushed for full alignment with IISB's draft global standards in order to ensure global interoperability. This is logical and prudent.

It's fair to say AASB is on the same page as the financial sector, albeit with some caveats aimed at customising IISB's recommendations for the Australian market. The good news from a global interoperability angle is that AASB's proposed sustainability reporting framework is aligned with IISB's. For example:

- ✓ Australian reporting entities will be required to disclose climate-related financial information within their annual reports.
- ✓ The AASB standards are focused upon ensuring the credibility and reliability of the information disclosed. External assurance of climate-related financial disclosures is encouraged as a means of enhancing credibility and reliability.
- ✓ Australian companies are encouraged to conduct scenario analyses to assess the potential financial impacts of various climate change scenarios
- ✓ Companies should also disclose information about their governance processes, controls, and procedures for managing climate-related risks and opportunities.

The proposed AASB standards

AASB has proposed 3 standards. Here's a summary:

✔ ASRS1 covers general requirements for disclosure of climate-related financial information based upon IISB's S1 standard. AASB propose limiting the scope of this standard to cover only climate-related financial disclosures, so it has replaced all references to 'sustainability' in S1 with 'climate'. And to avoid duplication with the S2 climate standard, AASB propose this standard covers the requirements relating to 'core content disclosures of governance, strategy and risk management'.

✔ ARRS2 covers climate-related financial disclosures based upon IISB's S2 standard. AASB has proposed ARRS2's scope be limited to climate-related risks and opportunities related to climate change—and does not apply to other climate-related emissions that are not greenhouse gas emissions.

✔ ASRS101 is an additional standard developed to periodically incorporate any non-legislative documents published in Australia and foreign documents that are referenced in the standards. It's essentially a 'catch-all' standard aimed at ensuring AASB's proposed standards don't contravene any best practice guidance or requirements.

One more key difference versus the IISB standards

Beyond the minor differences versus the IISB standards mentioned above, there's one more key difference Australian companies should be aware of,

The AASB's draft standards have excluded the ISSB requirement for companies to consider the applicability of the SASB sustainability reporting standards as the consultation period was regarded as too short for Australian stakeholders.

This is good news from a simplicity of standards perspective.

Standards to be phased in gradually

It's important for Australian companies to note that AASB's proposed standards will be phased in gradually in the coming years. If the suggested roadmap remains unchanged post a consultation period, there will be a staggered introduction of the proposed standards between 1st July 2024 and 1st July 2027.

However, that timeline may change. The exposure draft is open for consultation until 1st March 2024. Depending on the nature and extent of the feedback received, AASB may publish another exposure draft or a review draft to enable further consultation with stakeholders. Watch this space.

It's time to be proactive with your sustainability reporting

Being on top of the AASB's draft sustainability reporting standards is essential for all Australian businesses whether they be large or small, listed or unlisted.

Even if your company is an SME who doesn't need to adhere to the draft AASB standards in the short term, it's advisable to prepare your business for the upcoming changes by being proactive. It takes considerable time and effort to adapt and upgrade internal reporting systems to meet the AASB's proposed standards.

In addition, the business benefits of sustainability reporting such as building competitive advantage, improving your funding position, enhancing your internal and external relationships, becoming more resilient, and fostering innovation justify early action.

If you haven't yet investigated how to bring your sustainability reporting up to the standard it needs to be at, now's the time to investigate your best options.



About ImpactHQ

Impact HQ is an Australian ESG and sustainability advisory and consulting company that offers strategic advice, specialised expertise and pragmatic solutions to help navigate the complex landscape of Sustainability and ESG strategy, management, and reporting. Get in touch with us for all your ESG and sustainability needs.

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