

Explanatory Statement

Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*

September 2024



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Main Features of AASB S2

Background

In June 2023, the International Sustainability Standards Board (ISSB) of the IFRS Foundation issued Sustainability Disclosure Standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. IFRS S2 sets out disclosure requirements for an entity to provide useful information to primary users of its general purpose financial report about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term. IFRS S1 includes general principles, some of which support the application of IFRS S2.

The AASB issued Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures* in September 2024 as the Australian equivalent of IFRS S2. It also incorporates those general principles of IFRS S1 needed to make AASB S2 function as intended. AASB S2 supports the Australian Government's decision to require large businesses and financial institutions to prepare climate-related financial disclosures.

Following multiple consultations and responding to calls from investors for more consistent, complete, comparable and verifiable information about an entity's climate-related risks and opportunities, in 2023 the Australian Government confirmed its intention to make climate-related financial disclosures mandatory for large businesses and financial institutions. In June 2023, the Commonwealth Treasury released the proposed design for a mandatory reporting framework, with an approach for Australia to be aligned as far as practicable with the Sustainability Disclosure Standards developed by the International Sustainability Standards Board (ISSB) to the extent relevant to climate-related financial disclosures. The Australian Government's policy intention is to improve the quality and comparability of climate-related financial disclosures across different companies and sectors, which, in turn, should help investors make more informed decisions.

In September 2024, the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* was passed, introducing mandatory requirements for climate-related financial disclosures in sustainability reports for certain companies and other entities through amendments to the *Corporations Act 2001*. The amendments also empowered the AASB to issue sustainability standards with mandatory status under the Corporations Act. AASB S2 is the first of those Standards.

Main Requirements

AASB S2 sets out disclosure requirements for an entity to provide useful information to primary users of its general purpose financial report (sustainability report) about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term.

The main climate-related financial disclosure requirements relate to governance, strategy, risk management, and metrics and targets, including information about scenario analysis and Scope 1, Scope 2 and Scope 3 greenhouse gas emissions.

The Standard also includes general requirements for the disclosure of climate-related financial information (see Appendix D of the Standard). The general requirements include the conceptual foundations for reporting such information, the location of disclosures, the timing of reporting and disclosures relating to judgements, uncertainties and errors.

An entity applying AASB S2 is not required to apply Australian Sustainability Reporting Standard AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, which is a voluntary Standard addressing sustainability-related financial disclosures in general. The AASB issued AASB S1 as a voluntary Standard as the Australian Government's policy is to mandate only climate-related financial disclosures at present. Issuing a voluntary Standard enabled the AASB to provide Australian Standards aligned as far as practicable with the two Standards issued by the ISSB. AASB S1 is not registered on the Federal Register of Legislation as a legislative instrument.

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2025. Earlier application is permitted.

The amendments to the Corporations Act set out which entities are required to comply with this Standard and specifies three application dates (financial years beginning on or after 1 January 2025, 1 July 2026 and 1 July 2027) for the various classes of entity required to comply. The application date of the Standard supports the Corporations Act requirements, however entities required to comply with the Standard follow their application date as set out in the legislation unless they elect to apply the Standard earlier.

Consultation Prior to Issuing this Standard

In March 2022, the ISSB published Exposure Drafts of two IFRS Sustainability Disclosure Standards: [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-*

related Disclosures. These Exposure Drafts integrated and built on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), created by the Financial Stability Board (FSB). Comments were due to the ISSB by 29 July 2022.

In April 2022, the AASB published Exposure Draft ED 321 *Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures*, with comments due by 15 July 2022. Thirty-four submissions were received from Australian stakeholders on ED 321. In general, they indicated that the proposals in the draft ISSB Standards IFRS S1 and IFRS S2 would be an appropriate baseline on which to develop climate-related financial disclosure requirements for Australian entities.

Considering the commitment from the Australian Government to introduce mandatory internationally aligned climate-related financial reporting for large businesses and financial institutions and the feedback to ED 321, the AASB decided:

- (a) Australian sustainability-related reporting requirements should be presented in Sustainability Standards separate from the AASB's Accounting Standards, which are also issued for Corporations Act purposes;
- (b) to use the work of the ISSB as a foundation, with modifications for Australian circumstances where necessary to meet the needs of Australian stakeholders; and
- (c) to develop initially climate-related financial disclosure requirements that could be applied independently of any broader sustainability reporting framework.

In June 2023, the ISSB finalised and issued the two IFRS Sustainability Disclosure Standards IFRS S1 and IFRS S2. In October 2023, after considering the ISSB's new Standards, the feedback on ED 321 and discussions through further outreach, the AASB published Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*. ED SR1 proposed the following draft Australian Sustainability Reporting Standards:

- (a) [Draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using the requirements of IFRS S1 as the baseline but limited in scope to climate-related disclosure;
- (b) [Draft] ASRS 2 *Climate-related Financial Disclosures*, developed using the requirements of IFRS S2 as the baseline. The main proposed modifications to the baseline requirements related to:
 - (i) consideration and disclosure of industry-based information;
 - (ii) measurement of greenhouse gas emissions; and
 - (iii) temperature outcomes for scenario analysis; and
- (c) [Draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service Standard that would be updated when required to list the relevant versions of any non-legislative documents published in Australia and foreign documents referenced in Australian Sustainability Reporting Standards.

When the AASB was developing ED SR1, Treasury's Exposure Draft *Treasury Laws Amendment Bill 2024: Climate-related financial disclosure* (January 2024) had not yet been published. The AASB proposed modifications to the requirements in IFRS S1 and IFRS S2 after considering Treasury's second Consultation Paper, *Climate-related financial disclosure* (June 2023), and informal feedback from stakeholders, including the Treasury, the Australian Government Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO). At the time, the AASB discussed whether to defer the publication of ED SR1 until it had considered the Treasury's exposure draft legislation and undertaken targeted outreach to gauge stakeholders' preliminary views on some of its proposals. However, the AASB decided it was important to publish ED SR1 in October 2023 to enable the issuance of the final Australian Sustainability Reporting Standards in time for implementation in annual periods beginning on or after 1 July 2024, which was then anticipated to be the first application period for mandatory climate-related financial disclosures by the first group of entities reporting under the ultimate legislative requirements.

ED SR1 was exposed for 130 days, with a comment period to 1 March 2024. Extensive outreach was conducted on the proposals in ED SR1, with a total of 500 attendees at in-person roundtables in Adelaide, Brisbane, Canberra, Geelong, Hobart, Melbourne, Newcastle, Perth and Sydney and through online roundtables.

Much of the feedback on ED SR1 favoured the requirements in IFRS S2 being incorporated in Australian Sustainability Reporting Standards with minimal or no modifications. Many stakeholders were of the view that there were few, if any, Australian-specific circumstances that would warrant departure from the baseline of IFRS S2 in accordance with the *AASB Sustainability Reporting Standard-Setting Framework* (September 2023). The AASB also noted that a closer alignment to the IFRS S2 requirements would be consistent with the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024*.

In May–September 2024, the AASB discussed stakeholder feedback and reconsidered its proposed modifications to the baseline requirements. The AASB decided to issue two Australian Sustainability Reporting Standards, as described below:

- (a) the voluntary Standard AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, to incorporate all IFRS S1 requirements without modification. Consistent with the Australian Government’s decision to address climate-related financial disclosures first and to consider the development of reporting requirements for other sustainability-related risks and opportunities in Australia over time, the AASB decided to issue AASB S1 as a voluntary Standard so that an entity applying AASB S2 is not required to (but may elect to) apply AASB S1 to disclose information on other sustainability-related risks and opportunities; and
- (b) the mandatory Standard AASB S2 *Climate-related Disclosures*, to incorporate all IFRS S2 requirements, with modifications only in respect to the following matters:
 - (i) general requirements for disclosure of climate-related financial information;
 - (ii) options under the legislative amendments regarding consolidated reporting;
 - (iii) consideration and disclosure of industry-based information; and
 - (iv) users of a not-for-profit entity’s general purpose financial report (GPFR).

The AASB considered whether further consultation or formal re-exposure of the proposed Standard should be carried out before issuing AASB S2. The AASB noted that extensive stakeholder engagement and consultation had been undertaken in developing AASB S2. The AASB received 117 comment letters and 289 survey responses on ED SR1 across various stakeholder groups, including financial report preparers and auditors, user groups, professional bodies, industry bodies and academics, covering both the private sector and the public sector. The AASB decided that further consultation or re-exposure was not required, after considering the extensive feedback received and the AASB’s decision to adopt all IFRS S2 requirements (except for industry-based disclosures), which was consistent with views supported by most stakeholders, as well as the future projects to address scalability and cost-benefit concerns and public sector application matters that the AASB added to its workplan.

Since the AASB decided to issue only one mandatory Standard (i.e. to make only AASB S2 as an Australian legislative instrument), the AASB decided not to issue the service Standard [draft] ASRS 101 proposed in ED SR1. Instead, AASB S2 directly identifies the relevant versions of non-legislative Australian documents and foreign documents referenced in the Standard. The AASB will amend AASB S2 as soon as practicable when required to refer to later versions of referenced documents.

The AASB was advised by the Office of Impact Analysis that the AASB did not need to undertake an Impact Analysis for the anticipated mandatory climate-related disclosure Standard on the basis that the regulatory impact had already been calculated by the Treasury in relation to the proposed legislative amendments and assessed by the OIA (refer OIA, Published Impact Analysis “Climate risk disclosure”, January 2024).

Legislative Features of Sustainability Reporting Standards

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Sustainability Reporting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

References to Other AASB Standards

References in this Standard to Australian Accounting Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Copyright

This Standard, like all Standards promulgated by the AASB, is published with Commonwealth of Australia copyright. Educational, commercial and other publishers are able to request the AASB for permission to reprint all or parts of this Standard in Australia.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*

Overview of the Standard

Background

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Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.