



## Staff paper

<b>Project:</b>	Climate-Related Disclosures	<b>Meeting:</b>	AASB September 2018 (M167)
<b>Topic:</b>	Project update	<b>Agenda Item:</b>	10.1
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		<b>Decision-Making:</b>	Medium
		<b>Project Status:</b>	Planning

### Objective of this paper

- 1 The objective is to obtain the Board's views on the staff recommendations on the climate-related disclosures project.

### Project outcome

- 2 A joint publication be issued by the AASB and the Auditing and Assurance Standard Board (AUASB) as per the Staff recommendation stated in paragraph 10 below.

### Background

- 3 Existing and potential investors, regulators and other primary users of financial statement are becoming increasingly interested in climate-related disclosures. This is also evident by the following changes and initiatives in climate-risk and broader sustainability reporting space:
  - (a) Recent [media release](#) by Investor Group on Climate Change;
  - (b) A [briefing paper](#) on the Global Investor Statement on Governments in Climate Change was issued early this year by seven investor organisation including The Investor Group on Climate Change (IGCC, Australia/New Zealand), Principles for Responsible Investors (PRI) and UN Environmental Program Finance Initiative (UNEP FI);
  - (c) Increased number of voluntary guidance/framework being issued by international bodies such as Task Force on Climate Related Financial Disclosures;
  - (d) Australian Prudential Regulation Authority is conducting a climate-risk survey of about 50 of the institutions it supervises;
  - (e) Australian Securities and Investments Commissioner John Price reinforced the importance of clear climate risk disclosures in his recent [public speech](#); and
  - (f) ASX Corporate Governance Council's Consultation Paper *Review of the ASX Corporate Governance Council's Principles and Recommendations* proposed changes to recommendation 7.4 of its Corporate Governance principles which highlighted climate change as one particular source of environmental risks.
- 4 It has been observed that entities do not disclose climate-risk related information either because it is not quantitatively material or they have concluded that the entity is not affected by climate change.

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## Staff analysis

- 5 Staff are of the view that there is a lack of understanding on how the materiality concept should be used to identify whether climate-risk related information should be disclosed.
- 6 As per [AASB Practice Statement 2 Making Materiality Judgements](#), information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity.
- 7 Making materiality judgements involves both quantitative and qualitative considerations. Staff are of the view that it would not be appropriate for the entity to rely on purely numerical guidelines. Qualitative factors are characteristics of an entity's transactions, other events or conditions, or of their context that, if present, make information more likely to influence the decisions of the primary users of the entity's financial statements.
- 8 As emphasised in AASB Practice Statement 2, an item of information could reasonably be expected to influence primary users' decisions regardless of its size – a quantitative threshold could even reduce to zero. Example K in the AASB Practice Statement 2 explains how a bank should assess information about the lack of exposure to a debt originating from a country, whose national economy is currently experiencing severe financial difficulties (since the bank is holding a very small amount of debt or even no debt at all originating from that country, while other international banks operating in the same sector have significant holdings) as material and disclose that information in its financial statements.
- 9 Furthermore, materiality judgements may lead to the disclosure of information in addition to the specific disclosure requirements in Australian Accounting Standards. (For example how climate-related risks are factored in to assumptions used to determine the recoverable amount of their non-financial assets).

## Staff recommendation

- 10 Based on the above analysis, staff consider that the AASB and the AUASB should issue a joint publication, outlining that entities in the energy, industrial and mining sectors and any other entities that are likely to be significantly impacted by climate change should consider the specific guidance in AASB Practice Statement 2 in determining whether climate-risk related information is material and whether disclosures related to climate risk should be made in its financial statements.
- 11 It would also be helpful to highlight in the publication that entities in sectors that are highly impacted by climate related risks but have assessed as not exposed to such risks, are expected to disclose that fact as it still could be a material information to investors.

### Question for Board members

Do the Board members agree with the above Staff recommendations in paragraph 10 and 11?