

Accounting Policy Update – bulletin

Sustainability reporting developments

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In light of rapid developments and a heightened focus on the area of sustainability reporting, this bulletin provides an update on the current state of play to help the Victorian public sector stay informed on the evolution of sustainability reporting.

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In brief

- Sustainability reporting is evolving at a rapid pace both globally and domestically, with a significant level of activity focused on developing and implementing robust and comparable reporting requirements.
- Two new global sustainability standards are expected to be issued by the International Sustainability Standards Board (ISSB) by June 2023.
- ISSB standards have no jurisdiction in Australia until the equivalent local versions are issued by the Australian Accounting Standards Board (AASB).
- AASB has decided to prioritise sustainability reporting for the for-profit sector, with the public sector to be considered at a later stage.
- At this stage, AASB's approach for the public sector is unclear and it is premature to undertake any detailed planning or implementation work at the departmental or agency level.
- The Victorian Government has been active in this area, having published a voluntary whole of government level climate disclosure statement in September 2022, and rolled-out expanded environment reporting within Victorian public sector agency annual reports by broadening the requirements in FRD 24.
- DTF will continue to monitor, and contribute to, developments in this area and will keep the sector informed of any significant developments.

Introduction

There is currently an urgent global focus on developing and implementing a robust and comparable framework for reporting on broader environmental, social and governance matters to help investors, other resource providers and stakeholders make informed assessments of an entity's value and performance.

This development will also inevitably have an impact on the Victorian public sector reporting in the coming years. Accordingly, in this bulletin, we highlight key developments and share insights to help the sector stay informed as the landscape continues to evolve rapidly.

Major global developments

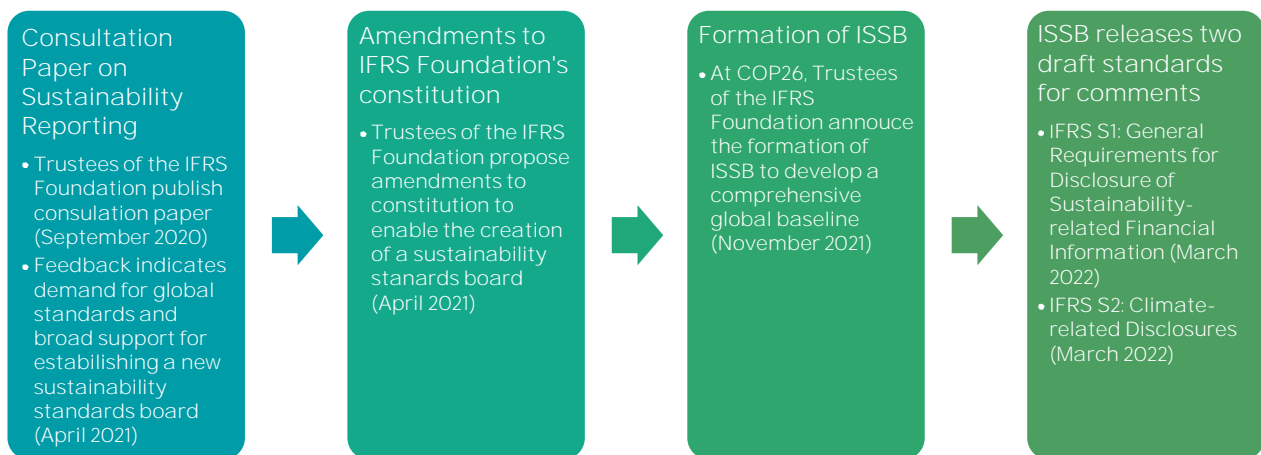
International Sustainability Standards Board – the journey so far

In September 2020, the Trustees of the *IFRS Foundation* published a consultation paper *Consultation Paper on Sustainability Reporting* to assess demand for global sustainability standards, and examine what role the IFRS Foundation might play in the development of such standards. The *feedback* indicated an urgent need for global sustainability standards and broad support for establishing a standard setter for these standards under the governance of the IFRS Foundation. Based on this feedback, in April 2021, the Trustees *proposed amendments* to IFRS Foundation’s constitution to enable the creation of a new sustainability standards board under the governance of the IFRS Foundation.

Subsequently, at the 26th UN Climate Change Conference (COP26) in Glasgow in November 2021, the Trustees of the IFRS Foundation announced the *formation of International Sustainability Standards Board (ISSB)* as a new global body to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs.

In March 2022, the ISSB released *two draft standards* for public comment:

- [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, proposing overall requirements for an entity to disclose sustainability-related financial information, including its sustainability-related risks and opportunities, that is useful to the primary users of general purpose financial reporting.
- [Draft] IFRS S2 *Climate-related Disclosures*, proposing specific climate-related disclosures based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and standards of other international sustainability bodies.



The ISSB has now substantially completed the re-deliberation of its proposals and is expected to release the final standards by June 2023. The new standards are expected to be effective for annual reporting periods beginning on or after 1 January 2024.

The ISSB is currently considering potential projects to be included in its two year work plan. Such potential projects include biodiversity, human capital (e.g. diversity, equity and inclusion), human rights (e.g. labour rights and communities’ rights in the value chain) and connectivity with financial reporting.

Other key global players

European Union	<p>The European Financial Reporting Advisory Group (EFRAG), in its capacity as technical advisor to the European Union, has also made significant progress in developing European Sustainability Reporting Standards (ESRS).</p> <p>In November 2022, the EFRAG submitted its first set of twelve draft ESRS to the European Commission. In addition to general requirements, these standards cover:</p> <ul style="list-style-type: none">• environment (climate change, pollution, water and marine resources, biodiversity and ecosystems, resources and circular economy)• social (own workforce, workers in the value chain, affected communities, customers and end users)• governance (business conduct) <p>The final reporting requirements are expected to be phased in over time depending on the types of companies. The first companies are expected to apply the standards in financial year 2024, for reports published in 2025.</p> <p>The European Commission will now consult EU bodies and Member States on the draft standards, before adopting the final standards as delegated Acts in June 2023, followed by a scrutiny period by the European Parliament and Council.</p>
US SEC	<p>In March 2022, the US Securities and Exchange Commission (SEC) released its proposed rule change to enhance and standardise climate-related disclosures for investors.</p> <p>The final version of the US rules is expected to be issued later this year with the requirements phased in over time, starting from 2024.</p>
IPSASB	<p>In May 2022, the International Public Sector Accounting Standards Board released its Consultation Paper Advancing Public Sector Sustainability Reporting for public comments by 9 September 2022. The IPSASB is currently redeliberating its proposals.</p> <p>The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), which DTF is part of, submitted comments to the IPSASB which can be accessed here.</p>
IAASB	<p>The International Auditing and Assurance Standards Board (IAASB) is currently developing a new overarching standard for sustainability assurance engagements (the proposed International Standard on Sustainability Assurance 5000 <i>General Requirements for Sustainability Assurance Engagements</i>).</p> <p>An exposure draft of the proposed standard is expected to be released by June 2023 for public comments by December 2023. Final standard is expected to be released in late 2024.</p>

Australian environment

Australian Accounting Standards Board

In light of the rapid global developments, the Australian Accounting Standards Board (AASB) has also had an active focus on sustainability reporting in the last couple of years.

When the ISSB was formed in November 2021, the AASB also indicated its intention to develop sustainability reporting requirements for the domestic market.

At its February 2022 board meeting, the AASB:

- formally added to its work plan a high priority project on sustainability reporting, with climate reporting as the first likely matter to address
- decided that the initial scope of its project relates to for-profit entities and that not-for-profit sector (including public sector) will be considered at a later stage.

The AASB also [released](#) ISSB's exposure drafts locally for public comments and provided Australian feedback to the ISSB. [HoTARAC's response](#) to the AASB exposure draft can be accessed from the AASB website.

Commonwealth Treasury

In late 2022, the Commonwealth Treasury released two public consultations:

- [Empowering the AASB to deliver sustainability standards](#) (November 2022): An Exposure Draft Legislation seeking to amend parts of the *Australian Securities and Investment Commission Act 2001* to empower the AASB to deliver sustainability standards in Australia. Comments were due by 16 December 2022.
- [Climate-related financial disclosures](#) (December 2022): A consultation paper seeking views on the design and implementation of the climate-related financial risks disclosure regime in Australia. Public comments were due by 17 February 2023. HoTARAC responded to this consultation, highlighting aspects particularly relevant to the public sector.

Victorian context

The Victorian Government has been playing an active role in the area of climate-related financial disclosures in recent years.

Victorian Government Climate-related Risk Disclosure Statement

In September 2022, the Victorian Government released the first [Victorian Climate-related Risk Disclosure Statement](#). This statement provides information about the Victorian Government's approach to climate-related risks and opportunities in Victoria. This is a voluntary whole of government climate-related risk disclosure based on the [recommendations](#) of the G20 Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD) and consistent with the broad structure of the ISSB exposure draft on climate-related financial disclosures.

The Government has committed to further work to support a subsequent disclosure.

FRD 24 *Reporting of environmental data by government entities*

In June 2022, DTF in conjunction with Department of Energy Environment and Climate Action (DEECA) released an [updated FRD 24](#) aimed at establishing greater standards for consistent and high-quality- environmental reporting within the Victorian public sector. The updated FRD 24 became applicable for periods commencing from 1 July 2022.

Main changes to FRD 24 included:

- expanding disclosures to include non-office activities in addition to office based- activities
- extending the scope of the FRD to include all public bodies under the *Financial Management Act 1994* (except universities), in line with other FRDs. Entities have been classified into reporting tiers based on factors such as size, materiality of environmental impacts, and reporting capability
- providing reporting options to allow entities to phase in- environmental reporting:
 - where the relevant data is unavailable, entities may disclose an estimate and the assumptions and methods used
 - where a reasonable estimate cannot be made, entities may include an explanatory note on planned activities to improve data collection for future reporting periods.

Impact on the wider Victorian public sector

As noted earlier, the Victorian Government:

- has rolled out expanded environmental reporting through updated FRD 24
- has voluntarily published a climate risk disclosure statement at the whole of government level
- is actively monitoring, and contributing to, standard setting and policy developments in the area of sustainability reporting.

Given the current state of standard setting activities and the AASB's decision to focus on the public sector at a later stage (after addressing the for-profit- sector), the AASB's direction and approach for the public sector is unclear at this stage.

When the AASB eventually turns its focus on the public sector, a range of issues need to be considered and addressed, including:

- whether public sector sustainability reporting should be based on ISSB or IPSASB requirements
- what changes are necessary to tailor investor-focused ISSB standards for the public sector, which is driven by achievement of government policy objectives rather than maximising financial returns on invested capital
- the level at which sustainability reporting needs to take place i.e. whether sustainability reporting needs to be at whole of government level or at a lower level covering departments or departments and agencies.

In addition, any future implementation of sustainability reporting within Victoria will be a local jurisdictional policy decision, requiring any necessary legislative or regulatory changes.

Accordingly, at this stage, it is premature to undertake any detailed planning or implementation work at a departmental or agency level. We encourage departments and agencies to continue monitoring developments as the sustainability reporting landscape evolves more broadly. DTF will continue to monitor developments in this area and will keep the sector informed of any significant developments.

Other related considerations

Location of information

Currently, environmental disclosures provided under FRD 24 are presented within the report of operations section of the annual report. Consistent with this approach, it is likely that any future sustainability disclosures will also be situated within the report of operations section or in an alternative separate report (rather than as part of financial report), although this will ultimately be a jurisdictional policy decision having regards to other regulatory considerations.

Assurance

Work is underway internationally and nationally to develop appropriate assurance requirements. The International Auditing and Assurance Standards Board (IAASB) is expected to release an assurance standard in late 2024 which will inform any future local assurance requirements in Australia.

At this stage, it is unclear whether sustainability reporting will be subject to any form of assurance in the initial phases of implementation, and if so, whether a limited assurance (review) or reasonable assurance (audit) will be required. However, it is reasonable to expect that sustainability disclosures will eventually be subject to some level of assurance as reporting and assurance requirements, capabilities and practices mature over time.

How to contact us

AccPol mailbox

When directing accounting policy enquiries to DTF at accpol@dtf.vic.gov.au, departments are requested to support their questions with the facts and with clear referencing to Accounting Standards, FRDs and other authoritative pronouncements related to their queries.

Other entities are requested to contact their portfolio department in the first instance to resolve any accounting policy issues.

Useful websites

AASB – www.aasb.gov.au for information on AASB pronouncements, invitations to comment, discussion papers and exposure drafts.

International Public Sector Accounting Standards Board (IPSASB) – www.ipsasb.org for information on IPSASB and IPSAS pronouncements.

DTF website

The DTF website (for all internet users) – www.dtf.vic.gov.au covers FRDs and guidance, the Model Report, accounting policy updates, long service leave models and related data input, including wage inflation and discount rates. From the menu on the top of the home page, users should select Financial Management of Government, then Financial Reporting Policy.

VPS users should contact their portfolio department in the first instance for the login details to access the information relating to the 2008 Long Service Leave Model and/or, the Valuer General building and land indices.

For assistance with technical difficulties using the DTF website, e.g., broken links, please contact the DTF web team via email at dtfweb@dtf.vic.gov.au

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