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**The Australian Accounting Standards Board**
**via submission portal**: www.aasb.gov.au/current-projects/open-for-comment

15 July 2022

**PwC Australia draft response to AASB 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.**

We welcome the opportunity to provide comments on ED 321 as the Australian Accounting Standards Board (AASB) seeks to develop reporting requirements for sustainability-related information in Australia based on the proposed International Sustainability Standards Board (ISSB) standards. We strongly support the ISSB being established to provide the foundation for consistent, reliable and global Environmental, Social and Governance (ESG) reporting.

We would like to acknowledge and thank the AASB, along with the Auditing and Assurance Standards Board (AuASB), for the extensive consultation undertaken during this consultation period.

Below we summarise our comments on the questions posed by the ED, and in Attachment 1, we provide detailed responses to each. In addition, the PwC Network, which represents the views of all PwC firms across the globe, will provide a submission to the ISSB later this month. Once this has been submitted we will share a copy with you.

**The Australian government should clarify how these proposed standards would be enforced.**

We support sustainability standards being established as a separate suite of standards from accounting standards. It will be important for consideration to be given to how the implementation of these standards will be monitored and enforced given that the current legal and regulatory frameworks are set around accounting standards.

**Generally speaking we support the draft standards being applied to all entities preparing general purpose financial statements, but in a phased transition beginning with listed entities.**

It is essential that the implementation of sustainability standards occurs in a way that ensures high quality information is provided by entities to investors and other stakeholders. With only some entities in Australia currently reporting on sustainability measures, for example by voluntarily adopting the TCFD recommendations, we believe there may be challenges in implementing robust reporting across the market in a short time frame. As such we believe the most pragmatic approach would be to commence with mandatory reporting for listed entities, and then, informed by the experience of listed entities, establish a realistic time frame for implementing mandatory reporting for other entities that prepare general purpose financial statements.

**We see a number of opportunities and challenges which come with adopting standards such as [Draft] IFRS S2.**

The new disclosures required under [Draft] IFRS S2 and future standards will bring with it opportunities and challenges for preparers and auditors. In our view, the AASB should take these opportunities and challenges into account when determining the application of these standards in Australia. Examples include:

- Preparers and auditors will need to work closely with experts from different fields, for example engineers, supply chain experts, biodiversity specialists, and others, given the nature of these new disclosures.

- Preparers will need to ensure that the new data sets underpinning the new reporting requirements have robust internal controls.
- Education and training will be important to ensure preparers and auditors are well equipped to interrogate and interpret sustainability related data.

**We support a principles-based approach to standard setting**

In our view, the quality of metrics, not quantity, should be the focus of the standard setters, and we recommend the consolidation and simplification of the material included in Appendix B so that it serves as industry guidance, rather than as mandatory templates.

**Assurance over sustainability disclosures is essential to ensure integrity over sustainability reporting**

Evidence shows information which has been independently assured is judged by investors and other stakeholders to be more credible than information without such assurance.

We support the work being undertaken by the IAASB and AuASB to establish standards for assuring sustainability reporting. The pace at which this work can be completed will determine the appropriate timeframe for establishing the relevant forms of assurance to apply.

Should you need any further information, please feel free to contact me on the number below or Jan McCahey on +61 (0)407 928 635.

Yours sincerely,

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**Attachment 1: AASB Specific Matters for Comment**

| Question | PwC Australia response |
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| **Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1** | |
| A1. Exposure Draft on [Draft] IFRS S1 is proposing that entities be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. Is focusing on an entity's enterprise value the most appropriate approach when considering sustainability-related financial reporting? If not, what approach do you suggest and why? | The main objective of the IFRS financial reporting and sustainability reporting standards is to support investors and other capital market participants to make informed decisions, therefore we are comfortable with ***enterprise value*** being the focus of sustainability-related financial reporting. |
| **Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2** | |
| B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why? | We see a growing appetite from users of financial reporting, and other key stakeholders, for reporting entities to disclose the impact their organisation is having on the environment, including their emissions. However, we acknowledge the challenges given the lack of clarity in some aspects of the current reporting requirements, reliance on third party information and the level of estimation required.<br><br>We recommend the AASB monitors closely the capability of entities for Scope 3 reporting before determining when it becomes mandatory. |
| B2. To comply with the proposals related to GHG emissions disclosures in Exposure Draft on [Draft] IFRS S2 an entity would be required to apply the Greenhouse Gas Corporate (GHGC) Standard. Do you agree that Australian entities should be required to apply the GHGC Standard given existing GHG emissions legislation and guidance in place for Australian entities (for example, the NGER Act, NGER (Measurement) Determination 2008 and related guidance)? | Given NGER reporting obligations are generally more comprehensive than the GHGC standards, we don't see this as a major obstacle to those entities that might be caught under both disclosure requirements.<br><br>NGER at this stage does not have a measurement standard for Scope 3. Therefore, we would encourage the AASB to discuss with the Government how these reporting requirements can be harmonised to the international standard. We also recommend that the AASB works with the ISSB and other ESG standard setters and regulators to ensure key elements that support high quality standards are more formally incorporated into the oversight of the GHG Protocol. |
| B3. Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors? If not, what changes do you suggest and why? | We believe the current level of granularity in industry classification is excessive and in many cases metrics are not unique to the particular industry. However, we acknowledge that investors and other users are looking for consistency in reporting. Consolidating and simplifying the material and establishing its status as industry guidance would support comparability and uphold the approach of setting principles-based standards rather than detailed rules. |

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| Question | PwC Australia response |
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| B4. Are there any Australian-specific climate-related matters that the AASB should consider incorporating into the requirements proposed in Exposure Draft on [Draft] IFRS S2? For example, given the Exposure Draft on [Draft] IFRS S2 is the starting point for the AASB's work on climate-related financial disclosure, should there be additional reporting requirements for Australian entities? If so, what additional reporting requirements should be required and why? | Not that we are aware of but would welcome continued dialogue on this matter. |
| **Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2** | |
| C1. Which Australian entities should be expected to apply the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and why?<br><br>Specifically:<br><br>(a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? and<br><br>(b) should relief from specific aspects of the proposals be permitted for some entities for which the proposals are deemed burdensome (for example, Scope 3 GHG emissions and scientific and scenario analyses)? If so, which entities and why? | PwC Australia, consistent with the position taken by the PwC Global Network, supports the adoption of these two standards subject to due consideration of the feedback obtained through the consultation.<br><br>With only some entities in Australia currently reporting on sustainability measures, for example by voluntarily adopting the TCFD recommendations, we believe there may be challenges in implementing robust reporting across the market in a short time frame. As such we believe the most pragmatic approach would be to commence with mandatory reporting for listed entities, and then, informed by the experience of listed entities, establish a realistic time frame for imposing mandatory reporting for other entities that prepare general purpose financial statements.<br><br>Please also refer to our responses to Question C6. For Scope 3 GHG emissions, please refer to our response to Question B1. For scenario analyses, we recommend eliminating the hierarchy which mandates climate-related scenario analysis over alternative methods or techniques. |
| C2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2? | We support sustainability standards being established as a separate suite of standards from accounting standards. It will be important for consideration to be given to how the implementation of these standards will be monitored and enforced given that the current legal and regulatory frameworks are set around accounting standards. |
| C3. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 align with existing or anticipated requirements, guidance or practice in Australia?<br><br>If not: | We consider [Draft] IFRS S2 broadly consistent with the TCFD recommendations as encouraged by ASIC and the ASX and voluntarily adopted by some Australian companies. Please refer to our response to Question B2 for emission disclosure requirements. |

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| (a) please explain the key differences that may arise from applying the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and the impact of any such differences; and<br><br>(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2? | |
| C4. Would the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 result in useful information for primary users of general purpose financial reports? | We understand that the disclosures are intended to be included in the 'other' sections of a company's annual report, rather than in the notes to the financial statements. As defined in [Draft] IFRS S1, material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value. We expect the required disclosures will be useful information for primary users of general purpose financial reports, as they make decisions based on the information provided in the annual report.<br><br>We support the prioritisation the ISSB and AASB has given to developing standards addressing (i) the disclosure of climate-related financial information; and (ii) more generally, the disclosure of sustainability-related financial information. Currently we see most interest from investors and other commentators on climate related disclosures. We also recommend that as the framework evolves, clarity be provided on how each standard will interact with each other given the likely overlap in the type of disclosures required. |
| C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges? | Evidence shows information which has been independently assured is judged by investors and other stakeholders to be more credible than information without such assurance.<br><br>We have identified some key challenges as below:<br><br>• The completeness of sustainability-related disclosures absent the body of thematic standards;<br>• Systems of internal control over sustainability-related information are likely to be not be as established as those that support general purpose financial statements; and<br>• Further collaboration will be needed between accounting and assurance standard setters and practitioners.<br><br>We support the work being undertaken by the IAASB and AuASB to establish standards for assuring sustainability reporting. The pace at which this work can be completed will determine the appropriate timeframe for establishing the relevant forms of assurance to apply. |

| Question | PwC Australia response |
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| C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why? | We recommend the effective dates in Australia be broadly consistent with the effective dates of [Draft] IFRS S1 and [Draft] IFRS S2. But we note that the effective date for mandatory adoption needs to be determined taking into account the readiness of preparers to provide high quality information. We believe the most pragmatic approach would be to commence with mandatory reporting for listed entities, and then, informed by the experience of listed entities, establish a realistic time frame for imposing mandatory reporting for other entities that prepare general purpose financial statements. Please also refer to our responses to Question C1. |
| C7. Should the effective date of the proposals in Exposure Draft on [Draft] IFRS S1 be consistent with, or set for a date after, the effective date of the proposals in Exposure Draft on [Draft] IFRS S2? If so, why? | Given that the processes followed in [Draft] IFRS S1 will determine whether climate change is considered a significant risk (or opportunity) - and hence [Draft] IFRS S2 should be applied, we believe the effective date of [Draft] IFRS S1 should be at least the same as the effective date of [Draft] IFRS S2, if not earlier. |
| C8. Would any wording or terminology introduced in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be difficult to understand? If yes, what changes do you suggest and why? | We are not aware of any specific Australian concerns. |
| C9. Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2? | We have not undertaken an assessment of this. |
| **Part D: Matters for comment relating to the AASB's proposed approach** | |
| D1. Do you agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards? As an alternative model, the AASB would value comments as to whether sustainability-related financial reporting requirements should be developed as part of existing Australian Accounting Standards. The alternative model would result in sustainability-related financial disclosures forming part of an entity's general purpose financial statements. | We support the development of sustainability-related financial reporting requirements as a separate suite of standards to the Accounting Standards. This is in line with how the IFRS Foundation sets up the sustainability standards. |
| D2. Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy? | We have not undertaken an assessment of this. |