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21 July 2022

Emmanuel Faber
Chair
International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Mr Faber

IFRS SUSTAINABILITY DISCLOSURE STANDARDS

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission in respect of:

- IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information (**Draft IFRS S1**)
- IFRS S2 Climate Related Disclosures (**Draft IFRS S2**)

(together, the **Draft Standards**).

Our responses to the specific questions in respect of Draft IFRS S1 and Draft IFRS S2 are at attachments one and two respectively, and our response to the Australian Accounting Standards Board is at attachment three.

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with over $1trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage. ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

ACSI welcomes the creation of the ISSB and the Draft Standards

ACSI welcomes the creation of the ISSB and the Draft Standards. Our members are some of the largest investors in Australia. They recognise that:

- **ESG performance is financially material for long-term investors**. However, the short-term outlook of many in the investment system means that present market prices do not always capture these risks and opportunities.
- **Markets do not always operate in the interest of long-term investors and their beneficiaries**. Fiduciary investors have an opportunity and a responsibility to engage with policy makers to better align the operation of the financial system with the interest of the beneficiaries.

As long-term investors, ACSI members need information on their investee companies' sustainability risks and opportunities, their approach to managing these risks and opportunities, including the relevant performance metrics. Such information is used by investors in risk assessment, stewardship activity and investment decisions. Given our members invest across global markets, there is a strong appetite for consistency and comparability in the approach to disclosure. Therefore, we welcome the establishment of the ISSB and the development of Draft Standards, and we are pleased to be able to provide our feedback. Our expertise is primarily in respect of Australian listed equities, with focus on theASX300, and our comments reflect that end of the market. We do however recognise that there can be instances where different approaches should be taken for unlisted entities and those outside the top end of the market.

Overall, we welcome the Draft Standards, and our view is that they are sufficiently comprehensive, while maintaining flexibility for organisations to disclose only on the issues that are material to them.

ACSI welcomes the harmonisation and the detailed and integrated approach.

Consistent with existing Australian requirements

The approach set out in the Draft Standards requiring disclosure of material information about sustainability risks is consistent with existing requirements that apply to listed companies in Australia. In particular, a listed company in Australia is required by the Corporations Act to include in its directors' report information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position, business strategies and prospects for future financial years.[1]

Relevant regulatory guidance[2] effectively requires a company to disclose of material business risks, which include environmental, social and governance (ESG) risks, where those risks could affect the entity's achievement of its financial performance or outcomes, taking into account the nature and business of the entity and its business strategy. Therefore, effectively listed companies have an existing requirement to discuss material ESG risks in their annual disclosures.

Many companies already disclose material sustainability risks. In addition to fulfilling the legal requirements outlined above, many companies also prepare additional disclosures, such as a sustainability report, or other similar disclosures. ACSI has, since 2008, conducted research into the disclosure practices of ASX listed companies in respect of ESG reporting. Our research shows that in 2021, 140 of the ASX200 companies were rated 'detailed' or 'comprehensive' disclosers[3], indicating that these companies are likely to be better placed to disclose in accordance the Draft Standards.

Notwithstanding the existing requirements and practices in Australia, we welcome the framework proposed by the ISSB as it aims to drive a more consistent, comparable and detailed approach to disclosure.

ACSI supports the materiality definition and recommends increased focus on the long-term

We support the definition of materiality proposed and the implicit statement that sustainability risks and opportunities are financially material. We recommend that the Draft Standards should explicitly state this fact and increase the references to long-term perspectives.

In the context of the materiality discussion, we caution against promoting a false distinction between investors and the interests of other stakeholders. Over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. This approach was very well articulated by Justice Hayne in the Australian Financial Services Royal Commissions when he said:

> *The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage. And long-term financial advantage will more likely follow if the entity conducts its business according to proper standards, treats its employees well and seeks to provide financial results to shareholders that, in the long run, are better than other investments of broadly similar risk*[4].

Accordingly, we support the materiality definition proposed, however we recommend that the Draft Standards promote sufficient consideration of sustainability risks that are present over the long-term. While Draft IFRS S1 does incorporate reference to the long-term, there is opportunity to strengthen the Standard in this respect. We suggest that guidance be provided that encourages appropriate long-term approaches, specifies appropriate time frames and that preparers clearly disclose how they interpret short, medium and longer-term time frames.

We recommend that differences between the term 'significant' and 'material' be clarified.

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[1] *Corporations Act* (Cth) 2001 section 299A(1)
[2] ASIC Regulatory Guide 247 paragraphs 61-64
[3] ACSI ESG Reporting 2021 https://acsi.org.au/wp-content/uploads/2022/07/1ACSI-ESG-Reporting-Trends-in-the-ASX200-JUN22-.pdf
[4] Justice Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 at page 403

Interaction with other sustainability standards

We are aware of comments from some across the market suggesting that Draft IFRS S1 is broadly drafted, with concerns that it appears to require reporting entities to reference a wide variety of existing standards and practises (such as the SASB Standards, the CDSB Framework application guidance and the sustainability related risks and opportunities identified by entities that operate in the same industry or geography as set out paragraph 51) to identify risk.

Our view is that the Draft IFRS S1 is clear that reporting entities should apply judgement to identify material sustainability related financial information and that entities do not need to provide a specific disclosure that would otherwise be required by another Sustainability Disclosure Standard if the information is not material. This is the case even if the Standard sets out specific requirements or describes them as minimum requirements. We consider that it could be interpreted that Draft IFRS S1 merely references sources a reporting entity can refer to in order to understand the types of risks it might consider for assessment. Nonetheless, we recommend that the ISSB provide further clarification on this point.

ACSI supports clear statements on measurement uncertainty that provide comfort to entities in respect of forward-looking statements.

With the growth and focus across the market on sustainability issues, there have also been concerns raised by preparers in respect of forward-looking statements. Such concerns have been helpfully addressed in Australia within existing regulatory guidance, which makes it clear that preparers are unlikely to be found liable for misleading or deceptive forward-looking statements provided the statements are properly framed, they have a reasonable basis (which includes good governance at board level to sign off the statements) and there is ongoing compliance with disclosure obligations when circumstances change.

The statements in the Draft IFRS S1 on sources of estimation and outcome uncertainty (paragraphs 79-83) are consistent with the Australian regulatory guidance in this respect, as those sections in the Draft Standard outline the use of reasonable estimates and require disclosure of the sources and nature of estimation uncertainty. Paragraph 83 also requires disclosure of information about the assumptions a preparer makes about the future as well as disclosure of sources of significant uncertainty, where there is significant outcome uncertainty. Our view is that this is consistent with the Australian approach that requires proper framing of forward-looking statements so that they are not considered to be misleading. It makes sense that when considering whether a statement is misleading that the statement be considered in its entirety. Disclosures that are properly framed, with relevant and clear qualifications, and methodology outlined, so as to fully inform the reader of material information, significantly reduce the risk of being found misleading. They are capable of being supported with a reasonable basis, when considered in their entirety, and there are many relevant examples across the market. We therefore support the statements in Draft IFRS S1 that encourages disclosure on estimation and outcome uncertainty.

Together these provisions appropriately balance investors' needs for appropriate disclosure of material sustainability risks (for which preparers should remain accountable), with the inherent uncertainty of forward-looking information. In this respect, this reflects existing practice, with many Australian listed companies currently making and managing such forward-looking statements in disclosures such as TCFD reports and other climate change-related reporting. In the context of financial reporting, many organisations currently rely on forward looking assumptions when considering asset valuations or provisioning.

Our view is that a safe harbour for disclosures made under the Draft Standards is not necessary or appropriate. As outlined above, there are sufficient protections where disclosures are appropriately framed and have a reasonable basis. Investors need comfort that there is appropriate accountability for disclosures that are made. Nonetheless, investors do not expect preparers to predict the unpredictable, but instead make realistic and properly articulated disclosures that have a reasonable basis. Additional regulatory guidance on what constitutes a reasonable basis, or examples of appropriate framing may be helpful. In addition, appropriate transition time frames would support those preparers that are not already making such disclosures to put in place systems and processes to support their disclosures.

ACSI recommends adoption of the Standards in Australia

Current examples of good practice within listed companies in Australia provide a sound basis for adoption of the Draft Standards. Nonetheless, there will need to be appropriate transition arrangements for those areas of the market that are less mature, or to allow service providers (such as auditors) to scale up expertise to match expected demand. Accordingly, ACSI recommends a phase in period of two to three years to develop the systems and expertise necessary. We also recommend that any transition arrangements encourage consistent improvement across the market, such that where companies have existing good practice, they are encouraged to continue to progress. Furthermore, as outlined above, our view is that a safe harbour is unnecessary (whether transitional or otherwise), instead transition periods will allow entities to appropriately prepare for adoption of the Draft Standards.

I trust our comments are of assistance. Please contact me or Kate Griffiths, (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully

Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

Attachment One: Specific comments on Draft IFRS S1 General Requirements Standard

Question 1 Overall approach

We agree that Draft IFRS S1 states that an entity would be required to identify and disclose material information about sustainability related risks and opportunities. Our view is that the Exposure Draft limits this requirement to material risks, for example in paragraph 60. There is opportunity to further clarify that the identification and disclosure requirement relates to material sustainability risks, and that the assessment of materiality should consider short, medium and long-term.

In addition, the meaning of the term 'significant' when used in this context should be clarified and consideration be given to focus on 'material' instead.

Question 2 Objective

Is the proposed objective of disclosing sustainability-related financial information clear?

Our view is that the objective is clear.

Question 3 Scope

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

No comment.

Question 4 Core Content

Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?
Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective?

We agree with the proposed requirement to disclose in relation to Governance, Strategy, Risk Management and Metrics and Targets. We agree with the recommendation that where relevant, preparers consolidate the disclosures in respect of different risks. We do however recommend that further emphasis on sustainability related opportunities (in addition to risks) be included in the Standard.

There is opportunity to require further disclosure on governance, including the related skills and competencies of the relevant governing body.

Question 5 Reporting

Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements?

Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application?

Do you agree with the proposed requirement for identifying the related financial statements?

We support consistency across financial statements and sustainability reporting. Accordingly, we agree with the proposed requirement to identify the related financial statements, which is important for investors to be able to assess the entity's approach and whether it is appropriately integrated.

Question 6 Connected Information

Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities?

Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements?

We recognise that the connectivity of issues is a challenging area. However, sustainability issues are financial in nature and cannot logically be separated from financial reporting, just as sustainability issues cannot be neatly isolated from each other. Rather they are interconnected. Therefore, it makes sense to consider and disclose the interdependencies. Preparers may benefit from guidance that outlines how to consider the connectivity of the issues.

In addition, we agree that connections between sustainability related risks and opportunities and financial statements should be identified. Investors are keen to understand companies' approaches to managing the risks and associated modelling, for example the use of a shadow carbon price in capital allocation decisions, or assumptions underpinning asset valuations. Such information provides insight to investors on how a company is taking the risks into account in executing its strategy.

Question 7 Fair presentation

Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear?
Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures?
Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

We agree that preparers can look to other standard setting bodies and entities operating in the same industries or geographies to identify issues that may represent significant sustainability risks for them. However, it is reasonable to expect that many sophisticated preparers will have the clearest view on the sustainability related risks that affect their businesses, so we suggest that this be clearly framed as guidance - rather than a requirement to refer to the different standards.

Question 8 Materiality

Is the definition and application of materiality clear in the context of sustainability-related financial information?
Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time?
Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information?
Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information?

Our views on materiality are set out in our overarching comments above. In particular, we caution against promoting a false distinction between investors and the interests of other stakeholders. Our view is that over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. We support the definition of materiality proposed, however the use of the term 'significant' is creating confusion in the market and should be clarified. Our view is that the references to long-term perspectives in the Draft Standards should be increased.

Question 9 Frequency of Reporting

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate?

Reporting sustainability related financial disclosures at the same time as financial statements and for the same reporting period promotes connectedness between the two. Appropriate transition periods for those entities not generally currently reporting could assist in planning to address any transitional workload constraints.

Question 10 Location of Information

Do you agree with the proposals about the location of sustainability-related financial disclosures?
Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?
Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced?

Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way?

While ideally to promote comparability, information would be presented by different preparers in a similar manner, we recognise that this is not possible and that different jurisdictional requirements may mandate that information be disclosed in a particular location within the report. Accordingly, we support the flexibility on location of disclosures, although suggest that preparers use cross referencing, or other techniques to support users in locating disclosures. Further, we support the comments on integrated disclosures and avoiding duplication, where possible.

Question 11 Comparative Information, sources of estimation and outcome uncertainty, and errors

Have these general features been adapted appropriately into the proposals?
Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?
Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible?
Are you aware of any circumstances for which this requirement will not be able to be applied?

As set out above, we agree that sustainability related disclosures should be consistent with corresponding financial data. Our views on the measurement uncertainty provisions are set out in our introductory comments above – in particular, we support the provisions on the basis that there is an appropriate balance between investors' needs for disclosure of material sustainability risks, for which preparers must remain accountable, with the inherent uncertainty of forward-looking information. This balance is best achieved by relevant guidance as to appropriate qualifiers that accompany disclosures, as well as guidance on what forms a reasonable basis for disclosures.

Where an entity has a better measure of a metric reported in the prior year, it should disclose the change, the reasons for the change and any other information to assist investor understanding. It may not be practical to adjust historic reporting, for example, to reflect updates in data collection, however disclosures should explain the reasons why, and provide narrative disclosure on the range of potential consequences.

Question 12 Statement of compliance

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements. The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards. Do you agree with this proposal?

Where an entity uses the relief proposed, it should clearly state the basis for that relief – that is, the specific reason and the law that prevents disclosure. Concern on forward looking statements and continuous disclosure obligations should not be considered an acceptable basis for lack of disclosure, given the measurement uncertainty provisions in the Draft Standard, and relevant regulatory guidance in Australia.

Question 13 Effective date

When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

Our view on the effective date and transition periods are set out above. In particular, current examples of good practice within listed companies in Australia provide a sound basis for adoption of the Draft Standards. Nonetheless, there are good arguments to adopt a scaled approach, with the less mature end of the market given a longer period for transition. In addition, it is appropriate to provide a transition period that allows for a scale up of expertise to match expected demand. Accordingly, ACSI recommends a phase in period of two to three years to develop the systems and expertise necessary. Any transition periods should however encourage those already reporting to continue, and transition arrangements only to support compliance with the Draft Standards. Furthermore, as outlined above, our view is that a safe harbour is unnecessary (whether transitional or otherwise), instead transition periods will allow entities to appropriately prepare for adoption of the Draft Standards.

Question 14 Global Baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner?

Our view is that a global baseline is appropriate. Our view is that over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. Therefore, while a preparer may have stakeholders that do not represent material sustainability risks to the organisation, this assessment should be undertaken with a long-term view.

Question 15 – Digital Reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

No comment.

Question 16 Costs, benefits and likely effects

The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.
Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

Our view is that the costs of not adopting the global baseline should be considered (when considering the costs of adoption). Good disclosure increases investor confidence and promotes open markets that reflect the cost of risk, and arguably therefore can be expected to lower the cost of capital. In addition, adoption of a global baseline will reduce the risk of market fragmentation and encourage those companies at the less mature end of the market to improve both their practices and disclosures, leading to more sustainable outcomes over the long-term.

Question 17 – Other comments

No comment.

Attachment Two: Specific comments on the Climate Disclosure Standard

Question 1 Objective of the Exposure Draft

Do you agree with the objective that has been established for the Exposure Draft
Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?
Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1?

Our view is that the objective is clear and the disclosure requirements set out in the Exposure Draft would assist investors in understanding exposure to climate related risks and opportunities.

Question 2 Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities?

We agree that the disclosure requirements are consistent with the Taskforce for Climate-related Financial Disclosures (TCFD). The TCFD is generally accepted as a preferred framework for disclosure, and entities have been encouraged to use the TCFD by both regulators and investors[5]. ACSI research has found that the TCFD has been adopted by 103 entities across the ASX200[6], which will support those entities to be well placed for the implementation of Draft IFRS S2.

We recommend the required disclosure in respect of governance also address how the board's skills and experience align with the entity's risk profile and strategy, in respect of sustainability risks and opportunities.

Question 3 Identification of climate related risks and opportunities

Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear?

Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities?

Do you believe that this will lead to improved relevance and comparability of disclosures? Are there any additional requirements that may improve the relevance and comparability of such disclosures?

Our view is that the requirements could be improved with better clarification on the term 'significant' and any difference intended between 'significant' and 'material'. In addition, the Standard should provide guidance on applicable time horizons and require preparers to disclose what they consider to be short, medium and longer-term.

The aims of using industry-based requirements to drive consistency and comparability are sound. However, there would be benefit in additional consultation and further guidance on how the relevant industry standards will apply, both across jurisdictions and where, for example, an entity straddles sectors. Additional consultation may also identify gaps in the applicable sectors.

Question 4 Concentrations of climate related risks and opportunities in an entity's value chain

Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain?

Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative?

We agree that disclosure requirements on the effects of significant climate-related risks and opportunities on an entity's business model and value chain are relevant to an entity's enterprise value.

Our view is that a mix of qualitative and quantitative disclosure is generally the most useful for investors. There

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[5] ASIC Regulatory Guide 247 Paragraph 66 and [ASX Corporate Governance Council's Corporate Governance Principles and Recommendations](#) Recommendation 7.4
[6] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

are of course, measurement challenges with respect to some (not all) metrics, however where organisations are using quantitative indicators internally, they should consider whether those indicators are material information relevant to an investor's understanding of the risks and opportunities (and therefore should be disclosed, with qualification or explanation where necessary).

Where there is measurement uncertainty, such uncertainty can be disclosed, so that investors have the opportunity to attribute appropriate weight to the information. The Draft Standard should also make allowance for future developments in quantitative measurement.

Question 5 Transition and Carbon Offsets

Do you agree with the proposed disclosure requirements for transition plans?
Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)?

Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets?

Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets?

We agree that where material, transition plans should be disclosed. Allowing investors to understand and assess transition plans will help unlock private capital to fund transitions where investors take the view that the transition plan is sound. We support the inclusion of information in relation to workforce adjustments, and recommend that further clarity be provided on appropriate disclosures, as investors are increasingly considering equitable transitions when considering climate related risk.

Currently, there is significant reliance on offsets as part of the shift to a low carbon economy. While there are well-respected principles for the use of offsets[7], the market has some way to go to understanding and implementing credible use of offsets consistently. It is widely recognised that the credibility of offsets is an issue. As set out in the Oxford Principles, *offsetting, if not done well, can result in greenwashing and create negative unintended impacts for people and the environment.*

Accordingly, we support the disclosure requirements in respect of offsets, as investors need to better understand this key (and at times necessary) aspect of many corporate transition plans.

Question 6 Current and anticipated effects

Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)?

Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period?

Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term?

Our view is that a mix of qualitative and quantitative disclosure is generally the most useful for investors. Quantitative information is useful for investors, along with qualitative information that interprets and provides context. In this sense, the proposals are similar to existing financial reporting, where management explanation and notes are provided to assist with understanding of quantitative information.

The proposal to disclose the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period makes sense. This would allow an investor to understand how an entity is, for example, using a shadow carbon price or how the anticipated effects of climate change are incorporated into assumptions underpinning asset valuations, how risks are integrated into capital allocation decisions and where technology solutions are required, whether there is

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[7] See, for example, the Oxford Principles for Net Zero Aligned Offsetting .

investment in corresponding research and development.

Over the medium and longer term, we agree that it is appropriate to allow for a range in respect of quantitative information or qualitative information where quantitative information is not available. Further guidance may be appropriate to support useful disclosures, that appropriately reflect uncertainty. Guidance should reflect that where companies have internal metrics available, they should consider whether those metrics constitute material information for investors to understand the risks and opportunities.

Question 7 Climate resilience

Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

(i) Do you agree with this proposal?
(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why?
(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience?

Do you agree with the proposed disclosures about an entity's climate-related scenario analysis?

Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy?

Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change?

Scenario analysis is an important tool for understanding a company's resilience to low carbon scenarios by highlighting key potential risks and opportunities such as how the company might absorb impacts from changes in demand, or address increased carbon costs. Across the ASX200, an increasing number of entities are using scenario analysis to assess how low carbon and high warming scenarios might affect business operations[8]. Companies are also refining and retesting their business against emerging scenarios, with some companies updating their scenario analysis every few years to reassess and recalibrate targets and strategy based on the new findings.

Accompanying disclosures include quantitative outcomes (net present value or cash flow assessment). We support the provision of quantitative information on the financial impact low carbon scenarios have on business models, and the drivers behind it, to support investor understanding of how the company's core and growth businesses might be affected, both negatively and positively. We do however recognise that scenario analysis is not a prediction of future events, but testing against possible futures, and should be disclosed as such. Therefore, disclosures should be appropriately framed, and accompanied by relevant context that explains the scenario analysis process and purpose, so that the disclosure are not confused with forward looking predictions.

While we recognise the data challenges and the potential costs at the smaller end of the market, our view is that scenario analysis should be supported. Therefore, for listed companies, we support disclosure of reasons why an entity may be unable to conduct scenario analysis. We also note the materiality overlay should operate to mean that organisations are conducting analysis on the issues of most importance to their strategy and business model.

Question 8 Risk Management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities?

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[8] In 2021, the number of companies having completed scenario analysis was almost half the ASX200 index at 88 companies, nearly 5 times the number of companies in 2018. Source: ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

We support the proposed disclosure requirements, on the basis that they will support investors' understanding of the process used to assess risk, which will allow investors to assess how robust those processes are, and in turn, the reliability of the accompanying disclosures.

Question 9 Cross-industry metric categories and greenhouse gas emissions

The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value?

Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)?

Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions?

Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:
(i) the consolidated entity; and
(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality?

We support the cross-industry metrics proposed. We recognise the challenges involved with scope 3 reporting. We also agree with the statement in question 9 that despite the challenges, scope 3 reporting is becoming more common, with improved quality. ACSI has found 27 companies disclosing scope 3 targets and milestones across the ASX200 and 93 of the ASX200 reporting their Scope 3 emissions[9]. This reflects the growing consensus that Scope 3 emissions represent significant market risk, with products and services that may be impacted by the transition to a low-carbon economy.

The Draft Standard provides entities with the option to disclose emissions intensity expressed as metric tonnes of CO2 equivalent per unit of physical or economic output. This risks decreasing comparability of emissions intensity figures reported across entities, increasing the cost and complexity for investors in aggregating this data at portfolio-level. Therefore, entities should be recommended to disclose emissions intensity in terms of metric tonnes of CO2 equivalent per unit of total revenue and per unit of production.

Our view is that well-framed disclosure will acknowledge and detail the challenges and explain the methodologies and assumptions adopted to allow investors to understand and take into account any measurement uncertainty. Nonetheless, we acknowledge that a transition time period may be appropriate, particularly for entities at the smaller end of the market or with particularly complex financed emissions.

We do not support calls for a safe harbour (for scope 3 or other disclosures) as it would not appropriately balance accountability for disclosures. Uncertainty can instead be reflected in the form of the disclosure.

Question 10 Targets

Do you agree with the proposed disclosure about climate-related targets?

Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear?

We support references to the latest international agreement on climate change and the references to the Paris Agreement.

[9] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

However, given the Paris Agreement references limiting warming to both 'well below 2 degrees' and to '1.5 degrees', our view is that preparers should be clear which of these aims they are referring to when making their disclosures. Such disclosure is particularly important in light of the IPCC's Sixth Assessment report on climate change impacts, adaptation and vulnerability[10] which highlights the significance of physical climate-related impacts where emissions reduction targets are not sufficiently ambitious, including the effects of widespread droughts, extreme heatwaves and catastrophic flooding.

Question 11 Industry based requirements

Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning?

Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements?

Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods?

Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure?

Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification?

Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions?

Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions?

Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure?

Do you agree with the proposed industry-based requirements?

Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply?

We support the principle that industry-based classifications can support consistency and comparability across disclosures. However, while many across the market agree with this principle, we are aware of differing views on the applicability of the proposed classifications, on a global basis. We suggest that the industry-based classifications be considered for further consultation.

Question 12 Costs, benefits and likely effects

Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

[10] IPCC, sixth assessment report https://www.ipcc.ch/report/ar6/wg2/

Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Our view is that the costs of not adopting the global baseline should be considered (when considering the costs of adoption). Good disclosure increases investor confidence and promotes open markets that reflect the cost of risk, and arguably therefore can be expected to lower the cost of capital. In addition, adoption of a global baseline will reduce the risk of market fragmentation and encourage those companies at the less mature end of the market to improve both their practices and disclosures, leading to more sustainable outcomes over the long-term.

Question 13 Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

Given the provisions generally encourage a mix of quantitative and qualitative disclosure, our view is that disclosures can be appropriately framed such as to be verifiable. Where there is significant measurement uncertainty, where such uncertainty is clearly disclosed, the evidence for verification can reflect the uncertainty disclosed.

Question 14 Effective date

Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information?
When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.
Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

Our view is that a transition period will be appropriate, in particular for the less developed end of the market. Where climate risks are material, there is effectively an existing disclosure requirement in Australia for listed companies. Therefore, many of listed entities will already be reporting (including under the TCFD) and can reasonably be expected to transition to reporting under DRAFT IFRS S2 more quickly. Accordingly, our view is that the length of the transition period should take into account market and sector maturity, and encourage those already reporting to continue to progress to compliance with DRAFT IFRS S2. With these principles in mind, a transition period of 2-3 years is reasonable, to allow appropriate expertise (both reporting and audit) to develop.

Question 15 Digital Reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

No comment.

Question 16 Global Baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner?

No comments.

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Attachment One
15 July 2022

Nikole Gyles
Technical Director
Australian Accounting Standards Board

Email: standard@aasb.gov.au

Dear Ms Gyles

IFRS SUSTAINABILITY DISCLOSURE STANDARDS

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission in respect of:

- IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information (**Draft IFRS S1**)
- IFRS S2 Climate Related Disclosures (**Draft IFRS S2**)

(together, the **Draft Standards**).

Our responses to the AASB's specific questions are at attachment one and a draft submission to the International Sustainability Standards Board is at attachment 2.

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with over $1trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage. ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

ACSI welcomes the creation of the ISSB and the Draft Standards

ACSI welcomes the creation of the ISSB and the Draft Standards. Our members are some of the largest investors in Australia. They recognise that:

- **ESG performance is financially material for long-term investors**. However, the short-term outlook of many in the investment system means that present market prices do not always capture these risks and opportunities.
- **Markets do not always operate in the interest of long-term investors and their beneficiaries**. Fiduciary investors have an opportunity and a responsibility to engage with policy makers to better align the operation of the financial system with the interest of the beneficiaries.

As long-term investors, ACSI members need information on their investee companies' sustainability risks and opportunities, and their approach to managing these risks and opportunities, including the relevant performance metrics. Such information is used by investors in risk assessment, stewardship activity and investment decisions. Given our members invest across global markets, there is a strong appetite for consistency and comparability in the approach to disclosure. Therefore, we welcome the establishment of the ISSB and the development of Draft Standards, and we are pleased to be able to provide our feedback. Our expertise is primarily in respect of Australian listed equities, with focus on theASX300, and our comments reflect that end of the market. We do however recognise that there can be instances where different approaches should be taken for unlisted entities and those outside the top end of the market.

Overall, we welcome the Draft Standards, and our view is that they are sufficiently comprehensive, while maintaining flexibility for organisations to disclose only on the issues that are material to them.

ACSI welcomes the harmonisation and the detailed and integrated approach.

Consistent with existing Australian requirements

The approach set out in the Draft Standards requiring disclosure of material information about sustainability risks is consistent with existing requirements that apply to listed companies in Australia. In particular, a listed company in Australia is required by the Corporations Act to include in its directors' report information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position, business strategies and prospects for future financial years.[11]

Relevant regulatory guidance[12] effectively requires a company to disclose material business risks, which include environmental, social and governance (ESG) risks, where those risks could affect the entity's achievement of its financial performance or outcomes, taking into account the nature and business of the entity and its business strategy. Therefore, effectively listed companies have an existing requirement to discuss material ESG risks in their annual disclosures.

Many companies already disclose material sustainability risks. In addition to fulfilling the legal requirements outlined above, many companies also prepare additional disclosures, such as a sustainability report, or other similar disclosures. ACSI has, since 2008, conducted research into the disclosure practices of ASX listed companies in respect of ESG reporting. Our research shows that in 2021, 140 of the ASX200 companies were rated 'detailed' or 'comprehensive' disclosers[13], indicating that these companies are likely to be better placed to disclose in accordance the Draft Standards.

Notwithstanding the existing requirements and practices in Australia, we welcome the framework proposed by the ISSB as it aims to drive a more consistent, comparable and detailed approach to disclosure.

ACSI supports the materiality definition and recommends increased focus on the long-term

We support the definition of materiality proposed and the implicit statement that sustainability risks and opportunities are financially material. We recommend that the Draft Standards should explicitly state this fact and increase the references to long-term perspectives.

In the context of the materiality discussion, we caution against promoting a false distinction between investors and the interests of other stakeholders. Over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. This approach was very well articulated by Justice Hayne in the Australian Financial Services Royal Commissions when he said:

> *The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage. And long-term financial advantage will more likely follow if the entity conducts its business according to proper standards, treats its employees well and seeks to provide financial results to shareholders that, in the long run, are better than other investments of broadly similar risk*[14].

Accordingly, we support the materiality definition proposed, however we recommend that the Draft Standards promote sufficient consideration of sustainability risks that are present over the long-term. While Draft IFRS S1 does incorporate reference to the long-term, there is opportunity to strengthen the Standard in this respect. We suggest that guidance be provided that encourages appropriate long-term approaches, specifies appropriate time frames and requires preparers to clearly disclose how they interpret short, medium and longer-term time frames.

We recommend that differences between the term 'significant' and 'material' be clarified.

Interaction with other sustainability standards

We are aware of comments from some across the market suggesting that Draft IFRS S1 is broadly drafted, with concerns that it appears to require reporting entities to reference a wide variety of existing standards and practises (such as the SASB Standards, the CDSB Framework application guidance and the sustainability related risks and opportunities identified by entities that operate in the same industry or geography as set out paragraph

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[11] *Corporations Act* (Cth) 2001 section 299A(1)

[12] ASIC Regulatory Guide 247 paragraphs 61-64

[13] ACSI ESG Reporting 2021 https://acsi.org.au/wp-content/uploads/2022/07/1ACSI-ESG-Reporting-Trends-in-the-ASX200-JUN22-.pdf

[14] Justice Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 at page 403

51) to identify risk.

Our view is that the Draft IFRS S1 is clear that reporting entities should apply judgement to identify material sustainability related financial information and that entities do not need to provide a specific disclosure that would otherwise be required by another Sustainability Disclosure Standard if the information is not material. This is the case even if the Standard sets out specific requirements or describes them as minimum requirements. We consider that it could be interpreted that Draft IFRS S1 merely references sources a reporting entity can refer to in order to understand the types of risks it might consider for assessment. Nonetheless, we recommend that the ISSB provide further clarification on this point.

ACSI supports clear statements on measurement uncertainty that provide comfort to entities in respect of forward-looking statements.

With the growth and focus across the market on sustainability issues, there have also been concerns raised by preparers in respect of forward-looking statements. Such concerns have been helpfully addressed in Australia within existing regulatory guidance, which makes it clear that preparers are unlikely to be found liable for misleading or deceptive forward-looking statements provided the statements are properly framed, they have a reasonable basis (which includes good governance at board level to sign off the statements) and there is ongoing compliance with disclosure obligations when circumstances change.

The statements in the Draft IFRS S1 on sources of estimation and outcome uncertainty (paragraphs 79-83) are consistent with the Australian regulatory guidance in this respect, as those sections in the Draft Standard outline the use of reasonable estimates and require disclosure of the sources and nature of estimation uncertainty. Paragraph 83 also requires disclosure of information about the assumptions a preparer makes about the future as well as disclosure of sources of significant uncertainty, where there is significant outcome uncertainty. Our view is that this is consistent with the Australian approach that requires proper framing of forward-looking statements so that they are not considered to be misleading. It makes sense that when considering whether a statement is misleading that the statement be considered in its entirety. Disclosures that are properly framed, with relevant and clear qualifications and methodology outlined, so as to fully inform the reader of material information, significantly reduce the risk of being found misleading. They are capable of being supported with a reasonable basis, when considered in their entirety, and there are many relevant examples across the market. We therefore support the statements in Draft IFRS S1 that encourages disclosure on estimation and outcome uncertainty.

Together these provisions appropriately balance investors' needs for appropriate disclosure of material sustainability risks (for which preparers should remain accountable), with the inherent uncertainty of forward-looking information. In this respect, this reflects existing practice, with many Australian listed companies currently making and managing such forward-looking statements in disclosures such as TCFD reports and other climate change-related reporting. In the context of financial reporting, many organisations currently rely on forward looking assumptions when considering asset valuations or provisioning.

Our view is that a safe harbour for disclosures made under the Draft Standards is not necessary or appropriate. As outlined above, there are sufficient protections where disclosures are appropriately framed and have a reasonable basis. Investors need comfort that there is appropriate accountability for disclosures that are made. Nonetheless, investors do not expect preparers to predict the unpredictable, but instead make realistic and properly articulated disclosures that have a reasonable basis. Additional regulatory guidance on what constitutes a reasonable basis, or examples of appropriate framing may be helpful. In addition, appropriate transition time frames would support those preparers that are not already making such disclosures to put in place systems and processes to support their disclosures.

ACSI recommends adoption of the Standards in Australia

Current examples of good practice within listed companies in Australia provide a sound basis for adoption of the Draft Standards. Nonetheless, there will need to be appropriate transition arrangements for those areas of the market that are less mature, or to allow service providers (such as auditors) to scale up expertise to match expected demand. Accordingly, ACSI recommends a phase in period of two to three years to develop the systems and expertise necessary. We also recommend that any transition arrangements encourage consistent improvement across the market, such that where companies have existing good practice, they are encouraged to continue to progress. Furthermore, as outlined above, our view is that a safe harbour is unnecessary (whether transitional or otherwise), instead transition periods will allow entities to appropriately prepare for adoption of the Draft Standards.

I trust our comments are of assistance. Please contact me or Kate Griffiths, (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully

Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

Attachment One – AASB specific matters for comment

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?

We support the definition of materiality proposed and the implicit statement that sustainability risks and opportunities are financially material. Our view is that the Standards should explicitly state this fact, and also increase the reference to long-term perspectives. Our view is that over the long term, an entity's enterprise value is inextricably linked with its management of sustainability risks and opportunities.

In the context of the materiality discussion, we caution against promoting a false distinction between investors and the interests of other stakeholders. Our view is that over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. Accordingly, we support the materiality definition proposed, however we recommend that the Standard promote sufficient consideration of sustainability risks that are present over the long-term. While the draft Standard does incorporate reference to the long-term, there is opportunity to strengthen the Standard in this respect.

In addition, our view is that the ISSB should clarify the meaning of the term 'significant' when used in this context and consideration be given to focus on 'material' instead.

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?

We recognise the challenges involved with Scope 3 reporting. We also agree with the statement in question 9 that despite the challenges, scope 3 reporting is becoming more common, with improved quality, with ACSI finding 27 companies disclosing scope 3 targets and milestones across the ASX200 and 93 of the ASX200 reporting their Scope 3 emissions[15]. This reflects the growing consensus that Scope 3 emissions represent significant market risk, with products and services that may be impacted by the transition to a low-carbon economy. Our view is that well-framed disclosure will acknowledge and detail the challenges and explain the methodologies used, to allow investors to understand and take into account measurement uncertainty. Nonetheless, we acknowledge that a transition period may be appropriate here, particularly for entities at the smaller end of the market or with particularly complex financed emissions.

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 the aims of global comparability, our view is that disclosures under the differing regimes should be reconciled in a manner that is efficient for preparers, while providing the information required by investors. This may involve disclosure of a reconciliation between the regimes, or even harmonisation across the regimes.

B3. Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors?

We support the principle that industry-based classifications can support consistency and comparability across disclosures. However, while many across the market agree with this principle, we are aware of differing views on the applicability, on a global basis, of the proposed classifications and consider that the industry-based classifications be considered for further consultation.

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[15] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

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?

We note the particular relevance of a just and equitable transition in the Australian economy, and therefore support the provisions requiring disclosure on workforce adjustments in the context of transition planning.

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? Specifically:
(a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? and
(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?

Our expertise is in respect of large, listed companies and we recognise that it can be appropriate that implementation differs across the market, with a longer transition period at the smaller end of the market. However, the principle that all entities will have some sustainability risks that could affect their enterprise value and therefore be the subject of disclosure should be maintained. Our view is that the materiality threshold should operate such that there is no requirement to provide relief for some proposals – that is where the risk is material such as to require disclosure, then the disclosure should be fulsome, including Scope 3 disclosures and scenario analysis.

We also recommend that any transition arrangements encourage consistent improvement, such that where companies have existing good practice, they are encouraged to continue to progress.

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?

Our view is that the existing regulatory environment in Australia could support adoption of the Standards in their current form.

While we are aware of concerns in relation to forward looking statements, given that many listed companies are already disclosing information similar to that required by Draft IFRS S1 and Draft IFRS S2, our view is that risk of publishing misleading forward looking (or other) statements is manageable with good practice disclosure.

Concern on forward looking statements and continuous disclosure obligations should not be an issue that prevents disclosure as many companies in Australia are already making relevant disclosures. We accept that risk arises where the statements are not appropriately framed, or there is no reasonable basis for disclosures, however these are both within the control of the preparer. Therefore, the most appropriate way for preparers to mitigate risk of making misleading statements is to appropriately frame disclosures (including outlining assumptions, limitations, methodologies etc), and ensure there is a reasonable basis for the disclosures.

We reject the assertion that in cases where there is measurement uncertainty, a preparer would have to acknowledge that a forward-looking statement does not have a reasonable basis. It is reasonable to consider that when assessing what is a reasonable basis, a disclosure would be read in its entirety, including any qualifications and disclosures on measurement uncertainty that accompanies the statement.

We also note that many disclosures that are currently made right across the market include forward looking statements, because assumptions about the future form part of asset valuations and provisions that are found in many companies' accounts currently, as required by the relevant accounting standards.

Regulatory guidance may be a helpful addition, for example to outline the kinds of qualifications that might be included in disclosures, along with examples of disclosure (including methodologies and limitations). Such guidance could also address scenario analysis to clarify that it is reasonable to consider that scenario analysis, when appropriately framed, and accompanied by relevant context (that explains the scenario analysis process and purpose), is not a guarantee of future performance.

The materiality requirements should also provide comfort to preparers in this respect. Entities are not required to disclose information on all the sustainability risks they face, rather disclose material information on significant risks[16]. Accordingly, entities are able to focus on implementing verification and other processes to support disclosures on the sustainability issues that are the most material to the entity and ensure these disclosures are fit for purpose and not misleading.

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? If not:
(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
(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

Our view is that the proposals align with existing requirements for listed companies in Australia, although provide significantly more guidance on how these requirements would be executed. A listed company is required by the Corporations Act to include in its directors' report (in its Annual Report) information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position; business strategies and prospects for future financial years.[17]

The ASIC Regulatory Guide[18] applicable to these legal requirements outlines that a discussion of prospects effectively requires disclosure and a discussion of material business risks. The Guide also goes on to specify that the disclosures should include a discussion of environmental, social and governance risks where those risks could affect the entity's achievement of its financial performance or outcomes disclosure, taking into account the nature and business of the entity and its business strategy.

Accordingly, Australian listed companies have an existing requirement to disclose material sustainability risks, and many do so.

Draft IFRS2 is consistent with the move towards TCFD reporting in Australia, with use of the TCFD Framework being encouraged by both ASIC and the ASX Corporate Governance Council.[19] Increasingly, the TCFD Framework is being adopted across the listed market, with 103 of the ASX200 either fully or partially aligning their disclosures to the TCFD[20].

Our view is that changing the proposals in the Draft Standards would undermine the aim of developing a global baseline for disclosure that promotes consistency and comparability. Accordingly, our view is that an appropriate transition time frame is a more appropriate consideration than changes to the Standards.

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?

Our view is that the proposals set out in the draft would result in useful information for primary users of general financial reports, where preparers avoid boilerplate disclosure.

ACSI's research on ESG reporting across the ASX200 indicates that 140 of the ASX200[21] provide disclosures that are considered to be 'comprehensive' or 'detailed. In respect of climate disclosure, 103 companies across the ASX have adopted TCFD reporting[22]. Our view is that the Draft Standards will drive comparability across the market as well as improve standards in those parts of the market that are not currently disclosing well.

C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?

Existing practice is that many companies have their existing disclosures assured (the standard of assurance may vary). Therefore, existing practice provides a useful example that indicates that such disclosures can be assured. Nonetheless, we accept that development of capability across the market and labour shortage pose short-term issues. Therefore as outlined above, it may be appropriate that implementation differs across the market, with a

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[16] Note that we support calls for further explanation on the intended difference (if any) between the use of 'significant' and 'material' in the Draft Standards
[17] *Corporations Act* 2001 (Cth) s299A(1)
[18] ASIC Regulatory Guide 247 paragraphs 61-64
[19] ASIC Regulatory Guide 247 Paragraph 66 and ASX Corporate Governance Council's Corporate Governance Principles and Recommendations Recommendation 7.4
[20] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/
[21] ACSI Research ESG Reporting Trends in the ASX 200
[22] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

longer transition period at the smaller end of the listed market. However, the principle that any transition arrangements encourage consistent improvement, should be maintained.

C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?

Current examples of good practice at the top end of the market provide a sound basis for adoption of the Draft Standards. Nonetheless, we accept that with the adoption of the Standards across the market, there will need to be appropriate transition time frames, in particular for those areas of the market that are less mature, or to allow service providers (such as auditors) to scale up expertise to match expected demand. Accordingly, we recommend phase in periods that reflect maturity in different areas of the market be adopted to allow preparers and service providers to develop the systems and expertise necessary.

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?

Our view is that the starting dates should be consistent. The Draft IFRS S1 is a starting point, requiring entities to assess and disclose material sustainability risks. Listed companies in Australia already have a similar obligation. While many companies will have significant climate related risk, there will be some companies that face other significant sustainability risks.

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?

The ISSB should clarify the terms 'sustainability', and 'significant' as well as emphasise throughout the draft, the focus on material risks. In addition, the long-term thinking required to successfully identify risks should be emphasised.

Guidance should be provided on what is considered reasonable time frames for short, medium and long-term thinking. For example, consistent with emerging European requirements applicable to transition risk; Short term: Up to five years; Medium term: Five to ten years; Long term: More than ten years, but no later than 2050[23]

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

Our view is that the costs of not adopting the global baseline should be considered (when considering the costs of adoption). Good disclosure increases investor confidence and promotes open markets that reflect the cost of risk, and arguably therefore can be expected to lower the cost of capital. In addition, adoption of a global baseline will reduce the risk of market fragmentation and encourage those companies at the less mature end of the market to improve both their practices and disclosures, leading to more sustainable outcomes over the long-term.

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.

A separate suite of standards is an appropriate approach, however care should be taken to ensure the ISSB's approach to integration between sustainability reporting and financial reporting is preserved.

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?

Our view is that the adopting the proposals in Draft IFRS S1 and Draft IFRS S2 are in the best interests of the Australian economy. Investment markets are global and failure to adopt a global baseline could see investment move offshore.

[23] Note that these time frames are provided by way of example and will not be relevant for other sustainability risks, given the 2050 limitation

Public comment on Exposure draft March 2022 - IFRS Sustainability Disclosure Standard

Submission date: 25 July 2022

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Invitation to comment

Introduction

We are like-minded international corporate sustainability practitioners and researchers (see provided brief profiles) who collaborated in developing a whitepaper (2021) on "Holistic Organisation Sustainability Framework to Enhance ESG Performance and Long-term Value". The whitepaper –is aligned with the sustainability standards (i.e., GRI, SASB etc.,) on ESG and presents two important new organisation sustainability frameworks. The frameworks provide the structure and processes that organisations will need to use in their governance and management approaches to meet and exceed the sustainability standards to mitigate reputational and financial risks, and opportunities for long-term enterprise value.

The latest developments in sustainability disclosure highlight the need for synthesizing or integrating the sustainability-related risks and opportunities, instead of trade-offs, in strategy and decision-making to achieve long-term value for entities. We think synthesizing and integrating is quite different to making "trade-offs". We believe organisation sustainability is an important governance and management practice in decision-making used by entities in synthesizing and accepting the paradox or tension between the three contradictory and complimentary pillars of sustainability (i.e., Profit (economic/financial), People (human/social) and Planet (environmental) to create long term shared value, minimize harm and mitigate financial risks.

Hence, it is timely that the proposed Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information include the "Core content" requirement for information on synthesizing or integrating the sustainability-related risks and opportunities. However, it is unfortunate that "trade-off" between sustainability-related risks and opportunities is mentioned and not 'synthesizing or integrating' the sustainability-related risks and opportunities for long-term enterprise value in paragraphs 11-35.

Failing to explicitly include 'synthesizing and integrating' the sustainability-related risks and opportunities in the Exposure Draft – IFRS Sustainability Disclosure Standard will limit the intended objective. Hence, we suggest removing "trade-offs" and including reference to "synthesizing and integrating" in paragraph-13 (e), paragraph-21 (c), and paragraph-44 (b). The suggested amendment on synthesizing sustainability-related risks and opportunities in decision-making will enhance the quality of Governance, Strategy, and Connected information disclosure of financial information to help investors, lenders, and other creditors to assess more effectively an entity's enterprise value based.

<u>Issues identified for amendment to the Exposure Draft specific to the paragraph and content</u>:

Question 4 – Core Content (amendment to Governance - paragraph-13 (e), and **Strategy and decision-making - paragraph-21 (c))**

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

Governance (paragraph-13 (e))

Paragraph-13: To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of sustainability-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:

(e) How the body and its committees consider sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management

*policies, including any assessment of **trade-offs** and analysis of sensitivity to uncertainty that may be required.*

Strategy and decision-making (paragraph 21 – c)

Paragraph-21: An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant sustainability-related risks and opportunities on its strategy and decision-making. Specifically, an entity shall disclose:

*(c) What trade-offs between sustainability-related risks and opportunities were considered by the entity (for example, in a decision on location of new operations, a **trade-off** between the environmental impacts of those operations and the employment opportunities they would create in a community, and the related effects on enterprise value).*

Question 6 – Connected Information (paragraph-44 (b))

The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information enables them to assess the connection between (a) various sustainability related risks and opportunities, (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

Paragraph-44 - Examples of connected information include:

*(b) an explanation of the potential options that were evaluated when an entity assessed its sustainability-related risks and opportunities, and the consequences of its decisions to address those risks and opportunities, including the **trade-offs** that were considered, as detailed in paragraph 21(c). For example, an entity might need to explain how a decision to restructure its operations in response to a sustainability-related risk could have consequential effects on the future size and composition of the entity's workforce.*

<u>Comment</u>

Question *– Are the disclosure requirements for governance, strategy and decision-making, and connected information appropriate to their stated disclosure objective? Why or why not?*

Comment: The disclosure requirements on "Governance", "Strategy and decision-making", "Connected information" highlighting "trade-off" between sustainability-related risks and opportunities is not appropriate to the stated disclosure objective of long-term enterprise value.

Why not appropriate - Rationale: In a free market economy, the sustainability-related risks or externality created by a for-profit entity's operations on the environment and the community cannot be avoided. However, an entity has corporate social responsibility to disclosure information on the entity's governance, strategy and decision-making, and connected information on processes to minimize the sustainability-related risks imposed on the environment and the community to create long-term enterprise value. The unintended sustainability-related risks or negative externalities imposed by the entity's operations on the environment and the community while exploring opportunities to create value for the enterprise will create tension or paradox between these risks and opportunities.

Enterprises have used "trade-offs' in governance, strategy, and connected information decision-making to deal with the sustainability-related paradox or tension. However, the latest research developments in the field of sustainability for shared value creation have highlighted the importance of synthesizing the sustainability-related risks and opportunities to achieve long-term enterprise value. Hence, disclosure of financial information on synthesizing sustainability-related risks and opportunities to investors, lenders, and other creditors to assess more effectively an entity's enterprise value which is the objective of IFRS Sustainability Disclosure Standard.

<u>Following suggested alternative which ISSB should consider as amendments to the Exposure Draft</u>:

Governance (paragraph-13 (e))

Paragraph-13 (e) How the body and its committees consider ***synthesizing*** sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any ***assessment and analysis of sensitivity to uncertainty of the synthesis effects that may be required***.

Strategy and decision-making (paragraph 21 – c)

Paragraph-21 (c) ***A synthesis approach*** to sustainability-related risks and opportunities were considered by the entity (for example, in a decision on location of new operations, ***a synthesis effect of the employment opportunities the operations would create in a community and simultaneously minimize the environmental impacts of those operations***, and the related effects on enterprise value).

Paragraph-44 (b) an explanation of the potential options that were evaluated when an entity assessed its sustainability-related risks and opportunities, and the consequences of its decisions to address those risks and opportunities, including ***the synthesis effect*** that were considered, as detailed in paragraph 21(c). For example, an entity might need to explain how a decision to restructure its operations in response to a sustainability-related risk could have consequential effects on the future size and composition of the entity's workforce ***which will have financial implications on the entity in minimizing the harm imposed on the workforce and the community***.

Please include the definition provided below for **'synthesis effect disclosure'** to **Appendix A - Defined terms**:

> *Disclosure about financial information on synthesizing the paradox of sustainability-related risks and opportunities in an entity's operations to assess enterprise value.*

The above definition is developed based on the following sample of two articles:

- Mariappanadar, S., and Kramar, R. Sustainable HRM (2014). The Synthesis Effect of High Performance Work Systems on Organisational Performance and Employee Harm. *Asia-Pacific Journal of Business Administration*, 6 (3), 206-224.
- Hahn, T. (2015). Reciprocal stakeholder behavior: A motive-based approach to the implementation of normative stakeholder demands. *Business & Society*, *54*(1), 9-51.

Brief Profile

Dr. Sugumar Mariappanadar

Sugumar is one of the top two internationally acclaimed researchers who have shaped the field of sustainable HRM since 2000 to help organisations to achieve ESG sustainability outcomes. Sugumar is Fellow – College of Organisational Psychologists – Australian Psychological Society (APS), and Certified Academic HR (CAHR) of the Australian Human Resource Institute (AHRI). He has published more than fifty research articles in peer-reviewed international journals, book chapters and refereed conference publications. He has the distinction of publishing the first international book on Sustainable Human Resource Management: Strategies, Practices and Challenges published by Macmillan International, London (2019).

He has delivered keynote addresses to various international conferences and conducted workshops on sustainability and sustainable HRM in the American Academy of Management (AOM) Annual meetings (2019, 2020 and 2021), and conferences in Europe, Asia, Australia, and New Zealand. He has also contributed to changes to international work health and safety standards (GRI 403 - 2018) of Global Reporting Initiatives (GRI) for Sustainability, Amsterdam. He has helped organisations in business process analysis and management systems development and has conceptualised and developed management analytics software for businesses.

Nicholas Barnett

Nicholas is a governance expert and experienced practitioner, and has been a director, business leader and consultant for over 35 years. He has carried out evaluations of the performance and effectiveness of more than 150 boards of organisations in most industries and of all shapes and sizes across Australia and overseas.

He is Executive Chairman and a co-founder of Board Benchmarking and Insync, a former chairman of Ansvar Insurance, First Samuel and Ambit Group, a former director of Mission Australia and a former partner of KPMG Australia. He is a Fellow of the Australian Institute of Company Directors (FAICD).

Nicholas is an author, media commentator and expert in governance, leadership, culture, and gender diversity. He helps organisations discover, articulate, and embed their organisation's ethical purpose, compelling vision and authentic values into their organisation's plans, culture, decisions, and actions. He authored GPS for your Organisation: How to energise your employees and build sustainable high performance. He also co-authored, Why Purpose Matters: and how it can transform your organisation.

29 July 2022

International Sustainability Standards Board
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By email: commentletters@ifres.org

General Requirements for
Disclosure of Sustainability-related Financial Information
and Climate related disclosures

The Australian Financial Markets Association (AFMA) represents the interests of over 120 participants in Australia's financial markets. Our members include Australian and foreign owned banks, securities companies, treasury corporations, traders across a wide range of markets and industry service providers. They are the major providers of wholesale banking and financial market services to Australian businesses and investors.

AFMA is responding to the International Sustainability Standards Board (ISSB) request for comment on ISSB *[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *[Draft] IFRS S2 Climate-related Disclosures*.

General objective supported

AFMA supports the general objective for standards to provide a comprehensive global baseline of sustainability-related disclosures designed to meet the information needs of investors in assessing enterprise value. While achieving this objective is desirable for a number of public policy reasons, principle of which is to support the Paris Agreement COP26 transition to net zero emissions, there is a huge task and challenge facing reporting entities to get access to the data that will enable reporting.

Data collection infrastructure is the fundamental building block on which reporting metrics and targets will rely. The settlement of consistent disclosure standards is essential for defining what data and systems need to be put in place. From an Australian perspective an efficient data collection infrastructure needs to be put in place which will require time and sequencing over a transition period. The current availability and reliability of data and methodologies will present a medium-term challenge. For Australia a phased approach to adoption across entity types, sectors and/or sizes will be needed.

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Therefore, structured transition periods will be required for a range of specific clearly defined and bounded disclosures. The financial services sector is dependent on its customer base being able to report information for their dependent disclosures. This is particularly relevant to Scope 3 Climate disclosures, which are dependent on established reporting of Scope 1 emissions by clients of financial institutions.

Realistic path

While some Australian reporting entities such as large globally connected listed entities and heavy emitters are familiar with voluntary disclosure and are well placed to lead the way for the introduction of these new disclosure standards, the breadth of entities that would be required to report means that many others will require time to scale up their expertise and capacity. This ability to develop capability is not solely dependent on management decision making support but more critically on the significant human resource constraints in the Australian economy. At present there are simply not the trained staff available, both because of the general shortage of workers and the need to develop training courses and then train a cadre of people to do the required work.

Regardless of the desire to move expeditiously, the training process along with the development of data collection systems will take time. The financial services sector is more aware than other sectors given the volume of regulatory change it has dealt with over the last fifteen years of the enormous scale and realities of the task facing industry in making the proposed disclosure regime work.

The easy part of the task is setting the disclosure standards, the hard work lies in making them a reality. AFMA members are committed to the task on the basis that implementation recognises how long and hard the road will be and realistic compliance expectations that take account of realities are set.

Responses to consultation questions

AFMA's detailed responses to key questions in the consultation Exposure Drafts in the following attachment.

Please contact either David Love on +61 02 9776 7995 or by email at dlove@afma.com.au in regard to this letter.

Yours sincerely

David Love
General Counsel & International Adviser

AFMA Comments on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

July 2022

Consultation Question	Response
1. Overall Approach	
Question 1.a: Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?	The language of 'all of the sustainability-related risks and opportunities to which the entity is exposed' is unbounded and therefore problematic. There two apparent objectives in this: 1. The first is suggesting that there is a general framework for sustainability-related financial disclosures. 2. The second addresses transitional support until the full suite of standards is developed. It is suggested that the two points are separated from one another to provide more clarity. The evolution of sustainability standards should be catered for, but during the initial transition period there needs to be a clearly defined and bounded set of sustainability-related risks. The process for identifying significant sustainability-related risks and opportunities needs to be clear and objectively understood. The requirements do not meet this objective. To this end further work is required which goes beyond the investor community to identify the material/significant sustainability issues that entities are being asked to address at present. There needs to be a clearly defined set of risks that need to be looked to.
Question 1.b: Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?	
Question 1.c: Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?	If an issue is material reporting entity would look to the specific disclosure standards for reporting purposes, but the initial identification of issues should sit within S1 and be separate from S2 and future standards.

Consultation Question	Response
Question 1.d: Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?	We support the objective that clearly set criteria would enable external assurance to occur. As presented, we do not think the Exposure Draft provides a suitable basis. The issue of assurance processes is considered to be a critical area of challenge with practical implementation of the requirements. S1 in its present state does not provide criteria that would provide enough clarity for an assurance process that would meet prospective rules-based compliance expectations in Australia.
2. Objective	
Question 2.a: Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?	The use of the adjective 'significant' in relation to disclosure of material information about all of the sustainability-related risks and opportunities detracts from clarity. The disclosure test based on what is 'significant' is a problem to Australian users and preparers. The concept of 'significant' is unclear. Use of the term under Australian corporate law has proved to be highly problematic as it requires reporting entities to determine the significance according to circumstances opening institution up to a high degree of compliance risk. It is noted that the concept of 'material'.
Question 2.b: Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?	'Sustainability' is not defined. While we appreciate the concept can be differently understood by various stakeholders and achieving global consensus around this the term is central to reporting and meeting an assurance standard. Effort must be made to put boundaries around it subject to the possibility that its scope may change over time.
3. Scope	
Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?	Yes, from an Australian perspective in which the domestic AASB accounting standards are in accordance with IFRS Accounting Standards.

Consultation Question	Response
4. Core Content	
Question 4.a: Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?	The basis of alignment is the TCFD reporting principles. As the TCFD has already gained significant acceptance alignment of the disclosure objectives on this basis is supported. Account needs to be taken of the fact that governance, strategy and risk management are integrated into general frameworks for financial reporting and prudential regulation requirements and sustainability and climate are not, and should not, be treated as independent elements. They are part of a broader integrated framework and cannot be simply disaggregated.
Question 4.b: Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?	Generally, disclosure of governance, strategy, risk management and metrics and targets is being done by entities reporting under the TCFD principles. Strategy should be directed to measures to be undertaken by the entity and not demand release of commercially sensitive information to competitors. Again, the point is made that these fit within an integrated broader financial and prudential reporting framework. Specific content should not be required in regard to these matters.
5. Reporting Entity	
Question 5.a: Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?	This is supported.
Question 5.b: Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?	A reasonable expectation should be set for this requirement that does not demand excessive granularity and specificity.

Consultation Question	Response
Question 5.c: Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?	Account needs to be taken of situations where group consolidation might combine entities that are not normally consolidated at the local level. This is especially important in the case of financial institutions which use special purpose corporate entities as funding and capital holding vehicles which are not part of the normal course of business.
6. Connected Information	
Question 6.a: Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?	This is supported. However, it is not clear how this could be done. There should be guidance to help reporting entities understand how to do this.
Question 6.b: Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?	The idea that connectivity between thematic areas and between financial and non-financial is supported, but guidance is needed.
7. Fair Presentation	
Question 7.a: Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?	This is an area for special Australian attention given local statutory requirements. The ability to present 'fairly' is dependent on bounded criteria within S1 to determine what are sustainability-related risks and opportunities. At present paragraphs 51-54 do not provide enough clarity around the considerations that would need to be taken into account to meet assurance and compliance expectations under rules-based standards in Australia. Aggregated reporting is the preferred basis.
Question 7.b: Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.	Current wording presents a challenge as is too broad from a compliance perspective. Sources of guidance are framed in the Exposure Draft as a requirement to consider them all. This wording needs to be amended to reflect the intention that it is guidance to help identify sustainability issues and relevant disclosure metrics.

Consultation Question	Response
8. Materiality	
Question 8.a: Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?	This is not clear enough Materiality for sustainability matters has greater qualitative aspects compared to financial materiality. The Exposure Draft refers to the IAS 1 definition but qualifies this by saying it will vary as sustainability is different and also says it needs to be assessed in relation to enterprise value.
Question 8.b: Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?	In answer to this question we come back to our general theme that the Exposure Draft is too vague and that further work is required to identify sustainability-related risks and opportunities with clear criteria and boundaries and what would be material.
Question 8.c: Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?	The Illustrative Guide is helpful but further development is needed to reflect our response to Question 8.b
Question 8.d: Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?	Yes, this is necessary, as there is a need to reconcile these disclosures with existing Australian law on corporate governance disclosure requirements.
9. Frequency of Reporting	
Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?	Over time this is a desirable objective but at present there are not the human and operational resources available in Australia to do this. The time gap initially should be limited.
10. Location of Information	
Question 10.a: Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?	This is supported subject to the answer in Question 9.

Consultation Question	Response
Question 10.b: Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?	None identified for Australia.
Question 10.c: Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross referenced? Why or why not?	The same answer to Question 9 qualifies this desirable objective that over time this is a desirable objective but at present there are not the human and operational resources available in Australia to do this.
Question 10.d: Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?	The statement in the Exposure Draft should more clearly reflect the intention stated in Question 10.d.
11. Comparative information, sources of estimation and outcome uncertainty, and errors	
Question 11.a: Have these general features been adapted appropriately into the proposals? If not, what should be changed?	No comment.
Question 11.b: Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?	Differences are likely to result from 'better' estimation methods not 'errors'. The rate of change will be significant in respect to methodology and modelling development and improvement as well as data acquisition, quality, and storage creation. These developments may enable more targeted scenario analysis or emissions factors in subsequent reporting periods and therefore could lead to disconnect in metrics from one reporting period to the next. The starting assumption is that given the need to build data collection systems for metrics which will take time and likely improve the ability to provide updated information in subsequent years for better comparative purposes as long as there are no compliance consequences flowing from such updates as long as they are clearly marked as such.

Consultation Question	Response
Question 11.c: Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?	No comment.
12. Statement of Compliance	
The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?	IFRS and ISSB standards are applied through domestic law in Australia. This is a matter for domestic law implementation.
13. Effective Date	
Question 13.a: When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.	ISSB standards would be applied through domestic law in Australia. This is a matter for domestic law implementation.
Question 13.b: Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?	The concept of 'relief' is a matter for domestic law implementation.
14. Global Baseline	
Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?	Establishing a global baseline for disclosure is desirable.

Consultation Question	Response
15. Digital Reporting	
Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?	In principle this is supported. However, systems and transition arrangements need to be put in place for this to occur.
16. Costs, benefits and likely effects	
Question 16.a: Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?	The desirability of globally, consistent sustainability disclosure standards is being strongly articulated by the investor community and they will be the main beneficiary. Without exaggeration, the costs of implementing these standards will be truly enormous given that data collection systems need to be built from scratch in many cases and the range of entities is huge at a global scale. Using the baseline of other regulatory reporting reforms such as OTC Derivatives transaction reporting or the Consumer Data Right which had very clear defined sets of data collection points we are talking in terms of billions of dollars in initial system set up costs in one jurisdiction alone like Australia. The scale, challenge and time to do this cannot be underestimated. The beneficiaries who are the consumers of the reporting will enthusiastically push for further and faster, however, they will not bear the direct cost. This reporting will impose another additional costly regulatory burden on businesses. This is not to be read as opposition to the social desirability on setting out on this course but a clear headed note of realism needs to be sounded by those who will do the work and bear the cost of undertaking this project about expectations on how soon and how fast.

Consultation Question	Response
Question 16.b: Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	As indicated in answer to Question 16.a these standards will impose a big regulatory burden on businesses. Beyond initial system establishment costs for data collection these need to be maintained on an ongoing business. Additional professional services fees will be incurred for the preparation of assurance reports as well as internal costs for the preparation of statements. The human resource element also needs to be taken into account. Staff need to be trained to professional levels of competence in a world which is facing serious staffing shortages in relation to regulatory reporting, compliance and assurance work.
17. Other Comments	
Do you have any other comments on the proposals set out in the Exposure Draft?	***Scalability*** In following on from the answers to Question 16 thought needs to be given to scalability. At present only major public companies prepare TCFD style reports. Given resource constraints, cost and complexity more thought needs to be given to how, and if, smaller businesses will be able to meet these disclosure requirements. While major financial institutions and public companies are familiar with the challenges of regulatory reporting and are embarked on voluntary reporting the general application of such disclosure across the sweep of incorporated businesses with vastly varying levels of sophistication needs to be taken into account. Again, realism needs to be applied to expectations.

AFMA Comments on Exposure Draft IFRS S2 Climate-related Disclosures

July 2022

Consultation Question	Our Response
• **Objective of the Exposure Draft**	
Question 1.a: Do you agree with the objective that has been established for the Exposure Draft? Why or why not?	AFMA supports the establishment by ISSB of a global baseline for disclosure and agrees that consistent and comparable disclosures are necessary.
Question 1.b: Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?	Yes
Question 1.c: Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?	Yes
• **Governance**	
Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?	Climate governance disclosure needs to take account that it will be fitting with an existing general governance disclosure framework. This is particularly the case for financial institutions which are heavily regulated and sit under prudential rules. Governance is an integrated process and climate governance should not be, and it is difficult, to disaggregated it from it's the general governance disclosure framework.
• **Identification of climate-related risks and opportunities**	

Consultation Question	Our Response
Question 3.a: Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?	Further consideration needs to be given to this in the context of financial institutions. Standard financial metrics of climate-risks to financial institutions can be subject to greater tail-risks than those of other financial risks. For example, in the case of credit risk, estimates of metrics such as probability-of and loss-given default only offer a central expectation of climate-related risks to either individual, or sets of, financial institutions. They may therefore provide only limited information on the tail-risks around these estimates, which in the case of climate-related risks can be particularly substantial. Metrics of financial institutions' exposures to climate-related risks are generally subject to greater uncertainty than those relating to other financial risks. This is partly because the drivers of climate-related risks arise from outside the financial system. Multiple layers of uncertainty therefore arise in their translation into economic variables.
Question 3.b: Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?	The current lists of topics is too expansive and are in excess of what can at present be reasonably produced. There should be a simple set of core requirements. Selection of the requirements should be based on a use case justification.
• **Concentrations of climate-related risks and opportunities in an entity's value chain**	
Question 4.a: Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?	Large corporations and groups have multifaceted and complex supply chains. There needs to be guidance and realistic boundaries set for these disclosures. A preferred approach is to ask for how risks are identified and the processes for doing this. In addition, there are limitations on the level of disclosure that can be expected because this is an area of high commercial sensitivity and need for secrecy from competitors.

Consultation Question	Our Response
Question 4.b: Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?	This should be qualitative based on processes for identification indicated in answer to Question 4a.
• **Transition Plans and Carbon Offsets**	
Question 5.a: Do you agree with the proposed disclosure requirements for transition plans? Why or why not?	Common scenarios need to be identified to make this workable and criteria set for credible carbon offsets.
Question 5.b: Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.	No comment
Question 5.c: Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?	Realism is required in relation to this proposal. Considerably more work needs to be done on the quality of availability of carbons offsets for them to use in the way envisaged and on the global scale required.
Question 5.d: Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?	See answer to Question 5.c
• **Current and Anticipated Effects**	
Question 6.a: Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?	There needs to be established methodologies for doing the modelling. Estimations may produce very different outcomes.

Consultation Question	Our Response
Question 6.b: Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?	Assessing financial institutions' exposures to climate-related risks first requires data on the exposures of financial institutions' assets and liabilities to such risks. While such information can be partially obtained from proprietary firms or some supervisory datasets it is still far from a fully developed date source system.
Question 6.c: Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?	While greater confidence can be placed in near term disclosures as these move out over the medium and longer term much higher uncertainty will make the quality of such disclosure problematic. The exposure of the financial institutions to climate-related risks is subject to substantial uncertainty. The underlying drivers of climate-related risks, including the future path of emissions, are themselves highly uncertain. Estimates of increases in global temperatures and changes in both the physical and transition risks also vary considerably. The potential impact of the crystallisation of such risks on a financial institution and the financial market more generally is subject to considerable tail risks. These multiple layers of uncertainty mean that the impact of climate-related risks on the financial system is subject to uncertainty that may exceed that concerning other types of financial risk.
• **Climate Resilience**	
Question 7.a: Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?	Yes

Consultation Question	Our Response
Question 7.b: The Exposure Draft proposes that if an entity is unable to perform climate related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy. (i) Do you agree with this proposal? Why or why not? (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not? (iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14© and if so, why?	Scenario analysis of climate-related risks differs substantially to other types of stress testing. Time horizons need to be longer, risks are highly non-linear and dependent on short-term policy actions, and back-testing is hard or impossible because of limited past data. A balance needs to be struck between the need for standardised scenarios, versus the need to tailor to the specifics of risks faced by different reporting entities.
Question 7.c: Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?	No comment
Question 7.d: Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?	No comment
Question 7.e: Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?	No comment
• **Risk Management**	

Consultation Question	Our Response
Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?	The primary purpose of disclosing risk management processes is to provide context for how the reporting entity thinks about and addresses the most significant risks to successfully executing its business objectives and accomplishing its strategy. Climate change considerations would be appropriately included in the elements of risk management processes consistently and proportionately, taking into account other risks to which the risk management analysis applies. This implies that interconnections between climate-related risks and other risks should be considered as part of an integral process where the existing elements are applied to a limited business or strategic planning horizon which has realistic validity in the near term but becomes more speculative into the medium term. This is the key point of challenge and distinction in doing so as integration would have to take account of the longer time horizons over which climate-related risks might materialise.
• **Cross-industry metric categories and greenhouse gas emissions**	
Question 9.a: The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?	Metrics of financial institutions' exposures to climate-related risks are generally subject to greater uncertainty than those relating to other financial risks. This is partly because the drivers of climate-related risks arise from outside the financial system. Multiple layers of uncertainty therefore arise in their translation into economic variables. Modelling the impact of these estimates on the future values of assets and liabilities of financial institutions introduces further uncertainty. There needs to be further consideration of transitional arrangements for these disclosures to support entities to continually improve their disclosures but recognising the challenges of accessing the required data within the timeframe

Consultation Question	Our Response
Question 9.b: Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.	There is a lack of reliable historical data with which to assess the accuracy of metrics of climate-related risks. Financial models that infer the impact of vulnerabilities on financial institutions generally rely on past data on their past impact. In order to ensure such inferences are robust, such past data needs to be extensive in its history and consider multiple instances of the crystallisation of risks. However, in the case of climate-related risks, historical observations of the impact of climate-related risks on financial institutions are very limited.
Question 9.c: Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?	The main advantage of using GHG accounting is that a single metric can be used to encompass an entire portfolio rather than just segments of the portfolio at the asset class level. However, multi-asset portfolios are more difficult. Data for financial institutions' exposures to transition risks are also subject to numerous gaps. GHG emissions data are still generally not available at the level of individual firms, and those data that are available are in some cases limited to Scope 1 (direct) GHG emissions, rather than capturing emissions across their value chains. There are still significant challenges facing application of the GHG Protocol: namely • Emissions data availability. • Inability to track "green" activities directly (except through avoided emissions accounting). • Lack of accounting standard and agreement on some measurement issues. • Data availability and confidentiality issues outside listed companies and projects. • Difficult to apply to off–balance sheet services.
Question 9.d: Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?	For financial institutions disaggregation of such data would not be possible.

Consultation Question	Our Response
Question 9.e: Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: i. the consolidated entity; and ii. for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?	For financial institutions such separate disclosure would have little purpose given the closely linked internal financial support within their groups.
Question 9.f: Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?	Disclosures of Scope 1 and 2 emissions are generally more available than those of Scope 3. This is likely due to difficulties encountered by reporting firms in calculating emissions across the entirety of their value chain.
• **Targets**	
Question 10.a: Do you agree with the proposed disclosure about climate-related targets? Why or why not?	This is challenging as there is a lack of standardised metrics with which to calculate and characterise targets for reducing climate-related risks.
Question 10.b: Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?	We suggest that greater certainty is needed and to identify the Paris Agreement as the baseline source of international agreement.
• **Industry-based requirements**	
Question 11.a: Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?	• Whilst we support disclosure of industry specific metrics and a common global baseline, we are already concerned with the volume of SASB industry metrics within S2 and therefore consider this could be prohibitive to adoption within jurisdictions, particularly as more standards are developed. • Further, the choice of metrics for industries reflects the US market and therefore those metrics are less relevant in other jurisdictions such as Australia. • We recommend that industry metrics are encouraged rather than specified, with SASB metrics suggested as a source of industry metrics.

Consultation Question	Our Response
Question 11.b: Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?	Supported
Question 11.c: Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?	Supported
Question 11.d: Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?	Cross-industry requirement to disclose Scope 3 emissions would be sufficient.
Question 11.e: Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?	Exposures to the four 'carbon-related 'non-financial groups: energy; transportation; materials and buildings; and agriculture, food, and forest products with the list of industries associated with these groups is indicative and needs to be considered further in the context of an economy like Australia.
Question 11.f: Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?	No comment
Question 11.g: Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?	No comment
Question 11.h: Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?	For financial institutions Scope 3 is a longer-term reporting goal as it is dependent on Scope 1 and 2 reporting information becoming available to them from their whole client base.

Consultation Question	Our Response
Question 11.i: In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?	No comment
Question 11.j: Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?	No comment
Question 11.k: Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general-purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.	No comment
Question 11.l: In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?	No comment
• **Costs, benefits and likely effects**	

Consultation Question	Our Response
Question 12.a: Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?	The desirability of globally, consistent climate disclosure standards is being strongly articulated by the investor community and they will be the main beneficiary. Without exaggeration, the costs of implementing these standards will be truly enormous given that data collection systems need to be built from scratch in many cases and the range of entities is huge at a global scale. Using the baseline of other regulatory reporting reforms such as OTC Derivatives transaction reporting or the Consumer Data Right which had very clear defined sets of data collection points we are talking in terms of billions of dollars in initial system set up costs in one jurisdiction alone like Australia. The scale, challenge and time to do this cannot be underestimated. The beneficiaries who are the consumers of the reporting will enthusiastically push for further and faster, however, they will not bear the direct cost. This reporting will impose another additional costly regulatory burden on businesses. This is not to be read as opposition to the social desirability on setting out on this course but a clear headed note of realism needs to be sounded by those who will do the work and bear the cost of undertaking this project about expectations on how soon and how fast.
Question 12.b: Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	As indicated in answer to Question 12.a, these standards will impose a big regulatory burden on businesses. Beyond initial system establishment costs for data collection these need to be maintained on an ongoing business. Additional professional services fees will be incurred for the preparation of assurance reports as well as internal costs for the preparation of statements. The human resource element also needs to be taken into account. Staff need to be trained to professional levels of competence in a world which is facing serious staffing shortages in relation to regulatory reporting, compliance and assurance work.
Question 12.c: Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?	No comment
• **Verifiability and enforceability**	

Consultation Question	Our Response
Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.	No comment
• **Effective date**	
Question 14.a: Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?	No comment
Question 14.b: When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.	No comment
Question 14.c: Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?	No comment
• **Digital Reporting**	
Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?	In principle this is supported. However, systems and transition arrangements need to be put in place for this to occur.
• **Global Baseline**	

Consultation Question	Our Response
Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?	No comment
• **Other Comments**	
Do you have any other comments on the proposals set out in the Exposure Draft?	

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15 July 2022

International Sustainability Standards Board
Columbus Building
7 Westferry Circus, Canary Wharf
London, E14 4 HD
United Kingdom

Via email: commentletters@ifrs.org

Dear International Sustainability Standards Board (ISSB)

Draft IFRS S1 General Requirements for Disclosure of Sustainability Related Financial Information; Draft IFRS S2 Climate-related disclosures

Thank you for the opportunity to comment on the two draft standards released by the ISSB related to general sustainability related financial information (**Sustainability Standard**) and climate related disclosures (**Climate Standard**). The Australian Institute of Company Directors (**AICD**) welcomes the opportunity to provide an Australian governance perspective to this critical global consultation.

The AICD is the largest director institute in the world, with a mission to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of more than 49,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits, large and small businesses and the government sector.

The AICD strongly supports the principle of harmonised international sustainability standards under the ISSB umbrella and urges a consistent approach across jurisdictions. We have consistently heard from members that there is a need to consolidate competing existing non-financial reporting frameworks, and to address growing investor demand for high quality, comparable disclosure. Such reporting will also allow companies to better benchmark their sustainability practices and see where there may be room for improvement. A fragmented regulatory approach across jurisdictions would undermine these outcomes.

In our view, the two draft Standards are a strong starting point from which a global baseline can be developed. In the Australian context, we recognise that comprehensive adoption of these new standards, at least in their current form, would represent a significant enhancement on current reporting practices, with corresponding challenges.

The AICD looks forward to playing a constructive role in the adoption of these standards globally and in the Australian market. In our view, an appropriately phased in approach that recognises the varying levels of maturities within markets and sectors will be critical to the Standards' successful adoption. We consider that the initial focus should be on for-profit entities, especially those listed on market exchanges or with a large carbon footprint.

Enclosed with this cover letter are our detailed responses to the Sustainability Standard (**Attachment A**) and Climate Standard (**Attachment B**).

Executive Summary

The AICD welcomes the current consultation and provides the following key comments:

1. We strongly support the goal of high quality, consistent and comparable sustainability reporting. All stakeholders recognise that a consolidation of existing frameworks is crucial to the success of the ISSB project and meeting the evolving needs and expectations of investors. It would be counter-productive for individual jurisdictions to adopt their own bespoke regulatory approaches.

2. We support climate change being identified as the first area to be the subject of a specific ISSB standard. We acknowledge the varying regulatory and disclosure initiatives taking place globally, and the value in a harmonised approach across jurisdictions. The TCFD framework is a solid foundation for any such standard.

3. We strongly recommend that further work be done to clarify and refine the Standards so that they are capable of reasonable, independent assurance. In our view, in their current form, it will be very difficult to achieve this. Without such assurance, the value of the Standards will be considerably diminished. As a matter of priority, work on how assurance will take place should be pursued in parallel with consultation on the substantive elements of the Standards. Further, while we agree that a degree of specificity is important, a more principles-based approach to the proposed requirements would allow flexibility to evolve with market practice and expectations.

4. We urge a carefully designed phased-in approach that recognises the considerable uplift in practice and capability that will be required in markets such as Australia. Appropriate transitional arrangements will need to be developed that recognise the extent of preparatory work required.

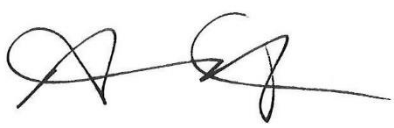
5. We note there are unique aspects of the Australian legal environment that, if not addressed, will hinder comprehensive adoption. Liability settings for the kinds of forward-looking statements contemplated by the Standards will need to be appropriately calibrated, or else risk unhelpful, generalised disclosures.

6. We highlight current data and workforce skills gaps that, in the short term, will make comprehensive and consistent adoption of the Standards very difficult to achieve. The lack of clear, well accepted methodologies for measuring key metrics such as scope 3 greenhouse gas emissions, is one such area. The ISSB, as well as domestic policy-makers and standard-setters, will need to bear this in mind when developing implementation plans and devising appropriate transitional arrangements.

Next steps

We hope our submission will be of assistance to the ISSB in its important and timely work. If you would like to discuss any aspects further, please contact Christian Gergis, Head of Policy at cgergis@aicd.com.au.

Yours sincerely,



Angus Armour FAICD
Managing Director & CEO

Australian Institute of Company Directors

Response to Questions for Respondents

Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 1—Overall approach

(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

The AICD recommends the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (**Exposure Draft**) could be revised to create a separate Conceptual Framework and General Standard. We are concerned that the Exposure Draft currently lacks clarity because it is attempting to fulfil both these functions.

Sustainability reporting would benefit from a Conceptual Framework for Sustainability Reporting as has been developed for financial reporting by the IASB. In the same manner as the Conceptual Framework for Financial Reporting, it would set out the fundamental concepts for sustainability reporting that will guide the ISSB in developing Standards and will help to ensure that subsequent Standards are conceptually consistent. Much of the content of the Exposure Draft would then form part of the Conceptual Framework.

We note that the ISSB is intending to issue future Standards in sustainability areas with S2 being the first example. In our view, the ISSB therefore needs an overarching Standard that sets out general requirements for disclosure, particularly in the transition period when new Standards are being released. However, a Standard must have a clear scope. In our view, the Exposure Draft does not meet that requirement. This is most clearly seen in the processes set out in paragraphs 51 and 54 of the Exposure Draft, and the lack of an articulated definition of sustainability or sustainability related financial information (see response to Question 2 below).

A clearly defined general Standard that sets out the process which an entity needs to undertake when considering materiality and sustainability-related disclosures should be contained within a separate Standard. This will have most of its work to do as a transitional Standard while the ISSB issues future Standards, however it will still have application even when this initial process is completed.

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

For the reasons set out above we believe the Exposure Draft lacks the precision necessary to meet its proposed objective.

(c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

For the reasons set out above, because the proposed requirements lack precision and a clearly defined approach there is a lack of clarity. This could be resolved by separating the components of the Exposure Draft into a Conceptual Framework and a narrower General Standard.

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

Based on the drafting of the Exposure Draft, it appears it will be very difficult to determine whether an entity has complied with the Standard and to obtain relevant reasonable assurance. A particular concern lies with paragraphs 51 and 54 which mandate an open-ended and unsettled process for the identification of sustainability-related risks and opportunities. See our response to Question 7(b) for more detail.

We are concerned that the utility of reporting under the Standards would be substantially diminished if it is very difficult to obtain reasonable assurance. We urge the international standard setters to undertake a parallel process around assurance as quickly as possible as this will inform stakeholder views on what is legitimately within the scope of the disclosure obligations contained within ISSB standards. We note that, over time, assurance may be assisted by developments in technology and that novel solutions may needed to meet these evolving needs.

Question 2—Objective (paragraphs 1–7)

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

Yes, we believe the proposed objective of disclosing sustainability-related financial information is clear.

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

No, the definition of 'sustainability-related financial information' is unclear because the Standards do not provide a definition of 'sustainability'. We note that the ISSB goes close to adopting the UN's definition of sustainability in paragraph BC30 of the Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

We believe that for the Standards to provide sufficient clarity, they require the ISSB to propose a definition of 'sustainability' in the recommended Conceptual Framework document. The ISSB should consult on a definition which takes the UN definition of 'sustainability', set out in paragraph BC 30, as its starting point. An appropriately contained definition will be necessary to make the Standards workable in practice.

We also believe the use of the term 'significant' before 'sustainability-related risks and opportunities' which appears throughout the Exposure Draft is unclear. The term 'significant' is not defined. The interaction between the judgment by an entity as to whether a sustainability-related risk or opportunity is 'significant' or 'material' is also unclear. There is ambiguity over whether the entity is being requested to make two separate judgments or the same judgment in relation to the sustainability-related risk or opportunity.

We suggest that this could be resolved in two potential ways. Firstly, by replacing 'significant' with 'material'. Alternatively, by inserting a definition of significant sustainability-related risk and opportunity which states: "a sustainability-related risk or opportunity will be significant when it is material sustainability-related financial information."

Question 3—Scope (paragraphs 8–10)

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

No comment. Australia applies the IFRS Accounting Standards.

Question 4—Core content (paragraphs 11–35)

(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

We support the TCFD-based structure of the Exposure Draft and the four headings of disclosure of Governance, Strategy, Risk Management and Metrics and Targets. We believe that, broadly speaking and where disclosure normally takes place - such as for entities listed on market exchanges - it is appropriate for entities to make disclosures in these areas. We also agree that boards should explain to investors how their governance structures reflect their oversight of sustainability-related risks and opportunities.

We express the same concerns already stated with the use of the word 'significant' in relation to the disclosure objectives around Governance and Strategy and our concerns around the lack of a definition of 'sustainability'. In other respects, the disclosure objectives are clear and appropriately defined.

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

We consider the disclosure requirements are broadly suitable to their stated disclosure objective. However, in our view, there should be a provision in the Standards allowing an entity not to make a disclosure where that disclosure might result in an unreasonable prejudice.

In Australia, management commentary is regulated by national legislation. The statutory scheme, which sets out the requirements for management commentary, allows an entity to omit material if it is likely to result in 'unreasonable prejudice' to an entity or part of a consolidated entity.[1]

The Australian securities regulator, the Australian Securities and Investment Commission (**ASIC**), which regulates management commentary, in its regulatory guidance states:

> *We think a useful approach to considering whether the publication of information would result in unreasonable prejudice is to identify the adverse consequences that are likely to occur (i.e. the prejudice), and then consider whether these consequences are unreasonable. We suggest that the consequences would be unreasonable if, for example, disclosing the information is likely to*

[1] Corporations Act 2001 (Cth) s.299A(3).

> *give third parties (such as competitors, suppliers and buyers) a commercial advantage, resulting in a material disadvantage to the entity.*[2]

ASIC's regulatory guidance notes that such material may include confidential and commercially sensitive information, where disclosure would unreasonably damage the entity's business. Examples could include a planned hostile takeover of a competitor or negotiations with potential new suppliers to address sustainability risks. Disclosures of this nature would result in a commercial advantage to other stakeholders, and a material disadvantage to the entity. As drafted, we are concerned that the Exposure Draft requires entities to disclose that strategy as part of their risk management.

We recommend the Exposure Draft be amended to allow an entity to omit the disclosure of information if it is likely to result in 'unreasonable prejudice'. As in the Australian market, an entity should be required to state that it has omitted information by relying on this exemption. Entities should be required to disclose the information once the disclosure will no longer result in unreasonable prejudice.

Question 5—Reporting entity (paragraphs 37–41)

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

Yes.

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

We believe that the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, is clear and capable of consistent application. We note the intention of the ISSB to release further Standards that will contain similar provisions to the industry-based disclosure requirements set out in Appendix B of the Exposure Draft of IFRS S2 Climate-related Disclosures. We expect that this will progressively narrow the discretion to be applied by preparers considering their disclosure obligations under this S1 general requirement. However, while we agree that a degree of specificity is important, a more principles-based approach would allow flexibility to evolve with market practice and expectations.

We note that, in the Australian context, these are not disclosures that entities would typically make and, accordingly, this is likely to result in more extensive disclosure with associated legal risks to manage. Preparers and entities will require time to adjust to this arrangement, were it to be introduced. Accordingly, appropriate transitional arrangements will likely be necessary in the Australian market to support comprehensive adoption and disclosure.

We believe it would be useful if the ISSB were to develop illustrative guidance to assist entities comply with these obligations, especially if clear practice emerges following their introduction.

[2] ASIC, Regulatory Guide 247, Effective disclosure in an operating and financial review, paragraph RG247.69.

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

Yes.

Question 6—Connected information (paragraphs 42–44)

(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

Yes, we agree with the proposed requirement to disclose connected information to enable users to have a clear understanding of the various information being disclosed.

We believe this would benefit from further illustrative guidance from the ISSB, particular as practice evolves and develops. Preparers may find it difficult to strike a balance of providing sufficient connecting information to users in reports, without overburdening the preparers and the users with excessive disclosure.

Question 7—Fair presentation (paragraphs 45–55)

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

Yes.

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

No, we do not agree with the provisions set out in paragraphs 51 and 54 of the Exposure Draft.

Our concern is the requirement that the entity 'shall consider' the sources of guidance set out in paragraphs 51 (a) through (d) and repeated in paragraph 54. The use of the word 'shall' makes this a mandatory process where the entity must consider all these forms of guidance. While paragraphs (a) and (b) refer to named Standards, paragraphs (c) and (d) are imprecise and contain open-ended requirements.

Were the paragraph to apply as currently drafted, an entity would be required to conduct an indefinite search of other Standards and practices in order to comply with the provision. In practice, it seems hard to understand how an entity would be able to comply with such a requirement. Similarly, such an approach may run counter to the widely endorsed goal of the ISSB project, being to create greater consistency and comparability of sustainability reporting.

As set out previously, to be capable of application, in our view a Standard must be precise and clearly demarcated. In our view, the mandatory consideration process set out in paragraphs 51 and 54 does not meet that requirement.

In Australia, directors must make a declaration that forms part of the financial statements, that the financial statements comply with the accounting standards and provide a true and fair view.[3] A director making a false declaration exposes themselves and the entity to civil and criminal liability.

As drafted, we believe that Australian directors would either be unable, or at the least very reluctant, to comply with a similar obligation in relation to the Exposure Draft. It would be very difficult for a director to assure themselves that the entity had complied with the imprecise and open-ended obligation as set out in paragraphs 51 and 54 and therefore that the report complied with the sustainability standards and provides a true and fair view.

Likewise, in our discussion with external auditors and their professional representatives, we understand, for the same reasons, that they believe this process will be very difficult to assure.

<u>The difficulty for directors to make a declaration that would form part of a sustainability report and to obtain external assurance over a report would, in our view, prevent adoption of the Standards as drafted in Australia and/or expose entities and directors to unreasonable legal liability risk</u>.

We understand the reason for the inclusion of paragraphs 51 and 54. We note that the ISSB is seeking coordination with other standard-setting bodies, particularly the GRI, a process we strongly support. Indeed we would urge as much consolidation of frameworks as possible to avoid the current fragmentation of sustainability reporting.

We also note from discussions post the release of the consultation drafts, that the release of further Standards on other subject-matters will mean the progressive narrowing of the application of this paragraph.

We suggest an alternate approach to paragraphs 51 and 54 where it is a non-mandatory process that assists entities identify sustainability-related risks and opportunities. This could be most easily achieved by deleting the word 'shall' and inserting the word 'may'. The use of the word 'may' would indicate that the function may be exercised or not exercised at the person's discretion.[4]

Question 8—Materiality (paragraphs 56–62)

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

Yes, Australian preparers are familiar with the IFRS definition of materiality. Please note this is subject to our earlier concern expressed about the need to define 'sustainability'.

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

Yes. The AICD does not support the inclusion of a 'double materiality' test. See our response to Question 14.

[3] Corporations Act 2001 (Cth) s. 295(4)(d).
[4] See Legislation Act 2001 (Cth), s.146.

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

The Exposure Draft proposes a significant increase in the amount of sustainability-related financial information that entities would be expected to disclose along a range of measures that would not fit the commonly accepted definition of 'sustainability' e.g. geo-political risk.

As per our comment to Question 2 (b) above, a definition of sustainability needs to be made clear and must be appropriately contained to make implementation of the Standard workable in practice.

Given the extent of the disclosure that the ISSB is suggesting is necessary, there should be extensive illustrative guidance with examples outlining how various types of risk might be disclosed.

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

Yes, doing otherwise would prevent adoption in some jurisdictions.

Question 9—Frequency of reporting (paragraphs 66–71)

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

Yes. Considerations may need to arise around periodic reports for less than a financial year. For example, in Australia, companies listed on the main market exchange (the Australian Stock Exchange (ASX)) are also required to prepare and file a half-year financial report and directors report.[5]

It would seem appropriate that sustainability-related financial disclosures would occur no more than annually and be released in conjunction with the annual financial report. The burden of more frequent data collection and reporting would not be cost effective nor necessarily yield more useful information, given six months is a relatively short period. There should be no corresponding requirement to release sustainability-related financial disclosures alongside any periodic report outside the annual reporting year.

In addition, we note that individual jurisdictions such as Australia will have separate continuous disclosure obligations (regarding the timely public release of market sensitive information) that entities will need to manage. Detailed comments on how these issues would apply in Australia are contained in our national jurisdictional submission.

Question 10—Location of information (paragraphs 72–78)

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

Yes. We support the concept of some flexibility in the manner in which an entity locates its sustainability-related financial disclosures, noting that different jurisdictions will employ different practices.

[5] Corporations Act 2001 (cth), s.302.

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

Yes. The Exposure Draft seeks to regulate disclosures that traditionally have formed part of management commentary. In Australia, management commentary is regulated by the Corporations Act and contains different requirements to that set out within the Exposure Draft, with additional requirements for companies listed on the Australian Stock Exchange (ASX). For example, there is a different materiality test applicable to that disclosure.

Were Australia to adopt the ISSB Standards there would need to be consideration of the conflict between the legislative requirements and any requirements set out in the Standards.

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross referenced? Why or why not?

Yes, this is a sensible and cost-effective way to provide for disclosure.

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

No comment.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

The proposals around estimation and outcome uncertainty raise some issues around forward-looking statements within the Australian jurisdiction which need to be made on a reasonable basis to avoid legal liability. See our response to question 16 for more details.

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

No comment.

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

Yes, we agree with the proposal.

Question 12—Statement of compliance (paragraphs 91-92)

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

Without regulatory adjustments, we have some concern about the application of the standards in Australia given the need for forward looking statements. Please see our answer to Question 16 for more details.

Question 13—Effective date (Appendix B)

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

In the AICD's view there will need to be transitional arrangements that will allow entities to roll out Standards over time and adjust systems and models. However, these are best resolved at a jurisdictional level, taking into account varying maturity levels.

(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

No comment.

Question 14—Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value.

Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

<u>Lack of Consolidation</u>

When we wrote to the IFRS Foundation supporting the establishment of the International Sustainability Standards Board, the AICD did so on the basis that we were looking for consolidation of existing reporting standards. The prospect of consolidating sustainability standards so as to remove the 'alphabet-soup' of Standards remains a key reason cited by Australian directors in support of the ISSB project.

We do not believe the Exposure Draft fully achieves that consolidation. Paragraphs 51 and 54 have the opposite effect as they mandate disclosure under all existing standards requiring entities to actually proactively search for other standards, even when they might not be seen as particularly relevant to their stakeholders. The main effect within Australia would be the rollout of SASB standards, a framework not widely applied in this jurisdiction. A recent survey of 250 entities listed on the ASX that reported against a framework or standard, found that a majority used TCFD (63 percent) or GRI Standards (55 percent). Reporting against the <IR> Framework (5 percent) and SASB Standards (26 percent) was less prevalent.[6]

This further supports the proposed amendments to paragraphs 51 and 54 of the Exposure Draft that we have suggested in response to question 7(b).

Indeed, we recommend the SASB standards not be incorporated by reference into the ISSB standards, without a more specific and detailed consultation being conducted.

More broadly, we believe it would be counter-productive for individual jurisdictions to adopt their own bespoke regulatory approaches (noting recent EU developments for example). In an inter-connected global economy, it is unreasonable for entities to be expected to comply with differing regulatory regimes, which would not only create compliance challenges but also reduce the consistency and comparability of sustainability reporting.

Investor focus

We note that the Exposure Draft is investor-focused with a financial materiality test based on enterprise value. This aligns the Exposure Draft with the SASB standards on which it is based. This means that the ISSB Standards differ from, for example, the GRI Standards and the CDP which cater to a broader range of stakeholders (including investors) seeking to understand an organisation's significant impacts on the economy, environment, or people.

By retaining its investor, financial-materiality and enterprise-value focus the Exposure Draft and any resultant standards are less likely to meet the needs of those broader range of stakeholders. This reduces the likelihood of consolidation of the ISSB Standards with other standards such as the GRI (although we welcome those two bodies' stated commitment to coordinate work programs and standard-setting activities). This investor and enterprise value focus may mean that preparers may be required or expected to continue to issue sustainability reports under frameworks such as the GRI to meet the needs of a broader group of stakeholders.

Notwithstanding this concern, we support the focus of the Exposure Draft. As noted, we do not support a double materiality test, a concept not generally applied in Australia. We believe that were the focus to be expanded to other stakeholders the scope of any resultant standards would be prohibitive and its complexity and the cost of implementation would likely mitigate against global adoption. The slightly narrower focus on enterprise value, investors and financial materiality will be easier for jurisdictions such as Australia to adopt, albeit still a very challenging prospect.

Question 15—Digital reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

No comment.

[6] KPMG and ASX. Adoption of Recommendation 7.4: Reporting on Environmental and Social Exposures. Analysis of disclosures made by listed entities between 1 January 2021 and 31 December 2021 at p.44. Available at: < https://assets.kpmg/content/dam/kpmg/au/pdf/2022/asx-corporate-governance-environmental-social-exposures.pdf>

Question 16—Costs, benefits and likely effects

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

On balance, the AICD considers the benefits will outweigh the costs.

Subject to refinements, and if implemented appropriately, the ISSB standards can help achieve a global baseline for sustainability related reporting which would allow for greater quality, consistency, and comparability. This improved disclosure will not only allow investors to make better informed investment decisions, and support more efficient global capital flows, but also support broader stakeholders to assess the sustainability performance of companies.

However, it must be acknowledged, that the proposed introduction of the ISSB standards will have a significant cost implication for many entities, including in the Australian market, which would be expected to report extensively on a range of matters that they do not currently. This will likely require a significant lift in resourcing from within entities along with the broader adviser community to allow robust, accurate, assurable disclosures to be made. In this regard, we note the particular challenges around forward-looking statement risk that will need be addressed (see Herbert Smith Freehills legal analysis below).

As noted previously, an appropriate transition phase must be built into implementation to recognise the significant undertaking involved, including uplift in skills and capability across global and domestic economies. For example, it appears that there is currently a shortage of ESG focused professionals capable of carrying out the work required by the Standards, both in terms of preparation of reports as well as assurance of them.

Costs will be more pronounced if the scope of the Standards is not appropriately demarcated, and/or implementation is rushed without working through the complex issues posed. This notwithstanding, there is a clear need for all parts of the global economy to work quickly and collaboratively to seek to achieve the targets of the Paris Agreement.

Some specific implementation issues in the Australian market are addressed in our response to the following question.

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

We wish to bring the ISSB's attention to certain regulatory and legislative arrangements that may affect the adoption of the ISSB Standards within Australia. While we do not suggest that these are matters that the ISSB necessarily need reflect within the Standards, we believe the ISSB should be cognisant of the arrangements and pressures that will affect local implementation, and which point towards a phased-in approach. We will engage on these matters in more detail within our jurisdiction.

The following is based on commissioned advice from global law firm, Herbert Smith Freehills, regarding domestic implementation of the proposed Standards.

Forward looking statement risk

Under s.769C of the Australian *Corporations Act*, where a person makes a representation with respect to any future matter (including the doing of, or refusing to do, any act), the representation will automatically be taken to be misleading if the person does not have reasonable grounds for making the representation. The subjective belief of the person at the time that the representation was made is immaterial, even if it was honestly held. Similar provisions are included in s.12BB of the *ASIC Act 2001* and s.4 of the *Australian Consumer Law* (**ACL**) and, in the case of the ACL in particular, the person making the representation is also deemed **not** to have reasonable grounds unless they adduce evidence to the contrary.

Accordingly, forward-looking statements place an evidential burden on the person who makes the representation, to adduce evidence that there were reasonable grounds for making it. Any representation in a periodic report that is not supported by reasonable grounds will automatically be deemed to be misleading, with associated penalties.

Many aspects of the proposed ISSB Standards require estimation or prediction of the impacts of risks and opportunities for the reporting entity, notwithstanding that those impacts are inherently unknowable, and the relevant disclosure would be speculative – and for that reason, likely to be questioned as not being based on reasonable grounds (and therefore misleading). For example, it is likely to be challenging (and potentially impossible) for a reporting entity to establish reasonable grounds with respect to its the required disclosure of the 'anticipated effects [of sustainability-related risks] over the short, medium and long term' as is required by paragraph 15(d) of the Exposure Draft.

Further, the Exposure Draft explicitly requires disclosure when there are not reasonable grounds for making it. For example, paragraph 79 of the Exposure Draft requires disclosure even when metrics can only be estimated and are subject to uncertainty. In practice, this would require a company to acknowledge that the forward-looking statement does not have a reasonable basis.

Herbert Smith Freehills has advised Australia's current periodic reporting requirements are principally backward-looking in nature, which affords reporting entities a considerable degree of certainty over their disclosure and carries comparatively lower levels of disclosure risk. Indeed, Australian securities laws and ASIC policy guidance (such as ASIC Regulatory Guide 170) discourage statements involving speculation and supposition, as opposed to information that can be positively demonstrated to have a reasonable basis and that is based on reasonable assumptions, rather than hypothetical projections.

Higher liability risks in Australia than other jurisdictions

Compared to their counterparts in certain other jurisdictions, reporting entities and officers in Australia are particularly exposed to this risk, because in Australia, there is no 'safe harbour' exemption which allows for the exclusion of liability by identifying a statement as a forward-looking statement and including a proximate cautionary statement.[7]

There is heightened regulator risk for directors because, in Australia, the securities regulator ASIC often pursues directors for alleged breaches of their directors' duties including fiduciary obligations such as the duty of care and diligence. This contrasts to similar jurisdictions such as the UK and US, where enforcement of such duties is largely left to private litigants.

Finally, Australia has a uniquely facilitative class actions regime. This means that boards of Australian companies listed on the ASX are faced with higher reputational and liability risks from disclosure-based shareholder class actions than boards in many of the world's other major capital markets, including the UK and US.

[7] For example there is no equivalent to the protection in the US available in 15 USC § 77z-2(i)(1).

In summary, Australian directors and entities are likely to be exposed to higher liability risk than other jurisdictions were the Standards to be adopted in their current form and under existing domestic laws and arrangements.

Need for tailored regulatory settings to support implementation

As already noted, we believe that these matters are capable of resolution at a domestic level via transitional arrangements and targeted legislative amendments.

For example, the forward-looking statements required by the standards could be subject to a specific safe harbour from liability to encourage good faith disclosure.

Another option would be to ensure that any Australian standard implementing the ISSB standard, makes clear the uncertainties inherent in such disclosures while providing some guidance on the types of disclosures that would be expected and the caveats around them.

Australian Institute of Company Directors

Response to Questions for Respondents

Exposure Draft IFRS S2 Climate-related Disclosures

General Comments

As set out in our response to IFRS S1, we have concerns about the requirement for the disclosure of 'significant' climate-related risks and opportunities due to the lack of clarity around the meaning of 'significant' and its interaction with the materiality test within the Exposure Draft(s).

As we also set out in that response, we believe that where entities are making disclosures around strategy, risks or opportunities that entity should be able to omit disclosure where disclosure is likely to result in 'unreasonable prejudice'.

These same concerns arise regarding terminology used throughout Exposure Draft IFRS S2 Climate-related Disclosures (**Exposure Draft**) – for example, use of the phrase significant climate-related risks and opportunities occurs frequently. Rather than specifying those concerns for each question we make the same general comment in relation to all occurrences within the Exposure Draft noting we proposed solutions in our response to the S1 Exposure Draft.

Question 1—Objective of the Exposure Draft

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

Yes, we agree with the TCFD alignment and the alignment with the S1 Exposure Draft.

(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

Yes, we believe it appropriately focuses on that information.

(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Yes, we consider it meets those objectives.

Question 2—Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Yes, we support the alignment with TCFD.

Question 3—Identification of climate-related risks and opportunities

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

Yes, we support a broad principles-based approach to disclosure as set out in the Exposure Draft.

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

It is difficult for the AICD to comment on the disclosure topics defined in the industry disclosure requirements (Appendix B). Australia is not a jurisdiction where SASB Standards are commonly applied and there is limited understanding of them. A recent review of 250 entities listed on the ASX that reported against a framework or standard, found that a majority used TCFD (63 percent) or GRI Standards (55 percent). Reporting against the <IR> Framework (5 percent) and SASB Standards (26 percent) was less prevalent.[1]

Appendix B is voluminous with extensive and detailed disclosure requirements and there has not been the opportunity for Australian preparers to properly understand the implications of these disclosure requirements. The large number of metrics set out in the Appendix does raise concerns about how cost effective the process will be, especially as there are more metrics to come in future Standards.

It will be important for the ISSB to set out how reviews of the matters contained within Appendix B will occur in the future, as they form "an integral part" of the Standard.

Given the complexity of the SASB standards, we suggest that a dedicated consultation take place on this proposed aspect of the ISSB framework.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

Yes, they align with the TCFD framework.

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

Yes, it is appropriate that entities provide qualitative, narrative reporting on climate-related risks and opportunities. For the reasons detailed elsewhere, in many areas, there are significant challenges around quantitative disclosure.

[1] KPMG and ASX. Adoption of Recommendation 7.4: Reporting on Environmental and Social Exposures. Analysis of disclosures made by listed entities between 1 January 2021 and 31 December 2021 at p.44. Available at: < https://assets.kpmg/content/dam/kpmg/au/pdf/2022/asx-corporate-governance-environmental-social-exposures.pdf>

Question 5—Transition plans and carbon offsets

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

Yes, we believe it is reasonable for entities to disclose their transition plans, noting, as already stated, that an entity should be able to not disclose where disclosure is likely to result in 'unreasonable prejudice'.

(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

No.

(c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

No comment.

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

Yes.

Question 6—Current and anticipated effects

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

Yes. We have particular concerns around the need to make forward-looking statements in this respect, noting that Australian directors and corporations are exposed to particular liability risks. Please see our response to Question 12 for more detail.

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

Yes, arguably this is already required under the IASB's accounting standards. We note that in Australia, the Australian Accounting Standards Board and Auditing and Assurance Standards Board have already issued guidance on Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2.

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

Yes, although we believe this would benefit from some more illustrative guidance about how it is proposed that this requirement would interact with the accounting standards and how disclosure of financial impacts might occur when it does not meet, for example, recognition requirements under the accounting standards.

Question 7—Climate resilience

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

Yes.

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

(i) Do you agree with this proposal? Why or why not?

Yes. Notwithstanding an increasing take up of TCFD reporting by larger entities, there are many entities which are yet to implement it, especially those not listed on market exchanges. Implementation of TCFD often takes several years to embed effectively and is not cost-effective for smaller entities, that could be subject to this Standard (depending on the final scope of application).

Some flexibility as proposed here is appropriate. A similar approach was taken by the Australian Prudential Regulation Authority which supervises institutions across banking, insurance and superannuation.[2] There should be recognition in the Standards that full adoption of the TCFD is likely to be an iterative process for entities – disclosure in year one of adoption is likely to be materially different in terms of quality and scale than disclosure in say year three.

(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

Yes, climate-related scenario analysis should be the default position, effectively included on an 'if not why not' basis.

(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

No, see response to question (b)(i) above.

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

Yes, these align broadly with TCFD requirements.

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

[2] Prudential Practice Guide CPG 229 Climate Change Financial Risks. Available at: < https://www.apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Practice%20Guide%20CPG%20229%20Climate%20Change%20Financial%20Risks.pdf>

Yes.

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

Yes. While there will be significant costs for entities applying the disclosure requirements there is a broad expectation among stakeholders that larger and more sophisticated entities, such as financial institutions or those listed on stock exchanges, comply with the TCFD.

As noted in our response to Question 3(b), take up of the TCFD is relatively high amongst listed entities, but significantly less so in other sectors. In the AICD's ongoing consultation with directors, there is general acceptance of the need for entities to adopt the TCFD framework. The Exposure Draft sets out an appropriate Standard to allow for TCFD reporting.

Question 8—Risk management

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

No, we do not agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities. We do not believe the level of prescription in the Exposure Draft is necessary and that a more principles-based approach would allow entities to best communicate their risk management approach.

We note that paragraphs 4 to 6 of the Exposure Draft, which provide for disclosures around governance already includes disclosure on, *inter alia*, how the (board) and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required.

With respect to specific risk management proposals, in our opinion the Standard should align more closely to the wording in the TCFD and require disclosure of:

- the risk management processes for identifying and assessing climate-related risks;
- a description of how the entity determines the relative significance of climate-related risks in relation to other risks;
- how the entity makes decisions to mitigate, transfer, accept, or control those risks;
- how the entity prioritises climate-related risks;
- a description of whether they consider existing and emerging regulatory requirements related to climate change (e.g., limits on emissions) as well as other relevant factors considered;
- processes for assessing the potential size and scope of identified climate-related risks; and
- definitions of risk terminology used or references to existing risk classification frameworks used.

Question 9—Cross-industry metric categories and greenhouse gas emissions

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

We have some concerns about how entities might be expected to report the amount and percentage of assets or business activities vulnerable to transition or physical risks or aligned with climate-related opportunities as well as capital deployment. Given the difficult judgments involved, the reliability and accuracy of any figure would be questionable. These appear to be matters more suited to qualitative disclosures, as set out elsewhere within the Exposure Draft.

(b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

No comment on matters (b) through (e).

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

Yes, we believe it is necessary to disclose Scope 3 emissions subject to materiality. In our discussions with directors, they acknowledge that stakeholders are increasingly demanding this information from entities. However, we note that in jurisdictions such as Australia there is currently limited reporting of Scope 3 and potentially limited gathering of Scope 2 information by many entities.

In our view, there will need to be an appropriate transition period to enable the creation of systems that will allow entities to capture reliable information to support accurate Scope 3 disclosure. It should also be acknowledged that timing constraints may be difficult to navigate, particularly where disclosures are made at the same time as the annual report. For example, an entity is unlikely to have all of its Scope 3 related data available in time, given it will be reliant on external inputs that may not yet be available.

Question 10—Targets

(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

Yes, as this aligns with the TCFD.

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

Yes.

Question 11—Industry-based requirements

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

Yes, although we note that there are still occasions when US-based measurements are used within the Standards e.g. square feet, pounds etc. In our opinion, the standards should be converted so that they solely use the metric system to allow international application.

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

SASB standards are not widely used within Australia – see answer to question 3 (b) above.

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

We understand that both Australian and global financial services entities are limited in their ability to accurately measure, and therefore disclose, financed and facilitated emissions due to a lack of data availability and methodology gaps. However, we are aware that there are global and domestic processes underway to try to achieve standardisation. This lack of an industry benchmark makes it impossible for comparable data to be produced currently. Accordingly, we would support an appropriately phased in approach.

Further questions on the specifics of the proposed disclosure requirements should be directed to financial services entities and their respective industry bodies.

Question 12—Costs, benefits and likely effects

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

As already noted, the costs of introducing these arrangements in Australia will be significant. Australia currently lags jurisdictions such as the EU in the collection and reporting of non-financial information. There will need to be an appropriate transition period to allow for the establishment of systems, the testing of methodologies and the resolution of skills and workforce shortages to effectively report under the new ISSB standards.

Further, according to legal advice obtained from Herbert Smith Freehills, the operation of Australian laws and regulations, mean that Australian directors would be placed at higher liability risk than global counterparts were the Standards to be adopted under current arrangements. This is because of the requirement that forward-looking statements be made on reasonable grounds, as well as the operation of Australia's public enforcement of directors' duties and a facilitative class actions environment.

The Exposure Draft contains numerous examples where an entity would be required to make a forward-looking statement that would be very difficult to satisfy the reasonable grounds standards of Australian law. We believe that these matters are capable of being resolved at a jurisdictional level and do not require amendment of the Exposure Draft, however we consider they are important to bring to the ISSB's attention as they may hinder Australian market adoption.[3]

(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Liability risks will need to be appropriately addressed in the implementation of the proposed Standard. In particular, we note that some investors have acknowledged the serious risk that legal liability considerations may undermine effective climate related reporting. In particular, the world's largest institutional investor, BlackRock, in the context of its recent submission to the SEC's climate disclosure consultation stated:

[3] This issue is covered in more detail in the AICD's response to Question 16 of the S1 Exposure Draft.

> ***Protections from liability**: the liability attached to climate-related disclosure should be commensurate with the evolving nature of that disclosure to encourage rather than discourage higher quality disclosure. **We urge regulators to adopt a liability framework that provides meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve**, and that gives companies the flexibility they need to develop their disclosures without imposing a chilling effect [emphasis added].*[4]

It is important to highlight that Blackrock's comments were made in an US environment with significantly less disclosure risk than the Australian market (see below).

As already noted, the challenges of introducing these arrangements in Australia will be significant. Australia currently lags jurisdictions such as the EU in the collection and reporting of non-financial information. There will need to be an appropriate transition period to allow for the establishment of systems, the testing of methodologies and the resolution of skills and workforce shortages to effectively report under the new ISSB standards.

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Question 13—Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

There are no particular challenges around verification in the body of the Standard although we note that there will be assurance challenges around the provision of information from third-parties that, for example, may be used to calculate an entities Scope 3 emissions.

We are unable to comment on the verifiability of the matters contained in Appendix B, for the reasons set out in response to Question 3(b).

Question 14—Effective date

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?

As noted, the S1 Exposure Draft presents some greater complexities than S2. Accordingly, the effective date should either be the same or earlier than S1.

4 BlackRock submission to the SEC: Enhancement and Standardization of Climate-Related Disclosures for Investors (File Number S7-10-22), 17 June 2022, available here.
5 This issue is covered in more detail in the AICD's response to Question 16 of the S1 Exposure Draft.

(b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.

There will need to be a transitional period but in our view this issue is best resolved at a jurisdictional level taking into account relative maturity levels. In the Australian context, a minimum two to three year phase-in period may be appropriate.

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

Some of the qualitative disclosures around governance, risk and opportunity are capable of earlier disclosure than some of the quantitative measures, especially around Scope 3 emissions, or those involving scenario planning where practice is still relatively immature.

Question 15—Digital reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

No comment.

Question 16—Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

See our answer to Question 14 of the S1 Exposure Draft.

Question 17—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

No.

Asia Investor Group on Climate Change

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29 July 2022

Emmanuel Faber
Chair, International Sustainability Standards Board (ISSB)

Ref: Feedback on Exposure draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures

The Asia Investor Group on Climate Change (AIGCC) welcomes the opportunity to comment on the General Requirements Exposure Draft and the Climate Exposure Draft published by the International Sustainability Standards Board in March 2022.

AIGCC members include over 60 Asian and international institutional investors active in 11 markets with over USD 36 trillion funds under management. AIGCC is also a network partner of the Investor Agenda, a coalition of seven investor groups - AIGCC, Ceres, Institutional Investors Group on Climate Change (IIGCC), Investor Group on Climate Change (IGCC), CDP, Principles for Responsible Investment (PRI) and UNEP Finance Initiative, working collaboratively on accelerating investor action towards a net-zero emissions economy, as well as the Asia network partner supporting the Paris Aligned Investor Initiative and the Net Zero Asset Managers Initiative.

AIGCC supports the development of consistent sustainability reporting standards globally. While several markets have implemented mandatory disclosure standards, including many major Asian markets, there is some level of fragmentation in the standards that are being implemented. It is important now more than ever to develop a comprehensive and globally interoperable standard for sustainability reporting. Further delays in developing a global standard for sustainability disclosures will result in increasing costs, risks for the investment community as well as reporting entities operating internationally, and ultimately result in difficulties to give effect to the much-needed sustainability transition.

AIGCC strongly supports the work of the ISSB, and the collaboration set up between the ISSB and the Global Reporting Initiative (GRI) to ensure good international convergence on globally accepted sustainability disclosure standards. We support the alignment of the ISSB exposure draft on climate disclosures with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations since the TCFD recommendations have already been accepted and mandated across several major Asian and global markets. We also appreciate ISSB's efforts to form a working group of jurisdictional representatives to help work closely with regional governments and regulators on implementation and standardisation of disclosure standards across regions.

With this overview in mind, we have the following high-level comments on the General Requirements Exposure Draft and the Climate Exposure Draft published by ISSB in March 2022:

Firstly, the exposure drafts should be as precise as possible regarding the scope of information related to sustainability and climate that is being targeted by the standards by further clarifying definitions and explaining differences between the terms used in the draft relating to the scope such as 'significant', 'materiality', etc. Subjective interpretation of these terms could result in disclosure documents with varying levels of information resulting ultimately in a failure to develop a standard that is able to elicit the required extent of essential information from reporting entities.

Secondly, linking the information disclosure on impacts of company on people, planet, environment, and economy as it relates to enterprise value alone, will be seen as inadequate by several stakeholders. Disclosure standards should aim to keep up with the growing information needs of stakeholders that will rely on these sustainability disclosures to make important decisions regarding investments, regulations, compliance, etc. Easy access to the necessary information pertaining to the direct impact of corporates on the people, planet and environment would facilitate faster alleviation of these risks and address related climate concerns. Investors in Asia are increasingly expecting companies to adopt a double materiality approach regarding assessing materiality for information disclosure.[1] Several investors have mandates that are more holistic, extending beyond creating financial value alone and will therefore need access to various kinds of non-financial data regarding the impact of the business on the environment and society to make crucial decisions to support sustainability and the net zero transition.

We support that ISSB has adopted a 'building block' approach to sustainability standards with the IFRS standards forming the baseline building block through a common global baseline for climate-related disclosures beyond which other reporting structures that mandate further disclosure requirements can operate as well. We recommend that ISSB works closely with GRI and other bodies that are responsible for reporting standards with a double materiality approach, to ensure seamless interoperability of the ISSB standards with these other reporting structures. Also recognising that it may take some time for sustainability standards to reach global consensus regarding its scope, content, and applicability, we recommend that the reporting entities incorporate a broad stakeholder engagement process as a first step towards developing an information disclosure document to ensure information matters that are significant to relevant stakeholders are not overlooked in the final disclosure report.

[1] See Responsible Investor article on 'Almost half of Japanese investors call for double materiality approach in disclosures – survey' (February 2022) here.

Disclosure standards in other jurisdictions include the double materiality factor - for example, the European Financial Reporting Advisory Group's draft European Sustainability Reporting Standards for the Corporate Sustainability Reporting Directive incorporate disclosure obligations that include entities' impacts on nature, society, and the climate. Going one step further, the Corporate Sustainability Due Diligence Directive which operates alongside the Corporate Sustainability Reporting Directive and requires companies to integrate ESG due diligence into all their corporate policies, which must be updated annually. This includes identification of adverse human and environmental impacts in the operation of the company, its subsidiaries and throughout its value chain and then creation of preventive action plans with clear timeline. ISSB should aim to use its influence and position to encourage regulators to progress towards such standards for measuring and enabling action on preventing and mitigating impacts to nature, society, and climate.

Thirdly, investors' priority would be to have access to information as soon as possible, to facilitate investor action. As several reporting entities have expressed concern regarding their ability to accurately provide forward-looking information, including undertaking scenario analysis to the extent they are able, it is crucial that they are provided with the required guidance and tools to be able to comply with these requirements. ISSB should work to aggregate service providers and data experts that will be able to assist reporting entities with these reporting requirements. More broadly, while these asks may be seen as challenging for certain entities, it is crucial that the disclosure requirements do not hold them back from undertaking the reporting process under the prescribed standard. While scenario analysis should continue to remain the preferred option to understand the resilience of an entity's strategy to assess impacts of climate risks, there should be some level of flexibility built in for a fixed transition term as companies adjust, such as alternative methods or other options.

Fourthly, efforts are underway to provide more clarity on how the current implemented disclosure standards differ across jurisdictions, specifically for the benefit of international investors and corporates. While implementing the ISSB standards, to facilitate faster and easier implementation, the ISSB should aim to elaborate upon how the approach of the ISSB standards compares and overlap with other sustainability disclosure frameworks that are widely used in each market.

Fifthly, as recommended by the other Investor Agenda network partners as well, we recommend that the ISSB incorporates within the climate disclosure requirements, the disclosure indicators established by the Climate Action 100+ Net Zero Company Benchmark[2] and recommended disclosures under the Paris Aligned Investment Initiatives' Net Zero

[2] See Climate Action 100+ Net Zero Company Benchmark here; more details available here.

Investment Framework[3] and the Investor Agenda's Investor Climate Action Plans expectations ladder.[4]

In conclusion, AIGCC warmly welcomes the ISSB Exposure Drafts IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures as leap forward in ensuring transparent and reliable disclosure of sustainability and climate-related information.

Please do reach out to us for any further clarification or assistance that we may provide. We look forward to continued engagement in development of the disclosure standards.

Yours sincerely,

Rebecca Mikula Wright
CEO, Asia Investor Group on Climate Change (AIGCC)

About the Asia Investor Group on Climate Change
The Asia Investor Group on Climate Change (AIGCC) is an initiative to create awareness and encourage action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and net zero investing. AIGCC members come from 11 different markets in Asia and internationally and include asset owners and managers with a combined AUM of over US$35.8 trillion. https://www.aigcc.net/

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[3] See Paris Aligned Investment Initiatives' Net Zero Investment Framework here.
[4] See Investor Climate Action Plans expectations ladder here; guidance available here.

Australian Land Conservation Alliance

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International Sustainability Standards Board
International Financial Reporting Standards Foundation
London, United Kingdom

29 July 2022

Dear International Sustainability Standards Board,

Comments letter: Exposure Draft IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information

The Australian Land Conservation Alliance (ALCA) welcomes the opportunity to submit a comment letter to the International Sustainability Standards Board (ISSB) on its General Requirements Exposure Draft.

Please note that ALCA is happy for this comment letter to be published in full.

About the Australian Land Conservation Alliance

The Australian Land Conservation Alliance is the peak national body representing organisations that work to conserve, manage and restore nature on privately managed land in Australia. We represent our members and supporters to grow the impact, capacity and influence of private land conservation to achieve a healthy and resilient Australia. Our eleven members are:

- Australian Wildlife Conservancy
- Biodiversity Conservation Trust NSW
- Bush Heritage Australia
- Greening Australia
- Landcare Australia
- Nature Foundation
- Queensland Trust for Nature
- South Endeavour Trust
- Tasmanian Land Conservancy
- The Nature Conservancy Australia
- Trust for Nature (Victoria)

ALCA land conservation efforts stretch across over 3 million square kilometres with more than 3,000 landholders. We have over 50,000 supporters and our combined annual turnover exceeds $200 million. Together ALCA and its members address some of the most pressing conservation issues across the country, including restoring endangered ecosystems, building the protected area estate, tackling invasive species, expanding private conservation finance and funding and using nature-based solutions to tackle climate change.

Through their active land management, ALCA member organisations are deeply embedded in regional communities and economies, providing jobs, securing significant regional investment, and safeguarding remaining native habitat, with its many positive spillover effects for community, wellbeing and food security. We seek to demonstrate the role and value of private land conservation as a cornerstone of the Australian economy.

Some ALCA members are statutory entities; the views expressed in this submission do not necessarily represent the views of the Government administering those statutory entities.

Summary

Whilst the escalating impacts of the climate crisis have taken hold within the global public consciousness, the parallel crisis facing our natural world is less widely known. And yet, the World Economic Forum has already declared nature loss "*a planetary emergency*"[1] with four of the top eight most severe risks on a global scale over the next ten years identified as environmental risks[2] :

> *"Humanity has already wiped out 83% of wild mammals and half of all plants and severely altered three-quarters of ice-free land and two-thirds of marine environments. One million species are at risk of extinction in the coming decades – a rate tens to hundreds of times higher than the average over the past 10 million years….*
>
> *Human societies and economies rely on biodiversity in fundamental ways. …over half the world's total GDP – is moderately or highly dependent on nature and its services."*[3]

As per the British Government's Dasgupta Review:

> *"We are facing a global crisis. We are totally dependent upon the natural world. It supplies us with every oxygen-laden breath we take and every mouthful of food we eat. But we are currently damaging it so profoundly that many of its natural systems are now on the verge of breakdown."*[4]

In our own home country, in 2021, Australian scientists confirmed evidence that 19 of Australia's ecosystems are collapsing[5].

In short, the global nature crisis requires the urgent attention of Government, business, and civil society from across the world, and we applaud the efforts and importance of ISSB's work as part of those global efforts. ALCA views the mainstreaming of the General Requirements for Disclosure of Sustainability-related Financial Information – and its subsequent and related standards – as deeply important to urgently focus the attention, funds, and expertise of human enterprise on stalling and ultimately reversing the global nature crisis.

ALCA recognises that the General Requirements Exposure Draft is, by its very nature and description, expressed in general terms rather than at the level of specificity required to fully address the myriad of elements to the global nature crisis; however, ALCA's overriding concern is a lack of detail within the draft standard itself on the definition of sustainability. We are also concerned that there are no substantive references to biodiversity, ecosystems, or nature.

It is ALCA's view that directing entities to other sources (as per Clauses 50 through 55[6]) is not a clear definition for 'sustainability' or 'sustainability-related' for such an overarching standard.

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[1] See: World Economic Forum, January 2020; https://www.weforum.org/reports/nature-risk-rising-why-the-crisis-engulfing-nature-matters-for-business-and-the-economy
[2] See: World Economic Forum, *Global Risks Report 2022*; https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf; the risks are: climate action failure (1st); extreme weather (2nd); biodiversity loss (3rd); human environmental damage (7th); natural resource crises (8th).
[3] See: World Economic Forum, *Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy*, January 2020; https://www.weforum.org/reports/the-global-risks-report-2020
[4] See: p1, Dasgupta, P. *The Economics of Biodiversity: The Dasgupta Review*, HM Treasury, Government of the United Kingdom; https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review
[5] See: Bergstrom et. al, 'Combating ecosystem collapse from the tropics to the Antarctic', Global Change Biology, 2021; https://onlinelibrary.wiley.com/doi/10.1111/gcb.15539
[6] See: https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf

At a minimum, a non-exhaustive list of what the definition may encompass – such as the sustainability of the natural world, its biodiversity, or alternatively, staying within the world's ecological limits – would be genuinely helpful to users and, more broadly, deeply constructive to the purpose the standards are intended to realise.

The work of the 1987 Brundtland Commission on sustainable development[7] and the World Economic Forum's, 2020 publication, *Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy*[8] are particularly relevant in articulating potential definitions.

Recommendations

1. The ISSB should consider including a foreword to the standard that articulates the urgent need and reasons for the ongoing work of the International Sustainability Standards Board, including for relevant standards; this additional context would be both important and useful to users.

2. The standard should include a clear and overarching definition of 'sustainability' or 'sustainability-related'. This definition should include the sustainability of the natural environment, with references to concepts such as biodiversity loss, risks of (and from) biodiversity decline, and/or similar phrasing.

   Such a definition would either be addressed within the section on 'Identifying sustainability-related risks and opportunities and disclosures' (clauses 50 through 55) and/or 'Appendix A: Defined Terms'.

3. There is currently no reference to the sustainability development goals (SDGs) in the exposure draft. A reference to the relationship between the IFRS and the SDGs (or any future set of Goals) may be helpful.

4. The use of the word "*planet*" in Clause 6c is unnecessarily abstract and should be replaced with "*natural environment*".

ALCA looks forward to ongoing engagement with the ISSB to ensure that its standards reflect the urgency and scale of the global biodiversity crisis and its impacts upon human enterprise and livelihoods.

If you have questions regarding the submission, please do not hesitate to contact ALCA via michael@alca.org.au (Mr Michael Cornish, Policy Lead).

Australian Land Conservation Alliance

[7] See: *Our Common Future: Report of the World Commission on Environment and Development*, United Nations, October 1987; https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf
[8] See: World Economic Forum, *Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy*, January 2020; https://www.weforum.org/reports/the-global-risks-report-2020

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29 July 2022

International Sustainability Standards Board
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Submitted by email: commentletters@ifrs.org
Copy to: Australian Accounting Standards Board by email: standard@aasb.gov.au

AUSTRALIAN SHAREHOLDERS' ASSOCIATION – CONSULTATION ON EXPOSURE DRAFT ON IFRS S1 AND IFRS S2

Dear Board members

The Australian Shareholders' Association (ASA) represents its members to promote and safeguard their interests in the Australian equity capital markets. The ASA is an independent not-for-profit organisation funded by and operating in the interests of its members, primarily individual and retail investors, self-managed superannuation fund (SMSF) trustees and investors generally seeking ASA's representation and support. For context, the Australian share market has in excess of 6 million retail shareholders, with 35% of the adult population holding exchange listed investments[1]. ASA also represents those investors and shareholders who are not members, but follow the ASA through various means, as our relevance extends to the broader investor community.

Thank you for the opportunity to submit comments to the *International Sustainability Standards Board (ISSB) on the Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([Draft] IFRS S1) and Exposure Draft IFRS S2 Climate-related Disclosures ([Draft] IFRS S2)* (exposure draft).

We are party to the joint submission by the peak Australian bodies and reiterate our full support of a global approach to the development of sustainability disclosure standards and are supportive of the ISSB being the global body to issue these standards.

We value the development of a globally consistent, comparable, reliable, and verifiable corporate reporting system to provide all stakeholders with a clear and accurate picture of an organisation's ability to create sustainable value over time.

[1] ASX Australian Investor Study 2020

We consider it critical that the ISSB and other jurisdictions developing sustainability standards take a coordinated approach to enhance understanding and comparability of disclosures for retail shareholders by aligning key definitions, concepts, terminologies, and metrics on which disclosure requirements are built.

ASA's ESG focus issue for 2022 is as follows:

We expect companies to incorporate sustainability and ESG strategy, practice and reporting in an appropriate, effective way using a recognised standard such as Task Force on Climate-related Financial Disclosures or Global Reporting Initiative. We will review the monitored companies with an eye for efficient use of company resources and avoidance of greenwashing, and to assess the impact of remuneration plans on driving a culture of sustainability.

We expect that the evolution in sustainability reporting will be valuable to aid retail shareholders long-term investment decisions, and the comparability will enhance efficiency for companies in meeting disclosure expectations.

For greater detail, please see the joint submission by the peak Australian bodies.

If you have any questions about these comments or other matters, please do not hesitate to contact me (ceo@asa.asn.au), or Fiona Balzer, Policy & Advocacy Manager (policy@asa.asn.au).

Yours sincerely

RWaterhouse

Rachel Waterhouse
Chief Executive Officer
Australian Shareholders' Association

Australian Banking Association

15 July 2022

International Sustainability Standards Board
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By email: commentletters@ifrs.org

Consultation on [Draft] IFRS S1 and S2 Climate-related disclosures

The Australian Banking Association (ABA) welcomes the opportunity to provide feedback to the International Sustainability Standards Board (ISSB) on the Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([Draft] IFRS S1) and Exposure Draft IFRS S2 Climate-related Disclosures ([Draft] IFRS S2).

Global Baseline

We support a global approach to the development of sustainability disclosure standards through the ISSB as the global body to issue the standards. Further, the establishment of a global baseline is critical a coordinated approach be developed which will avoid fragmentation in reporting obligations. To this end we support the efforts of the ISSB in establishing a working group to enhance compatibility between global baseline and jurisdictional initiatives.

Climate first approach

We support the climate first approach adopted by the ISSB. We note the ISSB's intent to align [Draft] IFRS S2 with the Taskforce on Climate-related Financial Disclosures (TCFD). However, we also see an opportunity to clarify the reporting obligations within [Draft] IFRS S2; for example, the disclosure of strategic intent can be problematic in a competitive marketplace.

We see great value in the ISSB issuing a forward workplan (or consulting on a proposed forward workplan) to enable entities to prepare for future sustainability disclosure requirements.

Implementation pathway

Although some entities have a level of maturity in making sustainability disclosures, the requirement for such disclosures to be made within financial statements is a significant change. We do not believe it will be a matter of incorporating current disclosures to a new reporting location. We see several challenges.

There are significant limitations at the present time with sustainability related metrics. Limitations include data quality, availability, comparability, methodological approaches are nascent and evolving, financial modelling which reflects sustainability risks are at a very early stage. For example, in banking there is no accepted damage function to apply towards the assessment of physical climate risk in lending portfolios.

Presently, much of the work effort in producing extended external reporting is based on manual effort and non-systematised data feeds. We estimate that significant information systems resources will be required to develop the systems to support sustainability reporting to the same extent that financial and account systems support financial reporting.

Banks are highly dependent on customers reporting of customer scope 1 and 2 emissions for banks to report accurately on their scope 3 emissions. Such reporting by bank customers and suppliers is nascent.

The banking sector in Australia is experiencing limitations in human resource availability. This, combined with the need to upskill bankers to incorporate climate risk into their daily processes, places a significant burden on all banks but especially the smaller non-D-SIB's.

Therefore, we recommend phased or transitional approach will be required. The transitional approach will need to accommodate for delayed banks scope 3 emissions reporting as well as transitional arrangements for smaller banks.

We do not consider that [Draft] IFRS S2 to have suitable criteria for assurance to a reasonable level. We strongly suggest an extended phasing for assurance requirements.

Forward-looking statements

The nature of the forward-looking statements envisaged by [Draft] IFRS S1 and [Draft] IFRS S2 may give rise to liability for misleading and deceptive disclosures under Australian corporations' law. We strongly suggest the ISSB standard acknowledge the complexity and limitations of current and forward-looking metrics in its preamble to the standards. Additionally, we encourage the ISSB to encourage safe harbor provisions, as per the US Securities and Exchange Commission (SEC).

Detailed responses to questions

Our detailed responses to select questions on the Exposure Drafts are contained in the appendices to this letter as follows:

Appendix 1 – [Draft] IFRS S1

Appendix 2 – [Draft] IFRS S2

Appendix 3 – [Draft] ED Volume B19 Mortgage Finance

Appendix 4 – [Draft] ED Volume B16 Commercial Banks

We thank the ISSB for your extensive consultation on [Draft] IFRS S1 and [Draft[IFRS S2 and we would be pleased to respond to any follow-up questions or clarifications.

Kind regards,

[redacted]

Emma Penzo
Head of Economic Policy
[redacted]

Australian Banking Association

Appendix 1: [Draft] IFRS S1

<table>
<tr><th>Question</th><th>ABA Position</th></tr>
<tr><td colspan="2">Overall approach [ED Para 1]</td></tr>
<tr><td>Q1(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?</td><td>The statement is clear in its intention however we note the lack of clarity in undertaking such disclosures are follows:

A definition of the term ‘significant’ is required.
Reference to ‘material in Q1(a):
the use of the term ‘material information’ suggests that ‘material’ and ‘significant’ are held to be two different concepts. If so, how do they differ and how are they related. Further, there could be situations where a significant event may not meet the definition of materiality, the standard could clarify which would take precedence for disclosure (i.e. materiality or significant).
A detailed definition of ‘sustainable’ and ‘sustainability-related’ is required.
Clarification as to whether the term ‘sustainable’ is intended to cover matters which are yet to emerge or be identified as a ‘sustainability-related’ matter.

We suggest key terms be identified for global alignments. This includes terms such as ‘materiality’ and ‘sustainable’ in order that local/national mandated disclosures also apply the same definition.</td></tr>
<tr><td>Q1(c) Is it clear how the proposed requirements set out in the ED would be applied together with other IFRS Sustainability Disclosure Standards, Including the [draft] IFRS s2 Climate-related Disclosures? Why/why not? If not, what aspects of the proposal are unclear?</td><td>It appears S1 is attempting to concurrently set the framework as well as establish specific requirements.
We suggest:

S1 be framed as an overarching principles-based framework and S2 (and subsequent standards) contain the requirements. This approach would
</td></tr>
</table>

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Question	ABA Position
	align with the approach taken by IFRS for the Accounting Standards (for example consider the relationship of IAS1 and IAS8. • S1 could provide a guidance note which sets forth through example what and how such disclosures may be presented. • S1 incorporate considerations for how it will integrate with other standards, particularly when considering impact on financial statements.
Q1(d) Do you agree that the requirements proposed in the ED would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposal? If not, what approach do you suggest and why?	The ABA does not believe it will be possible for sustainability disclosures to be audited to a 'reasonable' level of assurance. This is due to: (a) The nascence of sustainability reporting. Methodologies are in development and yet to be adopted and embedded. There are significant data issues relating to data quality, highly manual processes for data access and collection, and data existence. Econometric and financials models are yet to be developed or existing models are yet to be adapted to accept methodologies and data. The output of such models are yet to be incorporated into financial reporting tools and processes. (b) The complexity of a 'reasonable assurance' level of audit will entail extraordinary costs until there is standardisation in methodology, data, models, and control environments. (c) Current sustainability frameworks do not require a reasonable level of assurance (e.g.: the UN Principles for Responsible Banking (UN PRB)) (d) We note specialist auditors such do not currently have expansive ESG auditing capabilities. It is our view that auditors themselves will require capability uplift to be sufficiently trained to provide independent sign-off. We believe the existence, completeness, and accuracy and valuation assertions will be the hardest to test for and for which reporting companies provide evidence; this is exacerbated by the high degree of manual data processing. On a related matter, we highlight the lack of current experts in sustainability financial reporting indicating that a period of time will be required to develop maturity.

Question	ABA Position
	We suggest a phased approach with an initial requirement for agreement upon procedures or limited assurance. We also suggest securities regulators adopt an accommodating enforcement posture during the phasing in period.
Objective [ED Para 1-7, Appendix A]	
Q2(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why/why not?	We note the intent of the standards is to reflect financial impact of sustainability opportunities and risks on entities and therefore the primary lens through which these standards are drafted is that of the shareholder and investor. 'Enterprise value' (EV) is the correct lens for the shareholder/investor. However, traditionally entities are obliged to issue sustainability reporting to a much broader stakeholder group. We note that other frameworks (e.g., UN PRB) and general sustainability reporting go beyond sustainability-related financial information, which are not addressed by the standard. We would encourage greater standardisation in those domains but appreciate this is not the objective of the ISSB Draft Standard.
Core Content [ED Para11-35]	
Q4(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why/why not?	**Governance (para12):** The objectives are clear and appropriate. **Strategy (para 14):** The objectives are clear but note two additional matters for consideration: **a) Requirement to disclose strategies** Disclosures relating to opportunities and strategies could prejudice customers of the entity, and it could compromise the execution of the entity's corporate strategy by premature signalling of corporate direction to competitors. It is atypical for entities to reveal their strategies in competitive market economies.

Australian Banking Association

Question	ABA Position
	We note that the SEC in its proposed rule '*The Enhancement and Standardization of Climate-Related Disclosures for Investors*' is aligned to this position and does not oblige the disclosure of opportunities: 'We are proposing to treat this disclosure as optional to allay any anti-competitive concerns that might arise from a requirement to disclose a particular business opportunity'[1] Therefore, we suggest that further nuance be considered relating to the disclosure of confidential and commercially sensitive strategies by limiting strategy disclosures to approaches to risk mitigation and enabling optionality for any broader disclosures of strategy and opportunity. There is precedent for such nuance within Australian corporations' law. Section 299A(3) of the *Corporations Act 2001 (Cth)* (link) provides an exemption where unreasonable prejudice will occur upon disclosure about future business strategies. The Australian securities regulator, Australian Securities and Investments Commissions (ASIC) provides guidance for ascertaining 'unreasonable prejudice in *Regulatory Guide RG247 Effective disclosure in an operating and financial review* (link) **b) Time horizons** Greater clarity on short-, medium- and long-term horizons for industries is suggested. Leaving horizons to the company to decide could result in challenges in comparability and considerations for financial disclosures. Refer to S2 Q7(a) response for ABA's recommended definitions. **Risk management (para 25)** The objectives are clear and appropriate. **Metrics and targets (para 27)** The objectives are clear.

[1] https://www.sec.gov/rules/proposed/2022/33-11042.pdf p63

Question	ABA Position
	We support the provision of relief for the first year for comparative information. Additional release for comparative period information may be required due to the nature of the information and data; the highly manual processes which will underpin the disclosures in the initial years; and evolving banking industry methodologies.
Q4(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why/why not?	We note previous comments regarding the need for definitions for 'sustainability' and 'sustainability-related', 'material' and 'significant' to our response in Q1(a). **Governance (para13):** The requirements are appropriate to their stated disclosure objective. **Strategy (para 15-24):** Refer to our response to Q4(a) We suggest the standard incorporate more discretion for the scope and detail for disclosure relating to strategy. **Risk management (para 26):** The definition of the processes to identify sustainability-related risks and opportunities does not have an appropriately clear scope. We suggest the standard mandate for an identification process that spans across the value chain (e.g., upstream, direct operations, downstream / financed activities) as well as from a double materiality perspective (e.g. impacts to Climate/Nature, and impacts by Climate/Nature). This will enhance the consistency of how sustainability-related risks and opportunities are identified. **Metrics and targets (para 27):** We support the reporting of appropriate metrics and targets. However, there are significant limitations at the present time with sustainability related metrics. Limitations include data quality, availability, comparability, methodological approaches are nascent and evolving, financial modelling which reflects sustainability risks are at a very early stage. For example, in banking there is no

Question	ABA Position
	accepted damage function to apply towards the assessment of physical climate risk in lending portfolios. We strongly suggest the ISSB standard acknowledge the complexity and limitations of current and forward-looking metrics in its preamble to the standards. Additionally, we encourage the ISSB to encourage safe harbor provisions, as per the US Securities and Exchange Commission (SEC)[2]. The ISSB could also recommend the use of standardised methodologies where appropriate in paragraph 31(c).
Reporting entity [ED Para 37-41]	
Q5(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?	We support that the reporting should be for the consolidated entity. This would align sustainability-related financial reporting with other accounting standards, and it would align with Financial Statement reporting to increase greater integration of the standard.
Connected information [ED para 42-44]	
Q6(a). Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?	Refer to our response to Q4(a) Additionally, it is possible that there may be times where there is no direct link between a risk and opportunities. The entity may take the approach that the way to diversify a risk is to through unrelated opportunities.
Q6(b). Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?	Sustainability related risks and opportunities are often expressed in the future (for example for climate risks, projections are made to 2050), whereas financial reporting is expressed in the present state and is about historical performance. The requirement to incorporate forward looking views into the financial statements creates a potential disconnect and may introduce reliability issues. We suggest consideration be given to: • limiting the prospective disclosures of sustainability-related matters to the short or medium term (for example: 3-5 years). The extended external reporting could continue to report on the longer-term horizon or the long-

[2] Securities and Exchange Commission 'The Enhancement and Standardization of Climate-Related Disclosures for Investors' (S7-10-22) p45

Question	ABA Position
	term horizon could be discussed through qualitative disclosures within the financial report. • the audit requirements for future projections as there will be challenges and limitations which most likely preclude auditors from proving positive assurance.
Fair presentation [ED para 45-55]	
Q7(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the ED.	Over time, the ISSB sustainability standards should become the "source of truth" for sustainability related disclosures. The reporting burden on sustainability related matters needs to be reduced with entities presently reporting under multiple frameworks. Our view is that as sustainability issues emerge and are identified for disclosure the ISSB could lead the development of such disclosure requirements.
Materiality [para 56-62]	
8(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why/why not?	We appreciate that paragraphs 57-58 articulate characteristics materiality. However, we note that a definition of material has not been put forward in S1. We suggest that consideration be given to existing definitions of materiality such as that of the GRI[3] We also highlight that materiality of sustainability-related risks and opportunities may vary based on an organisation's business model, industry and geography. Therefore, careful consideration needs to be given to sector and geographical sustainability issues as standards are developed. Paragraph 60: we request clarification: does the entity need to disclose that it has not made specific disclosures as required by the standards due to the fact that risks identified are not material (i.e., similar to paragraph 62)?

[3] GRI 101: Foundation 2016 p10 (link)

Australian Banking Association

Question	ABA Position
	Paragraph 61 results in too expansive a disclosure obligation. It is not appropriate to incorporate such a ‘catch all’ requirement given the nascent state of financial reporting sustainability-related matters and as financiers to the economy this requirement could be problematic for banks to implement. We have significant concerns that such requirements obligate the banking sector to become the ‘policeperson’ for entities within their value chain. We suggest deletion of paragraph 61.
Frequency of reporting [Para 66-71]	
Q9. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statement to which they relate? Why/why not?	We support the disclosure of sustainability-related financial reporting annually. Whilst it is ideal for the sustainability-related financial disclosures to be provided at the same time as the financial statement to which they relate, we see this as the target state and not immediately achievable due to the data challenges, capability, and assurance concerns. We recognise that the rate of change and maturation will be substantial over the coming years and will enable concurrent reporting as envisaged by the standard. There is some precent for flexibility we would want to preserve – that the period of the information in the disclosures do not all need to align to same period as the financial statements to be included in the report. For example, in Australia, many banks report their GHG information in alignment to government NGER requirements which is 3 months out of sync with their financial statements and financial reporting year. In the UK for the Streamlined Energy and Carbon Reporting requirement, we are allowed to report on our GHG emissions using an Australian reporting year – therefore one set of data cut to meet the needs of the local reporting requirements, as regulator allows some flexibility in terms of the reported data set. Additionally, we note that presently half-yearly reporting would be subject to the availability of half-yearly data. Data presently and into the medium-term future will be static. Therefore, intra-year reporting should only be considered as a future state. As the future state of data improves by coming on-line and near real-time, half-yearly updates could be considered. Such intra-year update should only be

Question	ABA Position
	considered in the context of a material change to the most recent annual financial report. The lack of data will also challenge the delivery of sustainability reporting concurrent with financial reporting We suggest the standards accommodate a phasing in approach. For example, targeting concurrent disclosure for the financial year ending 2030.
Location of information [Para 72-78]	
Q10(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why/why not?	We agree that it is beneficial for the reporting entity to be able to choose where to disclose the information, and that it should be part of the suite of documents.
Q10(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why/ why not?	We agree and support the removal of duplication. Additionally, consideration may also need to be given for auditor use of cross references.
Q10(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why/why not?	We thank the ISSB for their presentation to the ABA where it was made clear that the expectation for reporting on governance, strategy, and risk management be made once. This is because the disclosure is to apply at a whole business level. This level of granularity is not present within the current draft. We suggest the requirement could be more specific. Additionally, we suggest the ISSB commit to providing status updates similar to those made by the TCFD. This will enable entities to consider best practice reporting and will encourage learning and quality uplift of disclosures.
Comparative information, sources of estimation and outcome uncertainty, and errors [Para 63-65, 79-83 and 84-90]	
Q11(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?	We note that this requirement is very different to current accounting standards. Even in the context of financial reporting, distinction is made between 'error' and 'better estimate'.

Question	ABA Position
Q11(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives? Q11(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?	In respect to statements made in error, we support the requirement to disclose the metric in comparative reports. However, we believe that most of the differences will be because of 'better' estimation methods or metrics. The rate of change will be significant in respect to methodology and modelling development and improvement as well as data acquisition, quality, and storage creation. These developments may enable more targeted scenario analysis or emissions factors in subsequent reporting periods and therefore could lead to disconnect in metrics from one reporting period to the next. Given the premise that each annual disclosure is made with the best possible knowledge and tools available at the time, we do not consider it reasonable to recalculate previous disclosures based on evolved techniques and data. We suggest the standards include clarifying language to the effect that resubmissions of past reports based on subsequent improvements to techniques and data not be required. It should be discretionary for entities to report on differences in these circumstances.
Statement of compliance [ED Para 91-92]	
Q12 Do you agree with this proposal? Why/why not? If not, what would you suggest and why?	The most significant issue we see with this proposal is that the forward-looking statements as envisaged by S1 and S2 may give rise to liability for misleading and deceptive disclosures. The following is the analysis of the Corporations Committee of the Business Law Section of the Law Council of Australia: *In the specific Australian context, there is a material risk that the forward-looking statements required to comply with ISSB ED S1 and S2 will give rise to liability for misleading and deceptive conduct under Australian law (for example, s1041H of the Corporations Act and s18 of the Australian Consumer Law). If a person makes a representation as to a future matter and the person does not have reasonable grounds for making the representation, the representation is taken to be misleading (Corporations Act s769C and Australian*

Question	ABA Position
	Consumer Law s4). In the case of the Australian Consumer Law, the maker of the representation is deemed not to have reasonable grounds unless they adduce evidence to the contrary. *The risk arises because of the drafting of various provisions of S1 sand S2. For example, S1, paragraph 79 requires disclosure even when metrics can only be estimated, stating that "even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information. An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties." In practice, this would require a company to acknowledge that the forward-looking statement does not have a reasonable basis. The same issue arises under paragraph 82, which requires that "When considering possible outcomes, an entity shall consider all relevant facts and circumstances, and consider including information about low probability and high-impact outcomes".* *S2 also contains problematic requirements. Paragraph 14 says that "an entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks on its financial position … and the anticipated effects over the short, medium and long term". These effects are inherently unknowable. Paragraph 14 goes on to require the entity to disclose "how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting its current and*

Question	ABA Position
	committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements)"; and "how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy"). *No other current law or accounting standard requires a company to make these types of speculative forward looking statements about financial impacts that are supposed to inform investors but are inherently uncertain. Indeed, Australian securities laws and ASIC policy guidance (ASIC Regulatory Guide 170) discourage statements involving speculation and supposition, as opposed to information that can be positively demonstrated to have a reasonable basis and that is based on reasonable assumptions rather than hypothetical projections.* *The legal requirement for a reasonable basis for these statements, coupled with the low threshold for shareholder and other stakeholder class actions in Australia, would create a material risk of breach and exposure to damages. If compliance with these standards becomes mandatory in Australia, these types of forward-looking statements should be excluded from current legal requirements that statements in published reports as to future matters have a reasonable basis – in effect they should be covered by an explicit "safe harbour" to encourage appropriate good faith disclosure without fear of litigation.*

Australian Banking Association

Question	ABA Position
	We therefore question the assure-ability of such disclosures.
Effective Date ED Appendix B	
Q13(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.	Entities will require time to build capacity, systems, and reporting structures. The sustainability standards are a substantial addition to current financial reporting requirements. We suggest the standards incorporate a phasing approach. For example, some disclosures may be applicable earlier than others and some entities may be required earlier than others. We note that the SEC has incorporated a phased approach to disclosure under its draft rule. Refer to our submission on S2 for specificity on how such phasing may occur. We also suggest that it would be helpful for the ISSB standards to acknowledge mechanisms by which phasing in may occur to generate further alignment in national implementations and to promote global consistency.
Q13(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?	We support the proposed relief from disclosing comparatives in the first year of application. Additionally, consideration should be given to the likely scenario that an entity may only include some quantitative metrics in the first year and iteratively increase metrics over the coming years. We suggest that the relief for comparatives be extended to encompass the implementation phasing schedule. Also refer to response to Question 4(a).
Global baseline	
Q14. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?	We strongly support and urge the ISSB to continue its work through the working group to enhance compatibility between global baseline and jurisdictional initiatives. We suggest that a broader forum of nations be included in this dialogue aligned to the scope of the Financial Stability Board's reach.
Costs, benefits and likely effects	

Question	ABA Position
Q16(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?	Refer to the ABA response to S2 Q12
Q16(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	
Other comments	
Q17. Do you have any other comments on the proposals set out in the ED?	The ABA strongly encourages the ISSB to outline its forward plan to enable entities to prepare for future development. The ISSB could consider prioritising a social issue as the next draft standard. Social issues are complicated and difficult to metricate. There are also differences between countries; for example, the treatment/issues regulating to First Nations people within Australia is very different to those of New Zealand, North America and Africa. Additionally, COVID has very prominently increased the social inequality between members of society, including workers' rights and safety in employment.

Appendix 2: [Draft] IFRS S2

Question	ABA Position
Objectives of the ED [Para1; BC21-BC22]	

Question	ABA Position
Q1a. Do you agree with the objectives that have been established for the ED?	We support the aspiration of the objectives but note the nascent state of climate reporting. We suggest the inclusion of a preambular statement acknowledging the nascency of this reporting and an expectation that it will grow into maturity over the coming years. Additionally, we note the objective's focus on climate related impacts on the entity (single materiality). We consider that in the future entities could be making disclosures using the principle of double materiality. That is, the impact the entity has on the climate as well. The formulation of disclosures based on single materiality may skew litigation risk faced by preparers because not all risks are required to be disclosed. Although there is significant complexity in developing disclosures based on double materiality, there is a proliferation of standards that have been developed by entities. Therefore, standardisation ought to be considered. We suggest that the ISSB issue a statement on its views relating to double materiality and incorporate double materiality into its forward plan for standard setting.
Q1c. Do the disclosure requirements set out the in ED meet the objectives described in paragraph 1? Why/why not? If not, what do you propose instead and why?	The standards are written to a 'one size fits all' entities approach. We suggest that the standards could accommodate for disclosure requirements for small enterprises which may not be resourced to complete accounts to this level of detail required under the ED.
Governance [Para4-5; BC57-BC63]	
Q2. Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?	Broadly Agree. However, entities should not be disclosing detailed controls and procedures in a public document. Further, the control environment would broadly be covered in the assurance processes. The standard could acknowledge that high level statements that indicate the presence of controls and procedures would be acceptable.

Question	ABA Position
	We suggest the standard identify core or minimum objective based disclosures as broad disclosures will lessen comparability between entities. We also suggest the standard incorporate a worked example of what is an acceptable level of disclosure.
Identification of climate-related risks and opportunities Para9-11; BC64-BC65; ED Appendix B; ED-B16; ED-B18; ED-B19	
Q3a. Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear?	Refer to response to S1 Q1 and Q8 We suggest clarity for the definition of 'significant' and how this term relates to the concept of materiality. Also suggest greater guidance on the definitions of short, medium and long term.
Concentrations of climate-related risks and opportunities in an entity's value chain ED Para12; BC66-BC-68	
Q4a. Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain?	The requirement to report current, anticipated, significant climate-related risks and opportunities on the value chains of banks is problematic for banks. It is unclear to what level the value chain of banks ought to be considered. We suggest limits to banks financed activities to their customer's only at this stage. In terms of requirements to report concentrations, we suggest ranges would be more appropriate than a single number.
Q4b. Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?	Agree. Data unavailability will limit the ability of banks to quantify such risks; robust qualitative methods should be acceptable in such circumstances. It may be that qualitatively derived data can be used to supplement quantitative data even where quantitative date is available.
Transition plans and carbon offsets [Para 13; BC71-85]	
Q5a. Do you agree with the proposed disclosure requirements for transition plans?	We support the proposal. We note banks commitments to Net Zero Banking Alliance (NZBA) which is an element of the Glasgow Financial Alliance for Next Zero (GFANZ) will be a key driver for transition plans.

Question	ABA Position
Q5b. Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.	It could be helpful for the entity to include critical assumptions, particularly underpinning what will be disclosed under paragraph 13(b)(ii)
Q5c. Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?	Carbon offset disclosures will enable understanding of an entity's approach to reducing emissions. For example, an entity can rely on offsets but continue to emit at the same rate without reducing emissions over time or an entity can rely on offsets temporarily whilst it operationalises plans to reduce emissions over time. It is important for banks to understand how offsets are used in the entity's transition plans. Challenge with the offsets market make it challenging to confirm credibility of the offset. Offsets can be bespoke, market for offsets is nascent. We suggest the ISSB reference best practice in voluntary carbon markets such as the Voluntary Carbon Markets Integrity Initiative, the Oxford Principles, or the Taskforce on Scaling Voluntary Carbon Markets. We welcome the ISSB approach to transparent disclosure of the use of carbon offsets however the ISSB should not be the arbiter of what is a credible offset. We support the current drafting of paragraph 13(b)(iii)(2)-(3) which specifies the information requirements on the certification of offsets.
Current and anticipated effects [para 15; BC96-BC100]	
Q6a. Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see para 14)?	We support the proposal and note that qualitative data for example counterparty analysis and deep sectoral analysis, provides an equally valid data source for company decision making. The examples have been used to illustrate the point, we are not proposing that the ISSB include these examples or specific types of qualitative data for disclosure.
Q6b. Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks	We acknowledge that the TCFD attempted to connect the "narrative with the financial statements". However, we note that entities are still challenged to do this.

Australian Banking Association

Question	ABA Position

and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?	We suggest:
	• there needs to be clear worked examples and to set the standard for expectations of such disclosures. For example, in IAS 37 Provisions an appendix lists some examples of when to recognise a provision.
	• the ISSB consider examples of guidance from the IASB and Australian Accounting Standards Board which may be leveraged in developing its guidance.
	    ○ IASB Effects of climate-related matters on financial statements (link)
	    ○ AASB's 'Climate-related and other emerging risks disclosures' (link)
	• ISSB guidance is required on how to consider these risks in terms of financial performance across industries. That is, are there key metrics that should be reviewed? For example, are entities to consider all line items of the balance sheet and Profit and Loss statement. The absence of such guidance could lead to challenges in comparability of information which could leave investors confused when making comparison across the industry.
	• As many climate metrics and impacts are forward looking consideration of how this impact should be reflected is a key matter. For example, should such disclosures be qualitative?

Q6c. Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium, and long term? If not, what would you suggest and why?	We support the short-term and medium-term disclosures on an entity's position however we consider that the long-term is not appropriate. Long-term scenario analysis (greater than 5 years) relies on very significant assumptions which are not likely to prevail. Long-term scenarios are also subject to conjecture about what other economic actors may or may not do under assumed conditions. It is our view that such scenarios do not have a place in the financial reports of an entity. We suggest disclosures relating long-term impacts on an entity (e.g., beyond 5 years) be descoped from the financial statements of an entity. Long-term

Question	ABA Position
	projections are better accommodated in the non-financial external extended reports of entities. Additionally, greater guidance on proposed inclusions in disclosures would be helpful to address preparer uncertainty and to drive consistency across the industry.
Climate resilience [para 15; BC86-95]	
Q7a. Do you agree that the items listed in para 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?	We agree with the items listed for short term (1 year) or medium term (1-5 year) but not for the long term. Refer to our response to Q6 for further detail.
Q7b.i. Do you agree with this proposal?	We support the proposal and note that qualitative data, for example counterparty analysis and deep sectoral analysis, provides an equally valid data source for company decision making.
Q7b.ii. Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why?	Agree.
Q7b.iii. Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Q14(c) and if so, why?	We question the capacity for smaller organisations to undertake this level of analysis and suggest that an alternate be developed for these entities. We note the proliferation and inconsistency on the types of scenario analysis to be used. We suggest that a standardisation of scenarios by industry would be helpful.
Q7c. Do you agree with the proposed disclosures about an entity's climate-related scenario analysis?	We agree with the proposal in terms of detail expected to be provided. We suggest an accompanying reporting guide to this standard which would explain how the information is to be presented. Additionally, subject to the requirements of prudential and other regulators, the ISSB may consider a statement on the frequency with which scenario analysis is to be updated. For example, once every two years or specific portfolios of banks.

Question	ABA Position
Q7d. Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?	We strongly support the inclusion of alternative techniques.
Q7e. Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why/why not? If not, what do you recommend and why?	Refer to our response to Q12.
Risk management [Para 16-17, BC101-104]	
Q8. Do you agree with the proposed disclosure requirements for the risk management process that an entity uses to identify, assess and manage climate-related risks and opportunities? Why/why not? If not, what changes do you recommend and why?	Refer to response to S1 Question 4.
Cross-industry metric categories and GHG emissions [Para 19-22; BC105-118]	
Q9a. The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why/why not? If not, what do you suggest and why?	We see challenges with the following core disclosures: ***Scope 3 (Paragraph 21(a)(i)(3) and (a)(vi))*** The accurate calculation of Scope 3 emissions is extremely difficult. Any figures reported by banks are based on emerging methodologies and therefore subject to significant qualifying statements. There is significant reluctance amongst banks to change financial information to be consistent with the standard. We suggest a staged implementation of the standards with reporting of bank scope 3 emissions in the financial accounts to be deferred to a later date. **Vulnerable asset disclosures (Paragraph 21(b) and (c))**

Question	ABA Position
	In respect to the reference to the requirement to disclose the amount and percentage of vulnerable assets, we suggest clarification is required on whether this is current vulnerable assets or anticipated vulnerable assets. If current, the transition risk in the current sense will be challenging to estimate. This complexity will also exist in the case of making a determination on the extent of physical risk. For example, when ascribing water stress to a climate peril how would that stress be attributed to an asset? We suggest additional guidance be provided. Additionally, we suggest a definition of or a threshold for 'vulnerable' is required. **Climate related opportunities (Paragraph 21(d))** It is unclear how this would be measured. Does this requirement refer to current or potential opportunities? How to measure initiatives within the entity? **Internal carbon price (Paragraph 21(f))** We disagree with the requirement to disclose its internal carbon price. We consider internal carbon price to be akin to internally derived transfer price. The later is not disclosed to the market. We question the value add to the users of this information; additionally, the prescription of an internal carbon price within the standard is overly prescriptive. Finally, such a requirement creates a disincentive of preparers to use internal carbon prices. **Remuneration (Paragraph 21(g))** We suggest remuneration disclosures fit better within S1 as an overarching disclosure requirement.
Q9c. Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2, and Scope 3 emissions? Why/ why not? Should other methodologies be allowed? Why/why not?	We agree that the GHG Protocol is the globally accepted methodology to categorise emissions.

Question	ABA Position
	However, the calculation (measurement) of emissions, particularly scope 3 financed emissions is complex. To this end, note the helpfulness of the emergence of the standards setting body Partnership for Carbon Accounting Financials (PCAF). And also note that despite the development of PCAF standards for financed emissions, there is need to localise the implementation of the methodology to accommodate or meet national conditions.
Q9d. Do you agree with the proposal that an entity be required to provide an aggregation of all seven GHGs for Scope 1, Scope 2, and Scope 3- expressed in CO_2 equivalent; or should the disclosures on Scope 1,2 and 3 emissions be disaggregated by constituent GHG (e.g., disclosing CH_4 separately from NO_2)?	We question whether this requirement can be met for the following reasons: • Scope 3 is challenging to estimate even at the macro GHG level without the added complexity of reporting by gas. Whilst reporting at such granularity may be appropriate for other sectors (e.g., mining or manufacturing) this is less material for a bank. Further the effort to disclose this level of detail outweighs the usefulness to decision makers. • To report accurately, banks rely on the supply chain to define gases at this level. Banks' supply chains include third parties that may have less mature reporting systems in place to track and quantify emissions.
Q9e preamble. Do you agree that entities should be required to separately disclosure Scope 1 and Scope 2 emissions for: Q9e.i. the consolidated entity	The focus should be on the consolidated entity.
Q9e.ii for any associates, JVs, unconsolidated subsidiaries, and affiliates? Why/why not?	The consolidated accounting group and subsidiaries reporting requirement is new and challenging to comply with in a cross-border context. It is recommended that disaggregated disclosure of consolidated entity emissions be optional.
Q9f. Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?	We support staged implementation of the requirements of S2 with Scope 3 emissions deferred to a later stage. We support further clarity on the definition of materiality.
Targets [Para 23; BC119-122]	
Q10a. Do you agree with the proposed disclosure about climate-related targets? Why or why not?	Support. We suggest the ISSB consider disclosures:

Question	ABA Position
	• When targets change and evolve as methodologies and estimates change. • How targets are to be managed if there are significant changes in the business activities or structure of the entity. Such changes could also be outside of the entity's control.
Q10b. Do you think the proposed definition of 'latest international agreement in climate change' is sufficiently clear? If not, what would you suggest and why?	We suggest that the definition is too broad and subject to varied interpretation. We suggest nominating a more specific group of agreements for example the agreements of the Conference of the Parties, or the G20.
Industry based requirements [Appendix B, B16, B18, B19; BC130-148	
Q11a. Do you agree with the approach taken to revising the SASB Standards to improve international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?	Agree with maintaining continuity and consistency with SASB is important to maintain. However, we see limitations of the way in which the incorporation of the SASB Standards is planned into [Draft] IFRS S2. These limitations are discussed in the remainder of Q11.
Q11b. Do you agree with the proposed amendment that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?	We note that some industries are yet to be covered by the standards. This is because SASB is standards development prioritises financially material industries. We suggest that climate related financial disclosures should be material for all industries because it will take the efforts of all industries to decarbonise. Therefore, we strongly urge the ISSB considers how sectors hitherto not covered be including in the reporting standard.
Q11c. Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior period to continue to provide information consistent with the equivalent disclosures in prior periods? Why/why not?	We agree with the proposal however we suggest ISSB provide further detail relating to how these disclosures are to be made. For example, where an entity has both banking and insurance operations, it would be helpful to have guidance on how the disclosures are to be made and which standards are to apply. The same issue applies for those entities that that operate across multiple industries. SASB has issued guidance as to what is material, similarly we suggest ISSB specify the reporting requirement.

Question	ABA Position
Q11d. Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure?	There is significant concern with the mandating of the metrics in their current form for several reasons: • Data access, quality, availability will continue to be a challenge for the foreseeable future. • Metrics have not been broadly used it will take some time to implement these measures. • We do not believe that a case has been made for the utility of all the metrics proposed. We have experience that although some preparers do issue required metrics under existing standards, users may not be considering the data in their decision making. We consider this an unproductive use of preparers' limited resources. We suggest: • A careful consideration of each metric be undertaken with a focus on the utility of all the metrics listed in the industry-based requirements • Phased in approach be applied to the implementation of industry specific metrics through sequential pilots that are incorporated into the ISSBs forward plan. Additional matters requiring clarification: • The Commercial banks appendix has additional requirement for transition risk • Standardised methodologies to account for financed emissions exist although are incomplete and are evolving. The costs for implementation are not yet known (See also our response to Q12). We consider it premature to include Scope 3 financed and facilitated emissions as auditable items.
Q11e. Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance	We do not believe that the Global Industry Classification Standard (GICS) aligns to the Australian equivalent (ANZSIC). We suggest the ISSB standard should provide for the use of jurisdictional codes.

Question	ABA Position
entities? Why/why not? Are there other industries you would include in this classification? If so, why?	
Q11f. Do you agree with the proposed requirement to disclose both absolute and intensity-based financed emissions?	Partially agree; we support disclosure by asset class, and then by industry (in separate tables) but doing both (i.e., a matrix) would be excessive.
Q11g. Do you agree with the proposal to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?	We agree; this would be logical and would help cover legal obligations of entities.
Q11h. Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as PCAF's Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?	We agree provided that such a requirement would not preclude entities from using PCAF or other prescribed methodologies. We acknowledge that PCAF is aligned to the GHG protocol and that is has emerged as the dominant standard for financed emissions disclosures. We therefore suggest the ISSB recommends or prescribes PCAF.
Q11j. Do you agree with the proposed industry-based requirements? Why/why not? If not, what do you suggest and why?	Refer to responses to Q11a-h
Q11l. In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why/why not? If not, what do you suggest and why?	We seek clarity as to whether the ISSB's reference to 'commercial banks' intended to include Approved Deposit-taking Institutions (ADIs)? For example, there are some international banks operating in Australia that do not hold ADI license in Australia although they may hold an equivalent license in another country. An ADI license entails stricter/higher regulatory obligations. We suggest the industry description acknowledge this higher level of regulation. It will be an important distinction for future sustainability issues around economic and financial system stability (GSIBs, DSIBs) as well as privacy, governance of data, payment systems.
Costs, benefits, and likely effects [BC 46-48]	
Q12a. Do you have any comments on the likely benefits of implementing the proposals and the likely costs of	We note that the capability uplift, systems enhancements, data costs, and other costs will be very significant to the banking sector. As a point of comparison, the

Question	ABA Position
implementing them that the ISSB should consider in analysing the likely effects of these proposals?	Australian banks' implementation of the Consumer Data Right (open data) cost the industry over AUD$1billion in four years. The uplift and systems enhancements requirements of the Consumer Data Right are a fraction of what will be required to enable banking for efficient and accurate reporting. Additionally, the recent scenario testing of five banks (the Australia equivalent of CBES) involved many hundreds of bank staff, some of whom were taken out of their daily duties to perform the test. Many banks also engaged consultants to support the work. Whilst we cannot provide detailed projections for the timeframe for upgrading capability and systems, we estimate not reaching a steady state for some years. In the case of climate, banks scope 3 disclosures are heavily dependent on the robustness of scope 1 and scope 2 disclosures of their customers. In the case of nature and social issues, the metrication and tracking of metrics is nascent. We see benefits to the implementation of S2 that include: • Clearer/transparent information for investors and stakeholders which can support their decision making • Consolidation of methodology is a benefit to the industry. Costs: • S2 will entail significant implementation costs. Implementation costs will be significant in absolute terms for large entities and significant in relative terms for smaller entities. • Accessing the data (when it exists) will also incur costs • Having the right people with the right skills will take time and will be expensive given the shortage of such skills in the market. • The standard requires an uplift in systems and the combining of financial and nonfinancial data sets to create new data. • Significant work will be required to develop the enabling tools such that they complement the banks' current architecture.

Question	ABA Position
	• We refer the ISSB to the report by the Sustainability Institute regarding the costs and benefits of climate-related disclosures which estimates issuer costs at circa US$500,000 per annum (here). We note that this estimation is likely to be an underestimate for banking given the complex data needs of banking and the complexity of models. Further this estimate does not include the greater costs of establishing the systems and people capability. • Assurance costs will increase, especially as some of the data will be challenging to acquire and to then confirm accuracy. From a cost (and achievability perspective) there is significant cost difference between limited and reasonable assurance. To ease the burden of cost on reporting entities, we suggest: • Support for the need for safe harbour provisions in the context of misleading and deceptive conduct. • Consideration be given to the establishment of a ‘pre assurance’ status in the pre-maturity phase of implementation of S2 • A recommendation to regulators to make known their expectations regarding the level of assurance for reporting entities. • Limited assurance on metrics, for example, assurance can involve testing the accuracy of the definition and not the measure itself. It is within the ambit of the bank to develop their models and not for the assurer to determine whether the model is right or wrong. • Open-source government provided, or validated data would assist banks to undertake reporting in a standardised way and will limit the efforts required for assurance. • Phased implementation of the standards which considers the size and complexity of the entity and the ability to accurately report on Scope 3

Question	ABA Position
	emissions (noting the limitations to such reporting to banks as described throughout this submission).
12b. Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	We suggest publication of the ISSB's forward work plan or a consultation on a proposed forward plan.
12c. Are there any disclosure requirements included in the ED for which the benefits would not outweigh the costs associated with preparing that information?	
Verifiability and enforceability IFRS ED S1	
Q13. Are there any disclosure requirements proposed in the ED that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.	Some assurance professionals have indicated that they intend to audit the models of banks. We have significant reservations about auditors having the requisite banking and climate knowledge to be able to validate the assumptions underlying models. For further detail refer to our response to S2 Q12.
Effective date [BC190-BC194; IFRS ED S1]	
Q14a. Do you think that the effective date of the ED should be earlier, later or the same as that of [draft] IRFS S1 General Requirements for Disclosure of Sustainability-related financial information? Why?	We suggest the ISSB take additional time to consider the issues pertaining specifically to climate disclosures and therefore suggest a small delay between finalising S1 and S2 may be needed. For further detail refer to our Q14b response.
Q14b. When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparations that will be required by entities applying the proposals in the ED.	Refer to response to S1 Q13. There are several complexities which will require resolution for banks to report under S2. We note that the timing for reporting into the national context is subject to individual jurisdictions, however, it would be helpful for the S2 standard to acknowledge the current state of lack of readiness to implement the S2 standards as though in a mature state. There are several issues the ISSB ought to consider: • The standard assumes that entities already have the data required to report on the metrics and this is not always the case.

Question	ABA Position
	• It is not the case that metrics are calculated the same by entities of the same industry within a country. This is exemplified by the New Zealand implementation with the standard setter, the XRB, has enabled industry collaboration to develop and access the required data. In Australia exemptions to the competition laws would possibly be required to achieve this level of collaboration. • The envisaged process requires live data feeds which are not yet achievable. • Banks will need to upscale their human resource capability • Banks will need to align scenarios for comparability • Banks will need to develop their financial models to accommodate climate financial risk parameters • Systems changes may be required to store new climate data • Systems changes may be required to automate the analysis of exposures to climate risk. Currently such information is held in systems inaccessible form and requires manual review of client files. • Banks are highly dependent on customers reporting of customer scope 1 and 2 emissions for banks to report accurately on their scope 3 emissions. Such reporting is nascent. • Auditability of the resultant disclosures. We suggest that: • new standards will require a two-year process to implement in their minimum viable product format (and not to be provided to any level of assurance) and from there to build out the maturity of the systems. The rollout could be aligned to that adopted by the TCFD which commenced with the largest entities first.

Question	ABA Position
	• as a principle that entities which meet current requirements to produce general purpose financial statements could be listed for earlier phasing in irrespective of whether the entity is listed on a securities exchange. • Scope 3 emissions reporting for banks be delayed for a further two years. • reporting be done on a full-year basis with interim reporting only required for material changes from the full-year disclosures.
Global baseline	
Q16. Are there any particular aspects of the proposal in the ED that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What do you suggest instead and why?	Refer to response in S1 Q14

Australian Banking Association

Appendix 3: [Draft] ED Volume B19 Mortgage Finance

<table>
<tr><th>Subsection</th><th>ABA Position</th></tr>
<tr><td>Metrics (FN-MF-450a.1)

(1) Number and (2) Value of mortgage loans in 100-year flood zones</td><td>Australia presently does not have a commonly accepted national approach to designation/identification of 100-year flood zones. Without additional guidance on acceptable source of data disclosures will be of variable quality and likely to not be comparable between lenders. Additionally, the use of number and value of loans in 100-year flood zones will not have a direct relationship a lender’s current climate risk exposure. Fluvial (riverine floods), pluvial (flash floods and surface waters) flooding peril coverage is commonly included within general household insurance held as a requirement of mortgage finance. Disclosure of collateral identified as potentially flood exposed without providing context for insurance coverage would significantly overstate the risk to mortgage finance providers.

Reporting against this metric in the absence of reliable data would fail to meet the ISSB objective to allow assessment of the effects of significant climate-related risks on enterprise value. The ISSB should consider making disclosure of this metric optional based on the maturity of data available in the region and require contextual information on the impact of insurance.

We suggest the following considerations or amendments:
Industry description needs to be more general.
Is this metric based on current risk or is it situated as in climate exposure in 100 years? Where is the climate overlay?
Consider whether the metric should be 1 in 50 years
Look at all loans, where located, are they in the zone, what is the # and value – risk now on current portfolio.
Do you prescribe at a country level the source of the data – this has been removed?
Metric does not take into consideration insurability of the property</td></tr>
<tr><td>Metrics (FN-MF-450a.2)

(1) Total expected loss and (2) Loss Given Default (LGD) attributable to</td><td>This metric appears to be backward looking not forward looking. We suggested clarity in respect to what it is intended to show. For example, is it the intention that entities disclose their provisions for potential future climate related events?

We further note:
Can ‘loss given default (and similar metrics) be aligned to the relevant accounting standard? For example, AASB/IFRS 9.</td></tr>
</table>

mortgage loan default and delinquency due to weather-related natural catastrophes, by geographic region	• Broadly definitions are the same but suggest it best to reference those standards to avoid potential for confusion. • In respect to weather related natural catastrophes we seek clarification on what is in scope. • We suggest clarifying whether there is a timeframe requirement for example, losses up to 2030.
Metrics (FN-MF-450a.3) **Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting**	We seek clarity from the ISSB's forward plan as to whether there will be a requirement to consider home lending processes with a broader sustainability lens in future standards (for example social risks around affordability).

Appendix 4: [Draft] ED Volume B16 Commercial Banks

Subsection	Discussion
Metrics (FN-CB-1) **(1) Gross exposure to carbon-related industries, by industry, (2) total gross exposure to all industries, and (3) percentage of total gross exposure for each carbon-related industry**	**Refer to response to Q1d-h** **In addition:** Inclusion of the Homebuilding and Real Estate Management & Development categories will result in double counting of exposures from embodied emissions in building products (counted in the Construction Materials category), and electricity (counted in the Electric Utilities, Gas Utilities and Multi Utilities categories). Endeavours should be made to limit double counting of exposures.
Metrics (FN-CB-2) Percentage of gross exposure included in the financed emissions calculation	Banking sector has a role in assisting with transparency of sectors across all scopes. It provides a significant benefit to the market. In the first instance, we suggest a phased approach based on a 'significance' threshold by sectoral emissions factors. Further, we suggest considerations to be applied to calculation using current methodologies.
Metrics (FN-CB-3) For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, (c) Scope 3 emissions and (2)	There is not necessarily a linear relationship between levels of financed emissions and climate transition risks facing financial institutions. For example, the recent energy commodity price boom highlights that highly carbon-intensive energy suppliers can often be resilient in the short term (1-7 years) to transition scenarios due to the low costs associated with their business and high profit margins. A lender to oil and gas would report high financed emissions but in the short term would expect a relatively low impact on expected credit losses from climate-related risks within usual timeframes of general purpose financial reporting. Likewise, a lender to Construction Materials or Homebuilding categories would not necessarily experience elevated credit losses as these industries are essential in meeting the resilience challenges of climate change. The ISSB (and local standard setters such as the AASB) should exercise caution when equating transition risks exposure to simple metrics of Scope 3 emissions.

gross exposure (i.e., financed emissions)	
Metrics (FN-CB-4) For each industry by asset class: (1) gross emissions intensity by (a) Scope 1 emissions (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	**Refer to comment for FN-CB-4**
Metrics (FN-CB-5) methodology used to calculate financed emissions	The technical estimation of financed emissions in Australia is in its infancy with available calculation methods for SME business activities being inaccurate. Recent supply chain engagement for value chain carbon accounting has found commonly used industry default factors have overestimated actuals by up to 96%. In the absence of accepted measurement criteria, the inclusion of Scope 3 financed emissions jeopardises the ability of organisations to produce reliable financial statements. The ISSB (and local standard setter, ASSB) needs to acknowledge the challenges of financed emissions estimation and allow for a staged approach for regional method development. It is recommended that initially SME lending is excluded, and commercial lending Scope 3 emissions are limited to Oil, Gas & Consumable Fuels, and Electric Utilities, Gas Utilities and Multi Utilities.

20/07/2022

International Sustainability Standards Board
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Via online submission: The International Sustainability Standards Board (ISSB)

Re: Request for comment on Exposure Drafts: General Sustainability-related Disclosures and Climate-related Disclosures

AustralianSuper welcomes the opportunity to provide feedback on the ISSB Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

AustralianSuper is Australia's largest superannuation fund and is run only to benefit members. Over 2.7 million Australians are members of AustralianSuper with over $261bn in member assets under management. We are the custodians of the retirement savings of more than 10% of Australia's workforce. Our purpose is to ensure members achieve their best financial position in retirement and in doing so, we always act in members' best financial interests. The Fund actively stewards its capital and uses its influence to create long-term value and has a long-standing position of embedding ESG considerations into its investment decision making to meet this aim.

Climate change is one of the most significant issues facing investors today. Climate-related risks will impact economies, asset classes and industries, as well as societies and the physical environment. AustralianSuper has a responsibility to manage the risks and opportunities arising from climate change and climate change has been identified as a material consideration for the portfolio by the Fund's Board.

The Fund has committed to managing its investment portfolio to net zero carbon emissions by 2050. The commitment was made in members' best financial interests given the risk climate change presents to the Fund's long-term investment performance.

Our net zero commitment builds on the actions we are taking to manage the transition and physical risks in the portfolio and our desire to produce outcomes that create and/or enhance companies' financial value. These actions are conducted across four pillars of investment, stewardship, measurement and reporting, and advocacy.

1. General

AustralianSuper welcomes the publication of *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 Climate-related Disclosures*. A global approach to the development of sustainability disclosure standards will support decision making relating to ESG risks and opportunities.

We have provided comment in relation to the implementation of the standards in a submission provided to the Australian Accounting Standards Board (AASB) which we have included below.

We support the approach that entities will be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. We note that the requirements to consider these impacts over the medium and long term are critical in particular to value creation.

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2. Australian adoption

As an active, long-term investor, AustralianSuper applies a comprehensive approach to managing ESG and climate risks and opportunities in our portfolio. We believe the implementation of the standards in Australia will support our investment decision-making and stewardship activities.

The implementation of the ISSB standards in Australia will ensure alignment with global best practice by providing investors and users of sustainability disclosures with comparable and consistent information. As investors in domestic and global markets a consistent global set of standards is encouraged and welcomed.

We expect the proposals in Exposure Drafts of IFRS S1 and IFRS S2 will result in useful information for primary users of general-purpose financial reports.

3. Implementation: Transition period (phase in approach)

We consider that whilst some entities are reasonably mature and prepared for the introduction of these new disclosure standards, some entities will require time to scale up their expertise and capacity. We consider a staged/phased in approach to implementation could be appropriate and would be preferable to amending the international standards for the Australian market. This could allow entities time to scale up capabilities. We recommended to the AASB that consideration be given to a phased in approach such as initial adoption by large listed entities for IFRS S1 and high emitting companies for IFRS S2.

We support a phased in approach where disclosures rely on underlying entity reporting such as relating to Scope 3 emissions Category 15: Investments. Data gap allowances for this category of emissions disclosures should also be considered, factoring in transparency as to what the gaps are, reasons for them and improvements anticipated in future reporting periods.

4. Timeliness of reporting

We agree in principle that sustainability-related financial disclosures should be provided at the same time as the financial statements to which they relate.

Additional allowances for disclosure timeframes should be considered where aggregation of underlying investments is required such as Scope 3 emissions Category 15: Investments.

5. Auditing and Assurance

There is a critical role for independent external assurance to provide credibility to sustainability information.

Given the proposed climate change disclosures include requirements for disclosures of a forward-looking nature, we welcome jurisdictional consultation and discussions regarding their implementation with jurisdictional bodies such as the AASB. This could include the expectations and ability of entities to make these disclosures in the current Australian legal environment, and development of the related scope of assurance.

6. Reporting alignment

As proposed in paragraph 37 of IFRS S1, we support aligning the reporting entity for which sustainability-related information is provided with the reporting entity preparing related financial statements. It would be helpful if the final standards explicitly acknowledged that this alignment includes the application of the exception to consolidation applicable to investment entities contained in IFRS 10 Consolidated Financial Statements.

7. Industry-based disclosure requirements

We support industry-based disclosure requirements. With regards to IFRS S2 Appendix B Industry-based disclosure requirements, we encourage engagement with industry and further consultation to expand the industries to ensure fit for purpose definitions and complete coverage.

We note that the ‘Financials’ industry groups in Appendix B include Asset Management but not Asset Owners such as pension and superannuation funds. Due to the unique nature of pension and superannuation funds with respect to climate-related risks and opportunities, it is important that industry specific disclosure requirements are developed for asset owners. We would welcome involvement in this process.

We also note that private asset sectors are not currently captured in the industry groups. We would support separate consultation to ensure consistency and applicability.

We would also welcome further consultation and engagement relating to the Finance industry disclosure requirements utilising the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry.

8. Disclosure – Taskforce on Climate-related Financial Disclosures (TCFD) alignment

We support the alignment of ISSB standards with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, which would allow for building upon current voluntary disclosures and provide for standardised disclosures as a basis for comparative assessment.

9. Additional feedback

We would be pleased to provide additional information or to discuss our feedback in further detail. If that would be of assistance, please contact Andrew Gray, Director, ESG & Stewardship (AGray@australiansuper.com).

Yours Sincerely,

Andrew Gray
Director, ESG & Stewardship – AustralianSuper

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28 July 2022

Emmanuel Faber - Chair
International Sustainability Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom
By email: commentletters@ifrs.org

Dear Sir,

Re: IFRS SUSTAINABILITY DISCLOSURE STANDARDS

Sustainability must be made core to every entity's strategy and capital allocation process. As such, Aware Super supports ISSB's move to build on the foundational work from established frameworks such as IASB, Greenhouse Gas Protocol and Task Force on Climate-related Financial Disclosures (TCFD), in developing a set of global standards to baseline comparable disclosure of sustainability-related financial information.

In principle, we support ACSI's submission and make our own submission reinforcing a number of key points including where there is further clarification/challenge required to support the adoption of these standards to the Australian jurisdiction, and in particular, financial services industry.

As an institutional investor and custodian of the retirement savings of more than 1.1 million everyday Australians representing approximately $150 billion, any information about sustainability that is material to a decision on capital allocation, enables us to thoughtfully consider the impact sustainability-related issues has on financial prospects, position and performance of reporting entities, and in turn, our members' future.

The challenges ahead lie in how we as an unlisted company, consider the implications of the ISSB draft standards on our own financial information systems and reporting practices, and the maturity of our own sustainability controls and procedures across other internal functions, not just investments.

About Aware Super

Aware Super has been the fund for people who value the community since 1992 and we're now one of Australia's largest funds and continuing to grow. Our members include teachers, nurses, public servants, and emergency services officers—work in roles that support our community, and they expect us to do the same by investing in ways that do well for them, and good for all.

ISSB and the Draft Standards

Aware Super welcomes the creation of the ISSB and the Draft Standards. As an institutional investor with over $150bn in funds under management, we recognise that:

- **ESG performance is financially material for long-term investors**. However, the short-term outlook of many in the investment system means that present market prices do not always capture these risks and opportunities.

- **Markets do not always operate in the interest of long-term investors and their beneficiaries**. Fiduciary investors have an opportunity and a responsibility to engage with policy makers to better align the operation of the financial system with the interest of the beneficiaries.

As long-term investors, we need information on investee companies' sustainability risks and opportunities, their approach to managing these risks and opportunities, including the relevant performance metrics. Such information is used by us in risk assessment, stewardship activity and investment decisions. As we invest across global markets, there is a strong appetite for consistency and comparability in the approach to disclosure. Therefore, we welcome the establishment of the ISSB and the development of Draft Standards, and we are pleased to be able to provide our feedback.

Overall, we welcome the Draft Standards, and our view is that they are sufficiently comprehensive, while maintaining flexibility for organisations to disclose only on the issues that are material to them.

Aware Super welcomes the harmonisation and the detailed and integrated approach.

Consistent with existing Australian requirements

The approach set out in the Draft Standards requiring disclosure of material information about sustainability risks is consistent with existing requirements that apply to listed companies in Australia. In particular, a listed company in Australia is required by the Corporations Act to include in its directors' report information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position, business strategies and prospects for future financial years.[1]

Relevant regulatory guidance[2] effectively requires a company to makes disclosure of material business risks, which include environmental, social and governance (ESG) risks, where those risks could affect the entity's achievement of its financial performance or outcomes, taking into account the nature and business of the entity and its business strategy. Therefore, effectively listed companies have an existing requirement to discuss material ESG risks in their annual disclosures.

Many companies already disclose material sustainability risks. In addition to fulfilling the legal requirements outlined above, many companies also prepare additional disclosures, such as a sustainability report, or other similar disclosures. ACSI, our ESG research provider in Australia has, since 2008, conducted research into the disclosure practices of ASX listed companies in respect of ESG reporting. Their research shows that in 2021, 140 of the ASX200 companies were rated 'detailed' or 'comprehensive' disclosers[3], indicating that these companies are likely to be better placed to disclose in accordance the Draft Standards.

Notwithstanding the existing requirements in Australia, we welcome the framework proposed by the ISSB as it aims to drive a more consistent, comparable and detailed approach to disclosure.

Aware Super supports the materiality definition and recommends increased focus on the long-term

We support the definition of materiality proposed and the implicit statement that sustainability risks and opportunities are financially material. We recommend that the Draft Standards should explicitly state this fact, and increase the references to long-term perspectives.

In the context of the materiality discussion, we caution against promoting a false distinction between investors and the interests of other stakeholders. Over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. This approach was very well articulated by Justice Hayne in the Australian Financial Services Royal Commissions when he said:

> *The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage. And long-term financial advantage will more likely follow if the entity conducts its business according to proper standards, treats its employees well and seeks*

[1] *Corporations Act* (Cth) 2001 section 299A(1)

[2] ASIC Regulatory Guide 247 paragraphs 61-64

[3] ACSI ESG Reporting 2021 https://acsi.org.au/wp-content/uploads/2022/07/1ACSI-ESG-Reporting-Trends-in-the-ASX200-JUN22-.pdf

to provide financial results to shareholders that, in the long run, are better than other investments of broadly similar risk[4].

Accordingly, we support the materiality definition proposed, however we recommend that the Draft Standards promote sufficient consideration of sustainability risks that are present over the long-term. While the Draft IFRS S1 does incorporate reference to the long-term, there is opportunity to strengthen the Standard in this respect. We suggest that guidance be provided that encourages appropriate long-term approach, specifies appropriate time frames and that preparers clearly disclose how they interpret short, medium and longer-term time frames.

We recommend that differences between the term 'significant' and 'material' be clarified.

Interaction with other sustainability standards

We are aware of comments from some across the market suggesting that Draft IFRS S1 is broadly drafted, with concerns that it appears to require reporting entities to reference a wide variety of existing standards and practises (such as the SASB Standards, the CDSB Framework application guidance and the sustainability related risks and opportunities identified by entities that operate in the same industry of geography as set out paragraph 51) to identify risk.

Our view is that the Draft IFRS S1 is clear that reporting entities should apply judgement to identify material sustainability related financial information and that entities do not need to provide a specific disclosure that would otherwise be required by another Sustainability Disclosure Standard if the information is not material. This is the case even if the Standard sets out specific requirements or describes them as minimum requirements. We consider that it could be interpreted that Draft IFRS S1 merely references sources a reporting entity can refer to in order to understand the types of risks it might consider for assessment, rather than mandating disclosure. Nonetheless, we recommend that the ISSB provide further clarification on this point.

Aware Super supports clear statements on measurement uncertainty that provide comfort to entities in respect of forward-looking statements.

With the growth and focus across the market on sustainability issues, there have also been concerns raised by preparers in respect of forward-looking statements. Such concerns have been helpfully addressed in Australia within existing regulatory guidance, which makes it clear that preparers are unlikely to be found liable for misleading or deceptive forward-looking statements provided the statements are properly framed, they have a reasonable basis (which includes good governance at board level to sign off the statements) and there is ongoing compliance with disclosure obligations when circumstances change.

The statements in the Draft IFRS S1 on sources of estimation and outcome uncertainty (paragraphs 79-83) are consistent with the Australian regulatory guidance in this respect, as those sections in the Draft Standard outline the use of reasonable estimates and require disclosure of the sources and nature of estimation uncertainty. Paragraph 83 also requires disclosure of information about the assumptions a preparer makes about the future as well as disclosure of sources of significant uncertainty, where there is significant outcome uncertainty. Our view is that this is consistent with the Australian approach that requires proper framing of forward-looking statements so that they are not considered to be misleading. It makes sense that when considering whether a statement is misleading that the statement be considered in its entirety. Disclosures that are properly framed, with relevant qualifications clear, and methodology outlined, so as to fully inform the reader of material information, significantly reduce the risk of being found misleading. They are capable of being supported with a reasonable basis, when considered in their entirety, and there are many relevant examples across the market. We therefore

[4] Justice Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 at page 403

support the statements in Draft IFRS S1 that encourage disclosure on estimation and outcome uncertainty.

Together these provisions appropriately balance investors' needs for appropriate disclosure of material sustainability risks, (for which preparers should remain accountable), with the inherent uncertainty of forward-looking information. In this respect, this reflects existing practice, with many Australian listed companies currently making and managing such forward-looking statements in disclosures such as TCFD reports and other climate change-related reporting. In the context of financial reporting, many organisations currently rely on forward looking assumptions when considering asset valuations or provisioning.

Our view is that a safe harbour for disclosures made under the Draft Standards is not necessary or appropriate. As outlined above, there are sufficient protections where disclosures are appropriately framed and have a reasonable basis. Investors need comfort that there is appropriate accountability for disclosures that are made. Nonetheless, investors do not expect preparers to predict the unpredictable, but instead make realistic and properly articulated disclosures that have a reasonable basis. Additional regulatory guidance on what constitutes a reasonable basis, or examples of appropriate framing may be helpful. In addition, an appropriate transition time frames would support preparers to put in place systems and processes to support their disclosures.

Aware Super recommends adoption of the Standards in Australia

Current examples of good practice within listed companies in Australia provide a sound basis for adoption of the Draft Standards. Nonetheless, there will need to be appropriate transition arrangements for those areas of the market that are less mature, or to allow service providers (such as auditors) to scale up expertise to match expected demand. Accordingly, we would recommend a phase in period of two to three years to develop the systems and expertise necessary. Furthermore, as outlined above, our view is that a safe harbour is unnecessary (whether transitional or otherwise), instead transition periods will allow entities to appropriately prepare for adoption of the Draft Standards.

Yours sincerely,

Deanne Stewart
Chief Executive Officer

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Emmanuel Faber
Chair
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Dear Mr Faber

BCSD Australia Submission: ISSB [Draft] IFRS S1 & IFRS2 General Requirements for Disclosure

The Business Council for Sustainable Development (BCSD) Australia welcomes the opportunity to comment on International Financial Reporting Standards (IFRS) S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS sustainability disclosure standard – IFRS S2 Climate-related disclosures. As the Australian Network Partner of the World Business Council for Sustainable Development (WBCSD), BCSD Australia brings together Australian businesses (public and private; large, SME), government, philanthropy and academia. We work together with CEOs, CFOs, and CSOs to accelerate the system transformations needed for a net zero, nature positive, and more equitable future.

We strongly support the aims and objectives of the United Nations Sustainable Development Goals (SDGs) which seek to address the world's most urgent economic, environmental and social challenges. As a universal agreement to work towards a better and more sustainable future, the SDGs closely align with our purpose – making successful companies by making them more sustainable.

Context
It is currently an exciting time in the world of setting standards for sustainability reporting. It is also a complex and confusing one.

We recognise that the formation of the International Sustainability Standards Board (ISSB) represents the start of a journey for the International Financial Reporting Standards Foundation (IFRS Foundation) and the users of IFRS. The Exposure Drafts for IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related disclosures represent a milestone in advancing the management of sustainability issues.

The Proposals & Standards Architecture
The ISSB proposals are to form the structure within which jurisdiction-specific disclosure regimes are elaborated.

Developed in the wake of the COP26 conference in October 2021, and in response to requests from G20 leaders and the International Organization of Securities Commissions (IOSCO) (among others), the ISSB's proposed sustainability disclosure standards mark the first major steps in creating alignment between differing sustainability disclosure regimes and helping meet investor information needs on sustainability-related risks and opportunities.

The publication of these exposure drafts is a historic achievement and that climate and wider sustainability and ESG data is to an increasing extent being used for capital allocation decisions, and therefore, needs to lead the way on being as reliable and comparable as financial reporting. Perhaps more-so.

In this context, the range of information that could be relevant for the purposes of determining enterprise value is broader than just the information contained in financial statements.

Reporting entities will need also to disclose societal and environmental impacts, to the extent that they influence a primary user's assessment of that entity's enterprise value (and so affect the returns to providers of financial capital).

This approach can be distinguished from:
(a) broad-based corporate disclosure obligations regarding sustainability matters which aim to meet the needs of multiple stakeholders (often based on jurisdiction-specific requirements); and
(b) traditional financial reporting which requires a user to base their assessment of enterprise value on historical monetary data.

We applaud the ISSB's stated intention to consolidate and build on existing reporting frameworks and this can be seen in the proposed architecture of the standards. As Emmanuel Faber, Chair of the ISSB, has said that the draft standards are "fully building upon the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and they also incorporate industry-specific requirements based on the SASB Standards."

Strengthening the Standards
This covering letter takes the opportunity to summarise eight key recommendations of general application that have emerged through our reading of IFRS. In considering the architecture of the ISSB's proposed sustainability disclosure standards we
Recommend consideration of the following matters.

- **Definitions**: More clearly define what constitutes a "significant" sustainability-related risk. The significance of the sustainability-related risks forms the basis for disclosure. To many, this is relatively new. **Recommend t**he general sustainability standard could more clearly articulate how companies can determine if a particular risk is "significant" in the context of business model, strategy and cash flows, access to finance and cost of capital. Concepts used by WBCSD and COSO's supplemental guidance for applying enterprise risk management to ESG-related risks should be helpful.

- **Time horizons**: There is probably a need to further clarify the time horizons to consider for "enterprise value." Companies request more prescriptive approaches to disclosing activities that could have a (long-term) impact on enterprise value. Companies will need more detail about users' expectations on the time horizons for assessing sustainability-related risks and opportunities. **Consider** clearly state that companies must disclose information on long-term ESG developments that could reasonably and materially impact the balance sheet or P&L should sustainability risks and/or opportunities materialize, while identifying exactly what is meant by short, medium and long term.

- **Illustrative guidance**: The exposure drafts contain elements that require further clarification. For example, "significant risks and opportunities" and "time horizons," as outlined above. **Consider** supplementing the standards with additional illustrative guidance on determining significant sustainability risks and opportunities. We believe it could be helpful to issue further illustrative guidance in these and other areas to help companies understand what constitutes a sustainability-related risk and/or what may be material in the context of time horizons and enterprise value. WBCSD has developed guidance on various practices related to sustainability-related financial disclosure, including risk management, scenario analysis and assurance. We hope that the ISSB will draw on or refer to these resources to support companies with processes that support high quality disclosure.

- **Use of the SASB industry-specific standards. Recommend** a similar rigorous approach and process for industry-specific metrics, while considering emerging and developing economies. For example, WBCSD welcomes the use of the SASB industry-specific standards, but encourages the ISSB to undergo its due process for the necessary revisions, as these standards were developed under a process and framework that are not identical with the ISSB's. The appropriate revision of the SASB standards will ensure that they are expanded in scope and made applicable internationally.

- **Phase-in period**. Companies support aligning the sustainability reporting period to the timing of the financial statements. That said, many companies will need time to invest in the data systems and technology to ensure the quality and availability of information is not compromised. This is especially true for large multinational companies and conglomerates. **Recommend** a transition phase of up to three years where the reporting period can differ between the financial and sustainability information would help companies prepare.

- **Alignment**; Insist on stronger, clearly aligned approaches between international and jurisdictional efforts – specifically on alignment of terminology. We welcome the establishment of the ISSB working group to enhance compatibility between the global baseline and the jurisdictional initiatives. In our view, it is imperative to align from key concepts down to the terminology between the standards, including the GRI and EU standards. Different terminology and concepts are confusing to preparers and reduces the quality and comparability of information.

  The European Financial Reporting Advisory Group (EFRAG) is working to establish the reporting standards for the European Union's Corporate Sustainability Reporting Directive (CSRD). The Global Reporting Initiative (GRI) had been supporting this work and more recently announced a collaboration with the ISSB.

  Both proposed standards require consideration of the SASB Standards, which identify the sustainability disclosure topics most relevant to enterprise value for a typical business in each of 77 different industries.

  So, while we understand that the intention is for each standard to be complementary to the others in order to minimise duplicate disclosure. Critical is that the general requirements standard should deal "only with holistic and common disclosure requirements, removing duplication and leaving topic-specific requirements to the specific disclosure topic standards.

  The ISSB is seeking to embed SASB's industry-based approach into its process and, notably, in an upcoming organisational change, the Value Reporting Foundation (which hosts the SASB Standards) will be consolidated into the IFRS Foundation, following formal approval by the respective governing boards in June.

  We do wish to note to the fact that the SASB Standards are notably US-centric. The ISSB acknowledges that this is a potential issue, so we welcome that it is taking on the leadership of a project to improve the international applicability of the SASB Standards.

  Critically the SASB Standards are based largely on research into the US market and contain multiple references to US-specific regulations. We would caution that until the ISSB's work on international applicability is complete, the SASB Standards should only constitute non-mandatory guidance where an IFRS Sustainability Disclosure Standard for a specific topic does not yet exist.

- **Building Capacity**: WBCSD has extensive experience in providing feedback and best practice on sustainability risk and reporting frameworks, including directly to the Taskforce on Climate related Financial Disclosures (TCFD). WBCSD members have worked on TCFD interpretation and implementation for several years through our Preparer Forum initiatives for priority non-financial sectors: Autos, Electric Utilities, , Construction & Building Materials, Chemicals, Oil & Gas. **Consider** establishing an official Preparer Forum to aid the uptake of the standards as a global baseline. WBCSD and its CFO Network would welcome the opportunity to discuss how this experience may be of use to the ISSB in implementing its final set of standards.

- **Urgency**: BCSD Australia also respectfully requests that the ISSB moves quickly to develop additional standards for other ESG topics, for instance, on social elements. Entities are likely to identify material topics for which an ISSB standard does not yet exist. Having ready-made standards for the most likely additional topics will ensure that entities can report in line with the ISSB's expectations. Providing a clear workplan of the topics and approaches that the ISSB will consider will help entities to prepare accordingly. It is important that the diligent but perhaps at times confusion array of many NGOs currently working on standards for sustainability reporting is not simply replaced by a world of confusion from different government-backed organizations doing the same thing.

In **Appendix 1** we have responded below to each of the 17 consultation questions relating to IFRS S1 & IFRS S2.

In Conclusion
The ISSB proposals should be seen in the context of a wider, transnational push to establish a set of global sustainability standards.

While the EU will mandate the standards developed by EFRAG through the CSRD, the ISSB will depend upon governments requiring their use. The tension with the EU is obvious. There might eventually need to be some form of the "Norwalk Agreement" (a convergence project, the "Norwalk Agreement," was between the FASB and IASB in 2002 and was heralded as a much-needed step towards harmonization).

However this happens, work should be done to get as close as possible to a global set of standards for sustainability reporting. But it is important to be realistic about the effort, difficulties, and time it will take to accomplish this goal. Which will never be achieved in the purist sense. Just as is the case for current financial reporting standards.

At the end of the day, the overall aim is to bridge the divide between conventional financial disclosures and ISSB sustainability disclosures, so that they can in combination paint the full picture in relation to enterprise value.

We applaud the work of the IFRS towards this end.

Please note that this consultation response was released in the name of BCSD Australia. It does not mean that every member company agrees with every word.

Andrew Petersen
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Appendix 1

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Question 1 – Overall Approach
Industry standards as part of the overall approach

a) *Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?*

Notes and supports that fact that the Basis for Conclusions to the draft Standard refers to the Brundtland Report's definition of 'sustainable development' and to the UN's definitions of sustainability, its sustainable development goals and international policy pronouncements [BC30].
Recommends (a) for the sake of clarity include a definition of 'sustainability' in the Standard itself, including going beyond sustainability-related risks and opportunities, specifically outlining key elements related to how a company approaches such risks and opportunities. These include: their management, their governance, strategy to address them, and targets/metrics to track progress over time. We note that both the SASB and GRI adopt the Brundtland Report definition: "meeting the needs of the present without compromising the ability of future generations to meet their own needs"; and/or (b) providing a non-exhaustive list of matters that would be expected to fall within the bounds of sustainable development.
Believe that the Exposure Draft states clearly that entities would be "required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard."
Recommend that the ISSB should seek to provide greater clarity on the definition of 'sustainability related financial information', including going beyond sustainability-related risks and opportunities, specifically outlining key elements related to how a company approaches such risks and opportunities. These include: their management, their governance, strategy to address them, and targets/metrics to track progress over time.
Note that as the ISSB will be developing more topic-specific standards over time, some entities will develop their disclosures in line with the existing guidance for topics not covered by an IFRS Sustainability Disclosure Standard, to then have to reform their approach to reporting on the topic once the new standard is released.
Consider how the ISSB can help manage issuers' reporting burden in such instances, for example by providing a clear workplan of the topics and approaches that will be taken to them in a timely manner.

b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?
Believe that the disclosure requirements set out in the Exposure Draft make good progress towards meeting the objectives described in paragraph one.
Recommend the exposure draft could be further strengthened through the following:

- the standard more clearly articulates how companies can determine if a particular risk is "significant" in the context business model, strategy and cash flows, access to finance and cost of capital. To many organizations, the significance of the sustainability-related risks forming the basis for disclosure is relatively new, even for climate-related risk. **Consider** concepts used by WBCSD and COSO's supplemental guidance for applying enterprise risk management to ESG-related risks.
- To many organizations, determining which aspects of climate-related risks and opportunities are relevant to enterprise value may be a relatively new exercise. **Suggest** additional guidance to help build users' understanding at an earlier stage of making such disclosures, in particular providing more prescriptive approaches to disclosing activities that could have a (long-term) impact on enterprise value. **Consider**, for example, clearly stating that companies must disclose information on long-term ESG developments that could reasonably and materially impact the balance sheet or P&L should sustainability risks and/or opportunities materialize.
- **Recommend** providing opportunities to explain the rationale and reasoning behind identifying a particular sustainability risk as materially relevant.
- **Recommend**, in line with the ISSB's building blocks approach, including clear avenues for companies to (voluntarily) explain how they are going above minimum requirements for managing enterprise value assessment.
- **Believe** that there are some practical challenges for the standards to achieve their stated objective. For example, it may not be possible for companies listed in the US to include the proposed disclosures in their regulated filings, as they may not meet the materiality definition already used in US financial reporting. To accommodate such considerations for relevant companies, **Consider** developing guidance for the voluntary application of the standards.

c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?
Agree It is clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures.
Note that as the standards further develop, ensuring there is no duplication across the standards, and ensuring that information sits in the most appropriate standard (general or topic specific) will be crucial.
Recommend that supplementing the standards with additional illustrative guidance on how issuers can apply IFRS S1 with other IFRS Sustainability Disclosure Standards, and how the two should relate, would support issuers in effectively applying the standards and meeting the needs of users.

d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?
Believe that, clear, specific, measurable information that is quantitative as far as possible will be the most suitable for auditors and regulators to confirm compliance.
Consider that there should be room for qualitative expansion. The standards need to ensure all elements of a typical assurance requirement, process and guidance are covered in the standard, for example scope, sustainability topic identification, availability of criteria, internal controls, evidence, assertion, misstatements, qualitative and, to the extent possible, be forward looking. The IAASB has developed meaningful guidance on ISAE 3000 and the ISSB should engage with the IAASB to develop a strong working relationship to leverage existing guidance on assurance and to ensure the compatibility of the standards with assurance practices.
Consider a phased approach to the introduction of verification requirements, for example phasing in a limited assurance requirement before requiring reasonable assurance.
Recommend Before the incorporation of SASB standards, the ISSB needs to review the SASB metrics and disclosures for relevance and consistency with the objectives of IFRS S1, and appropriateness in light of the cost and effort to produce them and commercial sensitivities, which includes avoiding penalising entities for their innovation. Avoiding commercial sensitivities can, for example, help prevent entities being penalised for being innovative.

Question 2 – Objective

a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

Believe that the proposed objective of disclosing sustainability-related financial information is clear.

Recommend more detail around what constitutes sustainability-related financial information as it would be helpful. The ISSB could do this by emphasizing that sustainability-related financial information should be specific to an entity and determined by an assessment of what is material to the specific entity.

Recommend further illustrative guidance or pointing to existing frameworks for materiality assessments could be particularly useful.

Recommend exploring the views of the investor community to ensure they agree that the information outlined would support them in their approaches to company valuation and therefore fits the overall objective – perhaps, for example, by dissecting comments from the UN PRI.

b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

Recommend that the definition of 'sustainability-related financial information' be strengthened by outlining key elements related to how a company approaches sustainability-related risks and opportunities. These include: their management and governance, strategy to address them, and targets/metrics to track progress over time.

Recommend the final draft could also provide a definition for 'risks' and 'opportunities', which could help preparers and auditors in implementing the standards.

Recommend what is 'significant' and what is 'material' could be better defined.

Recommend the definition provided for 'sustainability-related financial information' could be further strengthened by providing examples.

Question 3 - Scope

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

Welcome the establishment of the ISSB working group to enhance compatibility between the global baseline and the jurisdictional initiatives.

Consider it is imperative to align from key concepts down to the terminology between the standards, including the GRI standards. Different terminology and concepts are confusing to preparers and reduces the quality and comparability of information.

Consider the proposals in the Exposure Draft could be used by entities that prepare their reporting in according with GAAP.

Recommend the connection of the narrative reporting requirements across different jurisdictions be reviewed to ensure compatibility.

Note that it may not be possible for companies listed in the US to include the proposed disclosures in their regulated filings, as they may not meet the materiality definition already used in US financial reporting.

Consider developing guidance for the voluntary application of the standards.

Recommend more guidance on what 'reasonably affect enterprise value' means.

Note that in Australia, the Australian Accounting Standards and Interpretations are issued by the Australian Accounting Standard Board (AASB). These standards are the Australian equivalents to IFRS Accounting Standards and are required to be applied by many reporting entities. It is expected that the proposals in the Exposure Draft could be used by an entity preparing general purpose financial statements in accordance with Australian Accounting Standards. Australia follows a two-tier financial reporting approach, where entities are not required to comply with full Australian Accounting Standards (i.e. Tier 1) are required to prepare their financial statements in accordance with Australian Accounting Standards - Simplified Disclosures (ie Tier 2).

Recommend therefore It will be important to ensure that there is formal engagement with other jurisdictional representatives and standard setters that are not currently represented by the working group in order to help avoid any current or possible future incompatibilities that might complicate the application of the requirements.

Question 4 - core content

a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

Believe that the disclosure objectives for governance and metrics and targets are clear and appropriately defined.

Consider the strategy objective also include an understanding of the impact of sustainability-related risks and opportunities on the business model, business strategy and financial position.

Recommend clarity needs to be provided on the identification of opportunities in risk management processes versus the identification of opportunities in other strategy processes.

Consider review application guidance for applying Enterprise Risk Management processes to ESG-related risks and opportunities, as outlined by COSO and WBCSD.

b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

Believe the disclosure requirements for risk management are appropriate for their stated disclosure objectives.

Note that many of these reporting requirements will be consistent year-on-year for issuers.

Recommend the reporting of governance and risk management processes are placed on a company's website and that this page can be hyperlinked from the report. The company could then use the report to outline any changes to these processes in the reporting period or confirm that there have been no changes.

Strategy

- **Emphasize** sustainability-related opportunities, transition planning, and company-level transformation.
- **Recommend** clarity on disclosure requirements related to product and service development, innovation and knowledge-based assets. These would help the standards further link to enterprise value, in terms of the growth of sustainable products and services, company investment planning, and profit margins from associated activities.

Metrics

- **Recommend** the metrics outlined require classification, as well as further detail of their connection to their financial, operational and risk-related objectives.
- **Welcome** the use of the SASB standards.
- **Encourage** the ISSB to undergo its due process for the necessary revisions of the SASB standards as they were developed under a process and framework that are not identical with those of the ISSB. The appropriate revision of the SASB standards will ensure that they are expanded in scope and made applicable internationally. For example, the SASB standards could more comprehensively cover the full scope of risks and opportunities present. At present, metrics focus largely on operational considerations such as energy use, emissions, water use and waste management. Key topics, pertinent to climate risks and opportunities that will impact enterprise value, such as the transition of products and services, the development of new technologies and investments in low carbon solutions are not yet fully developed. Likewise, aspects related to an organization's climate adaptation and resilience are also not comprehensively addressed in the standards.
- **Suggest** that the guidance for metrics is re-framed to provide a hierarchy of information sources. Such a hierarchy should help ensure consistency and quality of disclosure across reporting entities.

Governance

- **Note** it will be important for the ISSB to avoid duplication in reporting and governance structures where the entity already has an integrated model to managing sustainability-related risks within its existing governance structure.

- **Recommend** the ISSB could clarify additional requirements to unpack how the board considers, uses and acts on relevant information - including the tradeoffs they consider, and their relevant skills and competencies in making such considerations.
- **Recommend** that while the exposure draft makes reference to how the board considers information related to strategy, it should also extend to how the board considers information related to disclosure, decisions made and actions taken. Additional information on how the board evaluates the effectiveness of policies and processes would also be relevant, particularly in relation to their oversight of risk management, monitoring and controls. All these aspects may also require additional guidance from the ISSB to ensure relevance and usefulness of the information disclosed.
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Question 5 - Reporting entity

a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

Agree with the ambition that the reporting entity for sustainability-related financial information should be the same as those of the related financial statements, with some reservations about the practical challenges.

Note that there is a high degree of overlap between a company's sustainability impact and the financial materiality of sustainability issues. However, WBCSD research shows that there is currently a strong misalignment in sustainability issues reported in the sustainability report versus in the annual risk statements. As such, there will inevitably be challenges in ensuring alignment between information reported in the regulated filings and in sustainability reports, particularly in the early stages of adopting the standards. Therefore, companies request additional time of not more than three years, to invest in the systems needed to meet the requirement.

Companies also request the flexibility to clearly explain cases where they are unable to provide sustainability-related financial information for the same entity as the related financial statements, including why they are unable to do so, and outlining actions to be able to meet the requirements of the standards. For example, some entities will include in the financial report information for organizations and partners where they have a significant stake, but no operational control. With no operational control, companies have limited influence over the data-collection processes of these organizations, including a limited ability to compel the organizations to provide data for sustainability reporting.

Consider that the ISSB could allow companies to follow the operational control principle of the GHG Protocol in their reporting, including clearly stating where the information provided is not on the same entity/entities as in financial reporting.

b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

Believe that this is an important inclusion in the standards, as sustainability risks and opportunities are often concentrated in the value chain, rather than under an entity's direct control.

Consider it may be challenging in the beginning for companies to collect such information across its value chain from the stakeholders in the value chain. In particular, companies with complex value chains may find it challenging to fulfill reporting requirements, as smaller partners may not be able or willing to supply the required information, for the reasons stated above (Question 5a).

Alternatively Consider introducing a threshold for value-chain partner reporting to be included, ensuring that partners who materially affect enterprise value and/or are under the entity's operational control are included.

Recommend the ISSB provides more guidance to ensure the information disclosed by companies is specific and relevant to enterprise value creation, potentially considering additional voluntary mechanisms for additional disclosure that may be decision useful.

Encourage greater clarity about the scope and expectation for risk and opportunities related to relationships and value chains and make this information as quantitative as possible while keeping in mind that risks and opportunities will vary by sector and jurisdiction.

c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?
Agree with the proposed requirement. Creating interconnectivity between the sustainability disclosure and the financial disclosure will help ensure the two are aligned and used together – creating ease of information sharing for the preparers and the users. The approach strengthens the connections between sustainability, finance and governance functions within companies.
Recommend that the ISSB and the IASB continue to stay in close contact to ensure ease of identification across the sustainability and financial reports.
Recommend, given that the proposed requirement is very broad, guidance is needed on how to assess and report significant sustainability-related risks and opportunities across a value chain in a consistent manner across entities.

Question 6 - connected information
(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?
Agree that clear connections should be made, and the need for connectivity between sustainability related risks and opportunities across governance, strategy, risk, opportunities and metrics/targets is clear.
Recommend additional guidance on how to make and communicate those connections within the report.
Welcome the opportunity to provide additional input as to how to draw relevant connections and communicate them appropriately.

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?
Agree that it is important to identify and explain the connections between sustainability related risks and opportunities and information in general purpose financial reporting, including the financial statements.
Recommend the ISSB provides extra information on the nature, extent and specificity of the disclosures it seeks for this element of the standard, for example, in partnership with the IASB.

Question 7 - fair representation
(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?
Welcome that the ISSB draws on concepts from financial reporting.
Strongly supportive of fair representation in sustainability.
Believe that further explanation of how additional concepts could or should be applied to sustainability, for example through guidance and specific illustrative examples.

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.
Welcome the fact that the exposure draft builds upon existing standards.

Encourage the ISSB to undergo its due process for the necessary revisions of the SASB standards, as they were developed under a process and framework that are not identical with those of the ISSB. The appropriate revision of the SASB standards will ensure that they are expanded in scope and made applicable internationally. For example, the SASB standards could more comprehensively cover the full scope of risks and opportunities.
Recommend provide background on faithful representation in the Sustainability Standards similar to that in the IASB's Conceptual Framework for Financial Reporting. There could be benefit in establishing a conceptual framework for sustainability reporting. We consider this would help place the requirements in context.

Question 8 - materiality
a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?
Welcome that the definition and application of materiality in the context of sustainability-related financial information is clear.
Recommend the standards could be elaborated further to strengthen them and support companies as they implement the standards.

- First, the standards could benefit from requiring companies to outline specific information on the materiality thresholds (qualitative/quantitative) they have used to determine whether something is material - this includes the time horizons that have been chosen. **Consider** the standards provide more guidance on assessing appropriate time horizons (such as linking to investment horizons and adaptability of the business model).
- Secondly, **consider** more specific information should be given on pre-defined time horizons, for example explicitly requiring companies to consider sustainability risks and opportunities over the short-, medium- and long-term, and/or it should require companies to outline the time horizon they have used to assess whether a topic is material.
- Finally, **consider** more guidance for companies on the scope of the definition of enterprise value when assessing materiality and how it is assessed, for example in relation to the performance of capital, equity risk profile, drivers of shareholder and intangible value.
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b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?
At present the standards allow for a company to determine what is or is not material. This provides significant autonomy to an entity to determine which risks and opportunities are relevant to its enterprise value. This could potentially allow companies to not cover certain sustainability-related risks and opportunities which investors would consider to be material.
Ensuring significant levels of transparency on how a company determines what is material is essential to reducing this risk, allowing users of information to assess the reliability and credibility of its outcomes.
Consider clarification of the time horizons. Companies are requesting more prescriptive approaches to disclosing activities that could have a (long-term) impact on enterprise value. This includes the time horizons that have been chosen and the standards could provide more guidance for assessing appropriate time horizons (such as linking it to investment horizons and adaptability of the business model).

c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?
Believe that the Exposure Draft and Illustrative Guidance are useful in covering how to use existing standards to identify material sustainability-related financial information.
Consider additional guidance would also be helpful. The extent to which companies include a lens of financial materiality in their existing sustainability materiality assessments varies significantly. As such, for some companies there will be a steep learning curve and change of practice to adopt the standards.

Believe that further explanation of how a financial lens could apply to sustainability-related risks and opportunities over time would aid companies in undertaking assessments of materiality with a clear financial lens. Over time, that guidance and illustrative examples of applying the ISSB materiality lens alongside materiality requirements from other jurisdictions (e.g., US, EU) would also help preparers better implement the ISSB requirements alongside their other reporting obligations.

d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?
Agree with this proposal. Companies should explain which local laws or regulations prohibit such disclosure, but should not be exposed to undue legal risk through adherence with the standards.
Note it will be important for the ISSB not to create a "get out" clause for companies reticent to publish sustainability-related financial information. One suggestion as stated above could be to provide a voluntary disclosure mechanism for companies that want to disclose decision-useful information where jurisdictional rules and norms may be prohibitive.

Question 9 - Frequency of reporting
Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?
Support the ambition of aligning the sustainability reporting period and disclosures to the timing of the financial statements.
Clarify that disclosures are to be produced annually, and not as part of the interim statements, as there has been some confusion among members.
Support aligning with the financial statement timing, for many companies, reporting sustainability-related financial disclosures at the same time as the financial statements will require a significant adjustment. WBCSD's Reporting Matters publication, an annual review of our member companies' sustainability and integrated reports, found that 40% of members combine financial and non-financial information, suggesting it will be a new exercise for many companies.
Note that many companies will need time to invest in the data systems and technology to ensure the quality and availability of information isn't compromised. A transition phase of not more than three years where the reporting period can differ between the financial and sustainability information would help companies adequately prepare.

Question 10 - location of information
a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?
Agree with the proposals and rationale for the location of sustainability-related financial disclosures, keeping in mind jurisdictional constraints for certain companies (see Question 8d). The proposals should provide flexibility around the location of sustainability disclosures, including the use of cross-referencing, which would help avoid duplication. For example, the Australian Securities Exchange's corporate governance disclosures can be presented either in an entity's annual report or on its website provided they are clearly cross-referenced from the annual report and presented and centrally located on, or accessible from, a 'corporate governance' website landing page.
Consider developing guidance/best practice case studies to demonstrate how companies have effectively implemented the standards, and communicated their information in an effective and coherent manner.
Consider illustrative guidance to help users understand where to find the information they may be looking for. It is common practice for companies to generate indexes/mapping linked to specific sustainability standards (e.g., SASB indexes, GRI indexes) to highlight where a user can find the necessary information related to a standard. We expect companies to adopt similar practices with the IFRS Sustainability Disclosure Standards. This could also be the focus of eventual ISSB guidance/case studies**, and**
Welcome the opportunity to support.

b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?
We are not aware of such jurisdictional requirements beyond those discussed, for example, in the answer to Question 8d.
c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?
Agree with the proposal.

d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?
It is clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities but are encouraged to make integrated disclosures. However, we also believe that this will not always match the reality of how entities structure the governance, strategy and risk management of individual sustainability risks and opportunities. The governance, strategy and risk management approach may be different for climate as opposed to future topics that may be covered in forthcoming IFRS Sustainability Disclosure Standards (e.g., if human rights and labour standards or data privacy standards were to be developed).
Consider that the standards should ensure that the overall governance, strategy and risk management framework is understood, as well as for the specific topics.

Question 11 - Comparative information, sources of estimation and outcome uncertainty, and errors
(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?
Agree that the provisions on comparative information, sources of estimation and outcome uncertainty, and errors are adequate and have been adopted appropriately in the Exposure Drafts.

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?
Agree with the principle that better measures of a metric should also be disclosed in the comparatives, noting however, that this may be impossible or difficult to the extent that this would result in non-reliable comparative data.
Suggest asking for such explanation. in Particular further guidance is provided in the Standard to illustrate more clearly the circumstances in which restatement is required.

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?
Agree

Question 12 - Statement of compliance
Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

Support the proposed approach and note it is consistent with the application and compliance regime for IFRS Standards in Australia and other IFRS jurisdictions.
Agree that companies should explain which local laws or regulations prohibit disclosure and should not be exposed to undue legal risk through adherence with the standards.
Note that due to the inherent uncertainty of future events, forward looking statements carry a higher risk of breaching Australian laws prohibiting misleading and deceptive conduct. Accordingly, reporting entities in Australia may look to qualify particular disclosures in order to be able to assert compliance with IFRS Sustainability Disclosure Standards.
Note it will be important for the ISSB not to create a "get out" clause for companies reticent to publish sustainability-related financial information.
Consider, for example, creating a voluntary disclosure mechanism for companies operating in such jurisdictions (see Question 8d).

Question 13 - Effective date
a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.
b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?
Encourage developing and issuing the [Draft] standards should be completed as soon as feasible. Many companies will need time to invest in the data systems and technology to ensure the quality and availability of information isn't compromised. A transition phase of not more than three years where the reporting period can differ between the financial and sustainability information would help companies adequately prepare. Additionally, flexibility may need to be built in depending on jurisdictional rules and boundaries, as some companies may be located in jurisdictions where the local authorities determine the effective date.
Support the application of the proposals with at least a three-year gap between the final Standards and the commencement date.
Agree that companies should not have to disclose comparative information in the first year of application.

Question 14 - Global baseline
Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?
Welcome the establishment of the ISSB working group to enhance compatibility between the global baseline and the jurisdictional initiatives.
Note that many entities in Australia reporting existing sustainability frameworks and therefore it is critical that the comprehensive global baseline also provides entities with clarity about how the Standards interact and overlap with broader sustainability disclosures frameworks, such as the GRI.
Support the ISSB as a global baseline. In our view, it is imperative to align from key concepts down to the terminology between the standards, including the GRI standards. Different terminology and concepts are confusing to preparers and reduces the quality and comparability of information.
Note that the establishment of a Preparer Forum to get practical feedback from the companies would also aid the uptake of the standards as a global baseline. WBCSD members would welcome the opportunity to support and to discuss further.

Question 15 - Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 Climate-related Disclosures Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

Support initiatives to enable digital reporting.

The development of a taxonomy will provide critical input in building understanding and ensuring comparability of information. As with other elements of the standard development, ensuring international compatibility and applicability will be essential, as will ensuring that the ISSB's taxonomy forms the foundation of other taxonomy-development initiatives. If there is not international alignment in the development of taxonomies, we risk the creation of fragmentation and confusion for issuers and users alike.

Likewise, the alignment of digital reporting and digital tagging initiatives will be crucial globally to avoid creating undue burden on entities and ensuring comparability and applicability across jurisdictions. For example, the European Commission's Corporate Sustainability Reporting Directive will require companies to digitally "tag" all reported information for it to become machine-readable and feed into the European single access point envisaged in the capital markets union action plan. This is intended to deliver improved accessibility, enabling easier extraction and comparison of information.

Recommend that the ISSB takes a central role in ensuring alignment, harmonization and compatibility across digital reporting requirements.

Question 16 - Costs, benefits, and likely benefits

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

While there may be associated costs in the implementation of new standards, in terms of resource deployment and implementation of new systems to meet the requirements, the consolidation of reporting standards into one global baseline focused on enterprise value should also reduce the overall reporting burden on companies while providing the most decision-useful information to capital market actors.

For this to become a reality, the ISSB must insist on stronger, clearly aligned approaches between international and jurisdictional efforts – specifically on alignment of terminology.

Welcome the establishment of the ISSB working group to enhance compatibility between the global baseline and the jurisdictional initiatives. Differentiating terminology and concepts is confusing to preparers, increases the reporting burden and reduces the quality and comparability of information.

We also believe that pushing for greater transparency can drive the management of climate related risks and opportunities, enhancing business performance and representing a significant overall benefit to companies.

Companies proactively undertaking long-term strategic transitions can benefit by providing quantitative rationale to justify the need for initial investments through these disclosures and thereby gaining access to capital.

A 2022 survey of US companies conducted by the Sustainability Institute by Environmental Resources Management (ERM) for Ceres and Persefoni assessed a broad range of corporate costs connected to climate-related disclosure activities. The survey found that on average corporate issuers are spending $533,000 annually on climate-related disclosure.

Along with discussions of costs, the survey asked respondents to rate the potential benefits of climate-related disclosures and impact assessments. For issuer respondents, the highest ranked benefit was better performance in meeting sustainability, climate, ESG, and SDG goals, followed by better access to data capable of enhancing corporate strategy. Some issuers also cited “lower cost of capital” as a benefit, and a correlation was found between spending more on overall climate-related disclosure and recognizing a lower cost of capital.

Note that ample time needs to be allowed to develop sound relevant disclosure requirements to help ensure they are not subject to frequent change that would create further costs.

Question 17 - Other comments

None

IFRS sustainability disclosure standard – IFRS S2 Climate related disclosures

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Opening Comments

Whilst the ISSB, SEC and EFRAG proposals deal with similar issues, they have differences and similarities in certain areas, some of which are highlighted below.

1. **TCFD**

Both the EFRAG and ISSB exposure drafts strongly align with TCFD recommendations based on pillars of Governance, Strategy, Risk Management, and Metrics & Targets. SEC's climate disclosure proposal broadly aligns with the four pillars and 11 recommended disclosures, and in some circumstances requires additional disclosure on top of TCFD guidance.

1. **Scope 1, 2 and 3 greenhouse gas emissions**

All proposals require disclosure of scopes 1 and 2 greenhouse gas emissions. Scope 3 emissions are required by the ISSB and EFRAG proposals and are required by the SEC if Scope 3 emissions are material or if the company has set reduction targets that include Scope 3 emissions.

1. **Assurance**

Both the SEC and ESRS require assurances on varying timeframes, with the SEC phasing in assurance beginning with limited assurance and then moving up to reasonable assurance for Scope 1 and 2 Emissions. IOSCO, which will endorse the final ISBB standards is coordinating efforts with International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA) to accelerate the development of assurance standards for sustainability.

Question 1—Objective of the Exposure Draft

a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

b) Does the objective focus on the information that would enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Agree with the objective that has been established for the Exposure Draft, and that the objective focuses on information that would enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value.

Believe the draft disclosure requirements make good progress towards meeting the objectives described in paragraph one.

Recommend the exposure draft could be further strengthened through the following:

- more clearly expanding guidance to include other aspects of risk, including transition risks or regulatory risks - for example, by aligning to the greatest extent possible to the TCFD framework. The exposure draft focuses largely on physical risks.
- To many organizations, the significance of the sustainability-related risks forming the basis for disclosure is relatively new, even for climate-related risk. **Recommend** that the standard more clearly articulates how companies can determine if a particular risk is "significant" in the context of business model, strategy and cash flows, access to finance and cost of capital.
- **Consider** concepts used by WBCSD and COSO's supplemental guidance for applying enterprise risk management to ESG-related risks.
- To many organizations, determining what aspects of climate-related risks and opportunities are relevant to enterprise value may be a relatively new exercise. Suggest additional guidance is provided on this to help build users' understanding at an earlier stage of making such disclosures, in particular providing more prescriptive

approaches to disclosing activities that could have a (long-term) impact on enterprise value. Consider, for example, clearly stating that companies must disclose information on long-term ESG developments that could reasonably and materially impact the balance sheet or P&L should sustainability risks and/or opportunities materialize.

- **Recommend**, in line with the ISSB's building blocks approach, including clear avenues for companies to (voluntarily) explain how they are going above minimum requirements for managing enterprise value assessment, or if their jurisdiction prevents them from disclosure.

Question 2—Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

Agrees with the proposed disclosure requirements for governance processes, controls and procedures.

Recommend that these could be further developed to ensure they fully serve their purpose.

Further requirements could be made to understand how the board considers, uses and acts on relevant information, the tradeoffs they consider, and their relevant skills and competencies in making such considerations. While the exposure draft makes reference to how the board considers information related to strategy, **recommend** it should also extend to how the board considers information related to disclosure, and decisions made and actions taken. **Recommend** further information on how the board evaluates the effectiveness of policies and processes would also be relevant, particularly in relation to their oversight of risk management, monitoring and controls. **Consider** all these aspects may also require additional guidance from the ISSB to ensure relevance and usefulness of the information disclosed.

Agree with the need to avoid duplication in reporting and governance structures where the entity already has an integrated model to managing sustainability-related risks within its existing governance structure.

Note that many of the proposed reporting requirements will be consistent year-on-year for issuers, making the utility of providing an annual update on them in a report questionable.

Recommend that this static reporting will be disclosed on the company's website, as they most likely will not change from year to year, and then the company can hyperlink from the report. The company could then use the report to outline any changes in the reporting period, or confirm that there have been no changes.

Question 3—Identification of climate-related risks and opportunities

a) Are the proposed requirements to identify and to disclose a description of significant climate related risks and opportunities sufficiently clear? Why or why not?

Believe that the proposed requirements are sufficiently clear.

Welcome and appreciate the use and alignment with the TCFD framework as this will go a long way to ensuring consistency across approaches globally. TCFD is relevant for understanding a company's approach to climate-related risks and opportunities, the related performance and its resilience. The TCFD framework was built with strong input from both investors and preparers. **Believe** the TCFD to be a decision-useful tool for investors, and that it is also relevant and feasible for preparers.

Recommend further clarification of the time horizons to consider for "enterprise value." As stated above, businesses seek more prescriptive approaches to disclosing activities that could have a (long-term) impact on enterprise value.

Recommend that the standard more clearly articulate how companies can determine if a particular risk is "significant" in the context of business model, strategy, cash flows, access to finance and cost of capital.

b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

Welcome the fact that the exposure draft builds upon existing standards.

Encourage the ISSB to undergo its due process for the necessary revisions of the SASB standards, as they were developed under a process and framework that are not identical with those of the ISSB. The appropriate revision of the SASB standards will ensure that they are expanded in scope and made applicable internationally.

Consider the SASB standards could more comprehensively cover the full scope of risks and opportunities present. In the current draft, metrics focus largely on operational considerations such as energy use, emissions, water use, waste management. Key topics, pertinent to climate risks and opportunities that will impact enterprise value, such as the transition of products and services, the development of new technologies and investments in low carbon solutions are not yet fully developed. Likewise, aspects related to an organization's climate adaptation and resilience are also not comprehensively addressed in the standards.

Recommend that in addition to the risks and opportunities that each company itself "reasonably expects" to be consequential, include illustrative guidance or reference to globally accepted risks related to climate change. This could be in the form a set of minimum physical or transition related factors that must be considered, for example impacts from extreme weather or chronic weather changes, changes in commodity price or demand, or changes in/introduction of carbon taxes.

Welcome the opportunity to support the effort to create illustrative guidance, as we have extensive experience in this space. To date, 30 leading WBCSD members have worked on TCFD interpretation and implementation for several years through our Preparer Forum initiatives for priority non-financial sectors: Autos, Electric Utilities, Food, Ag, Forest, Construction & Building Materials, Chemicals, Oil & Gas. The outputs from the Preparer Forums provide an in-depth description of climate-related financial disclosure among leading companies with a range of examples and commentary on challenges and opportunities. Highlights include:

- Integration of climate-related risks into enterprise risk management and governance processes
- Evidence of strategic responses to the low-carbon transition and pursuit of opportunities
- Climate-related business resilience reflecting shocks and stressors, effects, response & transformation
- Illustrative scenario analysis processes and key quantitative parameters and assumptions
- Value-chain and sectoral insights on climate-related risks and opportunities
- Illustrative climate-related metrics, progressing from operational to financial
- User perspectives from credit and equity analysts

Note that WBCSD members also recently developed a suite of scenario analysis resources providing a common, transparent approach to the use of climate scenarios to support strategic resilience assessment, exploring transition pathways, dependencies and uncertainty across a range of possible temperature and energy system outcomes.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

a) Do you agree with the proposed disclosure requirements about the effects of significant climate related risks and opportunities on an entity's business model and value chain? Why or why not?

Agree with the need to include disclosures about the effects of significant climate-related risks and opportunities on both an entity's business model and value chain. No organization will be in control of all its climate-related risks and opportunities, and thus these risks and opportunities cannot be considered in isolation of the value chain in order for users of information to understand the impacts on enterprise value creation.

b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?
Agree that there are complexities in quantifying an entity's concentration of climate-related risks and opportunities across the value chain. In particular, it could be challenging to quantify this in a manner that will also support the creation of globally relevant, comparable data that can be used to help determine enterprise value. Notwithstanding these challenges, where companies are able to provide relevant and robust quantitative data that helps users determine enterprise value, the standards should encourage them to do so.
Recommend that make an understanding of the concentration of climate risks and opportunities identified across the value chains of various entities comparable, additional information on the way the value chain is being defined would be a useful addition to the standard. The GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard provides useful guidance for carbon emissions that are a risk to companies. This could be useful to the ISSB as a model for other climate risks.
Consider that Companies may also need sufficient time and flexibility to disclose Scope 3 emissions on a progressive basis, for example, similar to the guidance proposed by the US SEC in its proposed climate disclosure rule.

Question 5—Transition plans and carbon offsets
a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
Agree with the proposed disclosure requirements for transition plans as a crucial element of understanding enterprise value.

b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
Believe that there are a number of established and ongoing initiatives that already outline guidance on transition planning and disclosure, including the work of the TCFD, GFANZ's efforts to establish a global baseline for net-zero transition planning, and the UK Transition Planning Taskforce. It is essential to ensure alignment with these initiatives to ensure consistency across global standards.
Note that some specific elements of the transition plans are covered in different areas of the standards (e.g. metrics and targets).
Consider the role of shorter-term interim targets, and understanding progress against them, is crucial in understanding the extent to which an entity is delivering against its transition plan and therefore in understanding how well it is managing its climate-related risks and opportunities.
Consider that interim targets and progress against them are therefore also a useful indicator of long-term enterprise value, and their role could be further emphasized in the requirements on transition plans and/or targets and metrics.

c) Do you think the proposed carbon offset disclosures will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
To achieve a real net-zero global economy, the primary objective is to reduce carbon emissions in a company's operations and value chain.
Believe that offsets should be the last resort option after mitigation as far as possible. Therefore, the amounts of carbon offsets and the source of these would be relevant information for investors to assess over time whether an entity is likely to be able to deliver its transition plan.
The GHG Protocol land sector and removal guidance (in development) provides the accounting and reporting requirements for corporates on natural and technological carbon removals. The draft will soon go through pilot testing to be published in Q2/Q3 2023.

The Land sector and Removal Guidance complements the Corporate and Scope 3 standards, and underpins the SBTi NZ standard by providing the required principles, requirements and guidance for the companies to account for their removal activities.
Believe several of the above metrics could be included in the ultimate IFRS standard.
Support, in any possible manner, e.g. through sharing the pilot testing draft and updating the IFRS with the development of the guidance.
In certain cases, offsets will be in the form of carbon removals and so the registrant should disclose the amount of carbon removal represented by the credit.
Believe there is a need to introduce metrics to assess the quality of credits. The GHG Protocol land sector and removal guidance (in development) recommends:
"Ensure that any credited GHG reductions or removals adhere to the following quality criteria: additionality, credible baselines, permanence, avoid leakage, unique issuance and claiming, regular monitoring, independent validation and verification, GHG program governance, and no net harm."
Equally, understanding whether the offsets have been certified supports the confidence of the investor.
d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general-purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?
Believe the requirements provide an appropriate balance. Transition planning should consider the factors outlined, such as the extent to which offsetting will be required, the type of offset and whether it will be verified.
Recommend that to disclose such information should not create an unnecessary reporting burden for entities, and should help users understand the feasibility and credibility of an element of transition planning.

Question 6—Current and anticipated effects

a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided? Why or why not?

Agree that entities should disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities. Qualitative information should be provided where the company is unable to disclose quantitative information, and can also be used to provide crucial context and explanation in helping determine enterprise value.

Recommend ISSB should provide a clear outline of what would constitute an organization being unable to disclose quantitative information.

Consider in circumstances where an organization is only able to provide qualitative information, requiring them to outline what they are doing to gather the necessary quantitative information to improve the robustness of their disclosures and understanding of their climate change-related risks and opportunities.

Recommend that since each entity is asked to consider what issue is "significant"- especially for anticipated risks and opportunities - disclosing the rationale and method for prioritization along with the assumptions and climate-scenarios used for modeling/calculating the financial effects it may be helpful for analysis by users.

b) Do you agree with the proposed disclosure requirements for the financial effects of climate related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

Agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period.

Recommend that the standards should also require entities to disclose the risks and opportunities that may not yet be financially material, but will become so over time, and what the potential anticipated effects of these opportunities are on financial performance, position and cash flows.

c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

Entities seek prescriptive approaches to disclosing activities that could have a (long-term) impact on enterprise value.

Consider clearly stating that companies must disclose information on long-term ESG developments that could reasonably and materially impact the balance sheet or P&L should specific climate-related risks and/or opportunities materialize.

Consider outlining what constitutes short-, medium- and long-term risks.

Question 7—Climate resilience

a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

Agree with the items listed in paragraph 15a as essential to understanding the climate resilience of an entity's strategy.

Consider this could be expanded to incorporate the intellectual capital and manufactured capital of an organization. For example, in the Oil and Gas industry, this could cover committed and uncommitted CapEx, reserve life, portfolio optimization, breakeven and cost of supply, new technologies, production, and supply and capacity forecasts.

b) The Exposure Draft proposes that if an entity is unable to perform climate related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.
i) Do you agree with this proposal? Why or why not?
ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?
iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14 and if so, why?
Agree with this proposal as some companies with less developed approaches to climate risk management and disclosure may struggle to conduct scenario analyses as soon as the standard is finalized. We would expect companies to be able to fully fulfil the requirements of the standard in due course.
Suggest the ISSB provides more guidance both on what it would classify as being ‘unable to perform’ and require companies to outline their plans to be able to perform climate-related scenario analysis. To support in the journey towards effective scenario analysis, 11 WBCSD members also recently developed a suite of scenario analysis resources providing a common, transparent approach to the use of climate scenarios to support strategic resilience assessment, exploring transition pathways, dependencies and uncertainty across a range of possible temperature and energy system outcomes.

c) Do you agree with the proposed disclosures about an entity’s climate-related scenario analysis? Why or why not?
Suggest the ISSB requires users to also disclose information on the development of an entity’s climate-related scenario analysis, including the design, inputs, assumptions and outputs of the scenarios and models used.

d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity’s strategy? Why or why not?
Agree with this proposal.

e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity’s strategic resilience to climate change? Why or why not? If not, what do you recommend and why?
Believe the proposed disclosure requirements attempt to appropriately balance the costs of applying the requirements with the benefits of information on an entity’s strategic resilience to climate change. While there may be associated costs in the implementation of new standards, in terms of resource deployment and implementation of new systems to meet the requirements, the consolidation of reporting standards into one global baseline focused on enterprise value should also reduce the overall reporting burden on companies.
Believe that the pressure for greater transparency can drive the management of climate related risks and opportunities, enhancing business performance and representing a significant overall benefit to companies. Companies proactively undertaking long-term strategic transitions can benefit by providing quantitative rationale to justify the need for initial investments through these disclosures and thereby gaining access to capital.
Note that WBCSD has led the development of a wealth of guidance documents and analytical tools to support the adoption of such practices by companies – including the aforementioned TCFD interpretation and implementation through our Preparer Forum initiatives for priority non- financial sectors: Autos, Electric Utilities, Food, Ag, Forest, Construction & Building Materials, Chemicals, Oil & Gas

Question 8—Risk management
Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?
Agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities. Understanding this, alongside the outcomes of such processes, is crucial for information users to determine the robustness of such processes by an organization. As such processes may be relatively new for some companies. **Consider**, in due course, providing additional guidance and best practice examples of such disclosures by companies implementing the standards.
Note WBCSD has supported the development of the TCFD's Guidance on Risk Management Integration and Disclosure which could provide the basis for such guidance by the ISSB. In addition, WBCSD and COSO have developed guidance to help risk management and sustainability practitioners apply enterprise risk management (ERM) concepts and processes to ESG-related risks. This work could be useful in the context of the ISSB's efforts.

Question 9—Cross-industry metric categories and greenhouse gas emissions
a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?
Agree with the seven proposed cross-industry metrics as a useful and comparable set of metrics that are relevant across all sectors.
Note that some of the metrics may be more relevant to some sectors than others, but that information users can make their own determination on this.
Consider for the executive remuneration metric, making the requirements more granular and specific, in particular looking at short-, medium- and long-term executive remuneration policies to better understand the approaches taken by different entities.

b) Are there any additional cross-industry metric categories related to climate related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general-purpose financial reporting.
Consider if the addition of an eighth metric on revenue generated linked to climate opportunities would also help companies demonstrate a clear link to enterprise value creation.

c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?
Agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions.
Consider a similar phase in approach for disclosure of Scope 3 as the US SEC has proposed in their climate disclosure rule.
Note that accounting for GHG emission metrics is subject to assumptions, tailored methodologies and approaches. Such accounting can be very detailed and technical. Still, in light of desired consistency and comparability for investors' evaluations, it will be critical to understand the methodology, inputs and assumptions at a summarized level.
The GHG Protocol is a widely-used international approach to accounting for GHG emissions. We are in favor of global harmonization as much as possible and strongly support the use of the GHG Protocol. If the secretariat publishes a new version of the GHG Protocol, the latest draft should always be the preferred reporting method for the ISSB standards. Consistency between ISSB standards and the existing GHG Protocol (and future drafts) is crucial to reducing the reporting burden on issuers.

Methodologies to GHG accounting are (almost) always tailored to the specific circumstances. **Welcome** a requirement for companies to apply the GHG Protocol as much as possible while allowing for more sector- and product-specific guidance that is compliant with the overarching GHG Protocol Guidance.
Note that through its Partnership for Carbon Transparency (PACT), WBCSD is working to resolve additional challenges businesses face in accessing comparable and consistent Scope 3 data from across value chains in order to be able to meet such Scope 3 disclosure requirements. **Welcome** the opportunity to provide further insight and guidance as the ISSB explores Scope 3 issues within the standard.

d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?
Agree that in respect of establishing a view on enterprise value, it is sufficient to aggregate all seven greenhouse gases for Scope 1, Scope 2, and Scope 3.

e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:
i. the consolidated entity; and
ii. for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?
Supportive of the use of the GHG Protocol insofar as it enables alignment with financial elements of reporting. We encourage the standards to align climate disclosures with the boundaries of financial disclosures, and that they provide the flexibility to explain any misalignments.
Note that while there could be merit in entities providing separate disclosure, the ISSB risks creating unnecessary complexity, in our view, and it is not clear how this approach will help determine a view on enterprise value for all companies. **Consider** introducing an aggregate materiality threshold at which point the entity would be required to disclose the Scope 1 and Scope 2 emissions of any associates, joint ventures, unconsolidated subsidiaries and affiliates.

f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?
Absolute emissions across an entity's value chain are likely to present a risk for entities. **Agree** with the inclusion of absolute gross Scope 3 emissions as a relevant metric to ascertain enterprise value, provided there is appropriate time, guidance and expectations for doing so.
Consider a phase-in period for Scope 3 emissions disclosure, which would allow companies additional time to implement the systems and processes to collect rigorous data on their Scope 3 emissions.

Question 10—Targets
a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
Support disclosing against climate targets, so long as there is opportunity to explain progress against targets and mechanisms in place to achieve them. Businesses are positioned to prioritize actions with the biggest impacts to halt temperature rises and support climate recovery, deliver pragmatic and impactful solutions and be held accountable for their progress and delivery against their stated targets, ambitions and aims.
The Business Manifesto for Climate Recovery launched by WBCSD at COP26, and the Stockholm Action Agenda launched by WBCSD at Stockholm +50, provides the outline for the implementation mechanism corresponding to international agreements - a corporate accountability and transparency mechanism to measure an entity's contribution to the global climate recovery.

Consider further elaboration on the specific validation requirements it is seeking to understand in paragraph 23e. Areas to clarify include:

1) is it on the target set, or progress being made against the target?
2) Whether it should relate to specific climate targets or all climate targets, and,
3) whether the ISSB is seeking validation by the SBTI on targets?

b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?
Propose specifically naming the agreements in the Standard, potentially as stated above: "defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC)."

Question 11—Industry-based requirements
a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?
Agree with the need to revise the SASB standards in order to improve their international applicability. We also note that not all industries are currently covered.
Welcome the fact that the exposure draft builds upon existing standards.
Note that the SASB standards were developed under a process and framework different to those of the ISSB.
Believe that the SASB standards should go through the ISSB due process and appropriate revision to ensure that they are both expanded in scope and made relevant/applicable internationally, as stated above and in our response to S1.

b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?
Note that not all industries covered by the SASB standards are included in the industry-based requirements.
Welcome clear guidance for companies in those sectors previously covered so that they can take the most appropriate approach to meet the ISSB's requirements.
d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
e) Do you agree with the industries classified as 'carbon related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?
i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?
k) Are there any additional industry-based requirements that address climate related risks and opportunities that are necessary to enable users of general-purpose financial reporting to asses enterprise value (or are some proposed that are not)? If so, please describe those disclosures an explain why they are or are not necessary.
l) In noting that the industry classifications are used to establish the applicability of the industrybased disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? I not, what do you suggest and why?
Encourage ISSB, as this consultation response represents a cross-industry view, to carefully examine individual responses from companies with specific sector focus and views.

Question 12—Costs, benefits and likely effects
a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
While there may be associated costs in the implementation of new standards, in terms of resource deployment and implementation of new systems to meet the requirements, the consolidation of reporting standards into one global baseline focused on enterprise value should also reduce the overall reporting burden on companies.
Consider that for this to become a reality, the ISSB must insist on stronger, clearly aligned approaches between international and jurisdictional efforts – specifically on alignment of terminology. **Welcome** the establishment of the ISSB working group to enhance compatibility between the global baseline and the jurisdictional initiatives. **Consider** it is imperative to align from key concepts down to the terminology between the standards, including the GRI standards. Differentiating terminology and concepts is confusing to preparers, increases the reporting burden and reduces the quality and comparability of information.
Believe that pushing for greater transparency can drive the management of climate related risks and opportunities, enhancing business performance and representing a significant overall benefit to companies. Companies proactively undertaking long-term strategic transitions can benefit by providing quantitative rationale to justify the need for initial investments through these disclosures and thereby gain access to capital.
A **2022 survey of US companies conducted by the SustainAbility Institute by Environmental Resources Management (ERM) for Ceres and Persefoni** assessed a broad range of corporate costs connected to climate-related disclosure activities. The survey found that on average corporate issuers are spending $533,000 annually on climate-related disclosure, while institutional investors are spending an average of $1,372,000 annually to collect, analyze, and report climate data to inform their investment decisions. Along with discussions of costs, the survey asked respondents to rate the potential benefits of climate-related disclosures and impact assessments. For issuer respondents, the highest ranked by better access to data capable of enhancing corporate strategy. Some issuers also cited “lower cost of capital” as a benefit, and a correlation was found between spending more on overall climate-related disclosure and recognizing a lower cost of capital.

b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Question 13—Verifiability and enforceability
Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

Agree with the need for verification as a long-term aim. However, this is dependent upon the development of reporting standards that set the suitable subject matter and criteria that form the basis for assurance activity.
Encourage the ISSB to consider whether and to what extent technology can be used for collecting certain types of information that is then auto-checked according to prescribed control standards, thereby increasing efficiency and minimizing costs for companies.
The IAASB has developed meaningful guidance on ISAE 3000 and the ISSB should engage with the IAASB to develop a strong working relationship to leverage existing guidance on assurance. An example of assurance of disclosures to address the recommendations of the TCFD can be found in IAASB's examples of assurance of sustainability reporting (page 74).
Consider a phased approach to the introduction of verification requirements, for example phasing in a limited assurance requirement, before requiring reasonable assurance.

Question 14—Effective date
a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability related Financial Information? Why?
Believe that the effective date for IFRS S1 and IFRS S2 should be the same date. Since the fundamental objective is to provide investors with comparable information for decision-making, the availability of time synchronous information is critical for comparability.

b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.
Support aligning the sustainability reporting period to the timing of the financial statements.
Note that with that said, many companies will need time to invest in the data systems and technology to ensure the quality and availability of information isn't compromised. A transition phase of not more than three years where the reporting period can differ between the financial and sustainability information would help companies adequately prepare.

c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier, and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?
For some entities, particularly those that have already developed their management and disclosure of climate-related risks and opportunities with the frameworks upon which the standards are based, the adjustments will be less acute than for others.
Since the fundamental objective is to provide investors with comparable information for decision making, the availability of time synchronous information is critical for comparability. If information on different aspects are produced on different timeframes, then it could reduce the usability of data without tedious disaggregation and analytics to structure relevant information within the same timeframe.
Note that companies have voiced an interest in a phased in approach for disclosure of Scope 3 emissions, as stated above.

Question 15—Digital reporting
Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?
Believe that the development of a taxonomy will provide critical input in building, understanding and ensuring comparability of information. As with other elements of the standard development, ensuring international compatibility and applicability will be essential, as will ensuring that the ISSB's taxonomy forms the foundation of other taxonomy-development initiatives. If there is not international alignment in the development of taxonomies, we risk the creation of fragmentation and confusion for issuers and users alike.
Similarly, the alignment of digital reporting and digital tagging initiatives will be crucial globally to avoid creating undue burden on entities and ensuring comparability and applicability across jurisdictions. For example, the European Commission's Corporate Sustainability Reporting Directive will require companies to digitally "tag" all reported information for it to become machine-readable and feed into the European single access point envisaged in the capital markets union action plan. This is intended to deliver improved accessibility, enabling easier extraction and comparison of information.
Recommends that the ISSB takes a central role in ensuring alignment, harmonization and compatibility across digital reporting requirements.

Question 16—Global baseline
Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?
Encourage the ISSB to communicate directly with information users, as WBCSD is at present representative of preparers.

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28 July 2022

International Sustainability Standards Board (ISSB)
Emmanuel Faber, ISSB Chair
Sue Lloyd, ISSB Vice-Chair

Dear Chair Faber and Vice-Chair Lloyd,

Re: Exposure Draft IFRS S2 Climate-related Disclosures

BHP (hereinafter "we," and "our") greatly appreciates the opportunity to comment on the Exposure Draft IFRS S2 Climate-related Disclosures. We are long-time supporters of enhanced climate-related disclosures and commend the work undertaken by ISSB to further strengthen the global approach. We hope the move toward consistent and decision-useful climate-related disclosures, which seeks to meet increased demand from investors, enables companies committed to credible action and decarbonisation to be better identified.

We acknowledge the significant work that ISSB has undertaken in a relatively short period of time and appreciate the opportunity to provide comments on the Exposure Draft.

Supportive of enhanced climate-related disclosures

BHP is a leading global resources company headquartered in Melbourne, Australia. We produce some of the essential resources needed to support the global energy transition, such as nickel and copper and we strive to produce them sustainably, efficiently and ethically. Our purpose is to bring people and resources together to build a better world.

As one of the world's largest mining companies, we are committed to playing our part to help accelerate the global pathway to decarbonisation. This includes increasing awareness of the vital role of the mining industry in providing essential commodities as building blocks for the renewable energy and other decarbonisation infrastructure required to enable a net zero greenhouse gas ("GHG") emissions future.

BHP's Climate Transition Action Plan 2021 outlines our approach to reducing GHG emissions and managing climate risks, including our climate change targets and goals. We have been represented on the Task Force on Climate-Related Financial Disclosures (TCFD) since its inception and have continued serving as one of the leading voices into shaping the TCFD and other global standards from an industry sector perspective.

The importance of a global baseline of sustainability reporting standards

BHP supports the objectives of the ISSB and believes that the standardisation of climate-related disclosure requirements will benefit investors while building on the work of companies that have placed climate action and transparency at the forefront of their corporate agendas. We would like to offer suggestions about how to revise guidance in the Exposure Draft to enhance the ability of companies to provide clear and decision-useful disclosures.

It is our belief that consistently applied disclosure standards, overseen by regulators, are key to ensuring complete and transparent reporting. The current practice includes a number of standards and interpretations, creating a global disclosure system that is difficult to navigate and potentially unreliable. We are particularly supportive of efforts by governments and regulators to establish a common set of standards for public companies.

Given the benefits of a shared set of transparent standards and method to draw comparisons, we endorse ISSB's attempt to standardise climate reporting and replace the more ad hoc approach that currently exists. We are therefore encouraged by the overall Exposure Draft, particularly given its alignment with the TCFD's recommendations.

Opportunity for additional clarity and definitions as required

In reviewing the Exposure Draft, we have focused our feedback on the need to balance enhancing the decision-usefulness, consistency and comparability of disclosures with the practicality of implementation and ongoing compliance. While broadly supportive of the direction of the Exposure Draft, we have identified a number of areas in which the practical application of the guidance is expected to be challenging, costly or potentially impracticable. We have highlighted such areas in our responses to individual questions.

We believe additional clarity, definitions or application guidance is required to ensure that companies are not required to disclose significant amounts of information that, due to its financially immaterial nature, is not decision-useful and would risk diluting the effectiveness of the disclosures by overloading users with information. While we have not highlighted this concern in our response to all individual questions, however, an example of where further clarity or definitions may be beneficial is the interplay between the materiality framework for the proposed standard and the requirement throughout to provide disclosures in relation to 'significant' climate-related risks and opportunities.

Continuing discussions on a clearer, standardised approach

In addition to the reflections outlined in this letter, we have included an attachment that outlines feedback on what we believe are opportunities to further enhance the Exposure Draft. Our response focuses on addressing the items we believed we could most meaningfully contribute subject matter expertise on, drawing directly from our experience in implementing and reporting on the guidance of the TCFD recommendations.

We thank you in advance for your consideration of our feedback and again want to commend the ISSB on its efforts to elevate climate-related disclosures. We would also be delighted to discuss our response in further detail.

On behalf of BHP,

Dr Fiona Wild

Vice President, Sustainability & Climate Change

Attachment A – BHP response

Question 1 - Objective of the Exposure Draft

a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

BHP broadly agrees with the objective stated in the Exposure Draft for the disclosure of climate-related information. We welcome and support the move toward consistent and decision-useful climate-related disclosures. We do, however, have concerns with the practicality of disclosing climate-related opportunities and relevant information, which is detailed further in our response to questions 6 and 7.

b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

BHP broadly agrees that the objective focuses on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value. We do, however, have concerns with the practicality of disclosing climate-related opportunities and relevant information, which is detailed further in our response below. We agree with the recognition in paragraph BC27 that climate-related opportunities are often the converse of risks and that disclosures with respect to opportunities, where they are sufficiently developed, may help to provide a more complete and decision-useful understanding of potential impacts on an entity's enterprise value. However, if disclosure of information with respect to climate-related opportunities is to be mandatory, we recommend a less prescriptive, and qualitative only, set of requirements that recognise the additional challenges and legal liability risks associated with disclosing uncertain future opportunities. We believe this would better align with the treatment of opportunities in financial reporting. Alternatively, we recommend that entities be allowed to elect whether or not they disclose their assessment of their climate-related opportunities.

Question 2 - Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

BHP broadly agrees with the reasoning and proposed disclosure requirements clarifying the role an entity's governance body or bodies and management have in overseeing climate-related risks and opportunities. However, where an entity's oversight of climate-related risks and opportunities is managed on an integrated governance basis, we are strongly supportive of entities being able to provide integrated governance disclosures.

We consider the governance section of the Exposure Draft, with the further level of detail outlined beyond the current recommendations of the TCFD, to be decision-useful and appropriate with one proposed clarification. Paragraph 5(e) of the Exposure Draft, particularly its reference to

"…any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required", may be interpreted to require the disclosure of commercially sensitive board deliberations. We recommend that a revision is made to this paragraph to make it clear that it would only require the disclosure to include an explanation of the entity's governance processes that are designed to ensure climate-related risks and opportunities are considered in the oversight of the entity's strategy and decisions on major transaction and risk management policies, and not the substance of those considerations.

Question 3 - Identification of climate-related risks and opportunities

b) **Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?**

BHP supports providing guidance on potential areas of risk for particular sectors that may be relevant and material, however, we believe that the guidance should be general and not mandate particular metrics as these may not be applicable in all circumstances.

The specific guidance on Reserve Valuation for Coal Operations, for example, may be difficult to implement given the sensitive and uncertain assumptions about future prices necessary. While providing indicative long-term price outlooks, IEA scenarios do not provide detailed pricing data, meaning companies would need to develop and disclose their own price projections for given scenarios which may be revealing of proprietary price forecasting information.

Question 6 - Current and anticipated effects

b) **Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?**

BHP supports the disclosure of quantitative information on the current effects of climate-related risks and opportunities, to the extent material to the overall general purpose financial reporting. Specifically, we agree with the proposals in paragraphs 14 (a) and (b) to require disclosure of how significant climate-related risks and opportunities have materially impacted the current period financial position, performance and cash flows or where there is a significant risk that that they will result in a material adjustment to the carrying value of assets and liabilities in the next financial year. We note that disclosure of risks of material changes in the next financial year is consistent with the existing requirements in paragraph 125 of International Accounting Standards 1 Presentation of Financial Statements.

While supportive of the proposal to disclose current year impacts, when material, BHP has identified challenges in the practical application of the requirements which may impact the ability of the proposed standard to achieve the desired consistency across reporting entities. Specific challenges identified include:

- The identification of climate risks and opportunities. As an example, an entity may identify the physical impacts of the increasing frequency or severity of severe weather events on their operations as a significant climate risk. Given severe weather events have always occurred, judgement will be required in assessing which events meet the criteria for disclosure as an effect of a climate-related risk. In relation to BHP's operations, the Australian Bureau of Meteorology[1] states that Australia has a long-term average of experiencing 11 cyclones per year. Cyclonic activity and associated flooding can directly impact mining operations while also causing other supply chain disruptions, including to port, and shipping activities. In determining whether disclosure of the impacts of cyclones and associated flooding is necessary in any given reporting period, judgement will be required as to whether individual cyclones or all cyclones in a particular year are considered the impact of a significant climate risk. This level of judgement may result in single weather events being assessed differently by reporting entities and therefore result in varying approaches to disclosure.

  Given the complex nature of climate risks, we do not consider that such application challenges can be fully mitigated through changes to the proposed standard. As such, to ensure information provided to users is decision-useful, we recommend that entities be required to disclose, where material, the key methodologies, judgements and assumptions made when determining the current year impact of climate-related risks and opportunities.

- Isolating climate-related impacts. As acknowledged in BC98 'Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure.' Companies would therefore be required to develop policies and methodologies for the disaggregation of climate-related drivers from other factors impacting the financial statements and in certain circumstances, such disaggregation may be complex or impracticable. For example, commodity prices often significantly impact BHP's financial statements both directly, through revenues and price-linked costs, and indirectly, through the assumptions that inform key judgements and estimates, such as impairment assessments. Separately identifying the climate-related components of changes in commodity prices would be challenging and unlikely to result in consistent disclosures across reporting entities given their market-based nature and the many concurrent factors that drive price changes, including a range of other global or regional economic, political, or social factors.

  We recommend that entities be provided the opportunity not to disaggregate climate-related impacts from other factors if impracticable. However, in such circumstances, an entity should be required to disclose why providing such disaggregated information has been deemed impracticable.

[1] http://www.bom.gov.au/climate/cyclones/australia/

c) **Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?**

While supporting the disclosure of impacts on an entity's current year financial position and performance, BHP is concerned with the proposal in paragraphs 14(c) and (d) to require disclosure of the anticipated impacts on an entity's future financial performance and position. Specifically, we are concerned around the proposal to require quantification of such impacts, acknowledging that paragraph 14 would allow any financial impacts to be disclosed as a range. These concerns are driven by the following considerations:

- The commercial sensitivity of forward looking information. For example, paragraph 14(d) suggests that the anticipated effects of climate change could include increased revenue from products aligned with a lower-carbon economy. Given information regarding these products are likely to contribute to an entity's commercial advantage (for example, where a product is yet to be launched to market), the disclosure of such information, over short, medium and long-term time horizons, is also likely to be commercially sensitive.
- Whether the disclosure of information will provide useful information to users of the financial statements given that the ranges of potential impacts that would be disclosed, if required, would likely be very broad as a result of ongoing level of uncertainty and judgement required in assessing the possible future impacts of climate change. This particularly applies over longer time horizons.
- Consistent with the challenges of disclosing current year financial impacts, the identification and isolation of climate impacts from other drivers of changes in financial position and performance would be challenging and would require entities to develop policies and methodologies. We are concerned this would result in a lack of consistency between reporters.

We do not agree with the proposed disclosure requirement and would recommend that quantification of the anticipated impacts of climate risks and uncertainties are not required in the finalised standards. Transition risks are diverse in their nature and are quantifiable to varying degrees. In many instances, there is significant uncertainty about the nature and magnitude of potential impacts meaning that a quantified disclosure may give less information than a qualitative discussion. We recommend disclosures on the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance be only qualitative in nature.

Question 7 - Climate resilience

a) **Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?**

BHP broadly agrees that the items listed in paragraph 15(a) reflect what users of an entity's climate-related disclosures need to understand about the climate resilience of an entity's strategy. We have previously disclosed the results of climate-related scenario analysis, as a tool for assessing resilience, undertaken to evaluate the resilience of our portfolio under different scenarios. We understand the benefits, both internally and for stakeholders, of this exercise.

We are, however, concerned that disclosures on climate-related opportunities outlined in paragraph 15 will result in additional challenges and legal liability risks due to their uncertain and forward-looking nature. Given the uncertainty inherent in future looking assessments such as climate-related scenario analysis, disclosing a range is often appropriate, and may reduce the risk of misinterpretation or miscommunication. Recognising the challenges and legal liability risks, when compared to that of climate-related risks, we recommend climate-related opportunity disclosures are not mandatory, qualitative in nature and less prescriptive than climate-related risk disclosures.

b) The Exposure Draft proposes that if an entity is unable to perform climate- related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

i. Do you agree with this proposal? Why or why not?

ii. Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

iii. Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

BHP does not support climate-related scenario analysis being made mandatory and supports the use of alternative methods where scenario analysis is unable to be performed.

We recognise the many benefits of climate-related scenario analysis to both investors and entities, which create incentives for entities to undertake the exercise and disclose its results. However, we recognise that while BHP has the capability, resources and experience to undertake detailed climate-related scenario analysis, entities of different sizes and sectors are not always in this position. The provision of best practice guidance on climate-related scenario analysis and alternative methods will be important to reduce the barriers for entities in undertaking this exercise. This will also assist with comparability of disclosures between entities.

We acknowledge the definition of climate-related scenario analysis, as defined in Appendix A, allows for less resource-intensive approaches to be undertaken. An entity could choose to begin understanding their climate resilience by assessing qualitative scenario narratives first. We believe this is an appropriate approach for smaller entities before they look to undertake more sophisticated and rigorous quantitative analysis.

We agree that should an entity be unable to undertake climate-related scenario analysis then it should disclose the reason why. This level of transparency may serve to incentivise additional disclosure and reduce any barriers to climate-related scenario analysis being undertaken in the future.

c) **Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?**

BHP broadly agrees with the proposed disclosure about an entity's climate-related scenario analysis in paragraph 15 (b) and (i), to the extent that information, which is commercial in confidence, legally privileged or otherwise confidential is not required to be disclosed. While comparability of entities' approaches will always be challenging, transparency of the approach and assumptions underpinning climate-related scenario analysis is important for several reasons. These reasons include minimising misinterpretation, supporting robustness and ongoing maturity of analysis, and aiding a level of comparability between entity disclosures.

We note there may be confidentiality, competitive or legal concerns around some aspects of the proposed disclosures. BHP would be reluctant, and potentially unable, to provide information used in climate-related scenario analysis assumptions that is commercial in confidence, such as pricing information. Some of the proposed disclosures, such as on geographic coordinates (paragraph 15(b)(i)(7)) would be onerous to provide, and potentially commercially sensitive (such as value chain locations not in an entity's control) with the effort of collating this information exceeding the benefit of its disclosure.

d) **Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?**

BHP broadly agrees with the proposed disclosure in about an entity's climate resilience analysis in paragraph 15(b)(ii), to the extent that information, which is commercial in confidence, legally privileged or otherwise confidential is not required to be disclosed. While comparability of entities' approaches will always be challenging, transparency of the approach and assumptions underpinning climate-related scenario analysis is important for several reasons. These include minimising misinterpretation, supporting robustness and ongoing maturity of analysis, and aiding a level of comparability between entity disclosures.

We note there may be confidentiality, competitive or legal concerns around some aspects of the proposed disclosures. We may be reluctant, and potentially unable, to provide information used in climate resilience analysis assumptions that is commercial in confidence, such as pricing information. Some of the proposed disclosures, such as on geographic coordinates (paragraph 15(b)(ii)(5)) would be onerous to provide, and potentially commercially sensitive (such as value chain locations not in an entity's control).

e) **Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?**

BHP recommends additional clarity and guidance to further ensure the proposed disclosure requirements maintain an appropriate balance between the cost of applying the requirements and the benefits of the information. We acknowledge the many benefits of climate resilience analysis and its disclosure, including both the value that investors derive from the disclosures in their decision-making, as well as the value to the entity in understanding its climate resilience at a deeper level. The proposed disclosure requirements of paragraph 15 allow flexibility in the approach used by entities to assess their climate resilience, which helps to balance the costs and benefits.

We note the recommended frequency of climate resilience analysis is not addressed in the draft requirements of paragraph 15, though disclosures would be expected annually. We are concerned that the financial implications of undertaking new climate-related scenario analysis annually, for the purpose of disclosure, may exceed the benefit of the disclosure. We would recommend that accompanying guidance material clarify that climate resilience analysis be revisited at appropriate intervals, which may be based on entity-specific characteristics, or particular triggers (such as the release of significant new or updated climate data). In turn, guidance might be provided on how to update disclosures to meet the requirements in years where new climate-related scenario analysis is not undertaken.

We note that it is not explicit in the proposed disclosure requirements of paragraph 15 that entities would be expected to build maturity in their climate resilience analysis approach over time. While it could be surmised that this could happen organically, due to stakeholder pressure and entities developing experience in undertaking the analysis, we recommend this matter be further clarified by ISSB in any accompanying explanatory material.

Question 9 - Cross-industry metric categories and greenhouse gas emissions

d) **Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?**

BHP supports further disaggregation by individual gases for Scope 1 emissions in paragraph 21(a)(i). This disaggregation provides useful information to understand the key GHG gases that contribute to the total emissions figure in the GHG inventory. We already track and report Scope 1 emissions disaggregated by individual gases and disclose this information as part of our annual reporting.

We are concerned, however, that it may not be possible to apply the inclusion of all seven GHGs as stipulated in GHG Protocol Corporate Standard for paragraph 21(a)(ii) & (iii) to Scope 2 and Scope 3 emissions due to the inherent data limitations. For example, Scope 2 factors provided by local regulators are in tCO_2-e and do not always provide a breakdown by individual gas. Permitted Scope 3 factors under current reporting standards, on the other hand, may not even count all the gases. For example, publicly reported crude steel emission factors are represented in CO_2 only, e.g., by the World Steel Association Sustainability Indicators CO2 emissions Tonnes CO_2/Tonnes crude steel cast, which are used to estimate Scope 3 emissions in accordance with current reporting standards.

Therefore, given inherent data limitations, we recommend the disaggregation by individual gas and requirement to include all seven GHGs should only be applicable to Scope 1 emissions at this stage. As the third-party data used to calculate Scope 2 and Scope 3 emissions improves, this requirement can be updated to reflect the improvements in the data quality.

e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

  i. the consolidated entity; and

  ii. for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

BHP does not the support the deviation from the GHG Protocol in paragraphs 21(a)(iii) and 21(b)(iv) on definition organisational boundaries. BHP, for purposes of preparing its Scope 1 and Scope 2 emissions inventory and tracking its Scope 1 and 2 emissions reduction targets, uses the operational control boundary defined by the GHG Protocol: A Corporate Accounting and Reporting Standard. This boundary is also consistent with the operational control boundary BHP is required to use for its regulatory reporting in Australia under the National Greenhouse and Energy Reporting Act 2007 (NGER Act). Approximately 65 percent of BHP's reported Scope 1 and 2 emissions in FY2021 originated in Australia. For efficiency and consistency, BHP aims to align its corporate inventory organisational boundaries and its local regulatory boundaries as closely as possible. As a result, the paragraph 21(a)(iii-iv) requirements to change the organisational boundary would create additional regulatory and voluntary reporting burdens (where an entity has to use the GHG Protocol as the standard) as well as additional work for possible target restatement, as the targets for most entities were set based on the boundaries in place now.

To address this, we recommend the ISSB disclosure standards provide flexibility of choice for the organisational boundary approaches recommended by the GHG Protocol (e.g., financial control, operational control, or equity share). Investors would have sufficient information to understand what is included or excluded in the organisational boundary provided sufficient methodological disclosures on preparation of data are made. This methodological disclosure could be included as an additional requirement in paragraph 21.

Furthermore, in its current state the organisational boundary requirements under paragraph 21(a)(iv) would fail to the achieve the consistency outcome articulated in BC114. Paragraph 21(a)(iv) would allow an organisation to choose between equity or operational control boundaries for associates, joint ventures, unconsolidated subsidiaries, or affiliates not included in paragraph 21(a)(iii)(1). This would not only impact the comparability objective but would also be inconsistent with how the GHG Protocol interprets the financial control boundary and the proposed approach to organisational boundaries from the Securities and Exchange Commission's proposed rule on The Enhancement and Standardization of Climate-Related Disclosures for Investors.

Other emissions accounting considerations would also benefit from more clarity in the definition, particularly, how more complex financial arrangements such as leases should be treated from an emissions accounting perspective both for emissions inventory and progress against targets reporting. For example, in the current definition it is possible that both the lessor and the lessee would account for Scope 1 emissions resulting in double counting between parties in the same

Scope of emissions. This is less likely to occur if operational control organisational boundary would have been used.

We note that for Scope 3 emissions paragraph 21(a) does not address the organisational boundary application for purposes of Scope 3 emissions. Noting that it is often the data availability and data quality that determine the boundaries, it may be difficult to meet a precise boundary definition for some of the Scope 3 categories. Nevertheless, a clear additional requirement to be consistent with Scope 1 and 2 selected boundaries for Scope 3 organisational boundaries under paragraph 21 is recommended to aid with consistency while recognising the data limitations when setting the organisational boundaries for Scope 3. This addition would also facilitate consistency with the proposed rule from the Securities and Exchange Commission on The Enhancement and Standardization of Climate-Related Disclosures for Investors.

We recommend providing further clarity in paragraph (21)(a) on how passive investments and leases would be treated from an emissions perspective if the proposed boundary as it is currently described in paragraph 21(a)(iii-iv) is implemented. In addition, illustrative examples on application of organisational boundaries for Scope 1, Scope 2 and Scope 3 emissions would be welcome for paragraph 21(a).

f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

BHP overall is supportive of Scope 3 emissions disclosure proposed under paragraph 21(a)(i)(3) and 21(a)(vi)(1-4), provided concerns about data quality and availability highlighted in our response to Question 9(d) and 9(e) are addressed in addition to other concerns related to Scope 3 emissions in our response. Given the current immaturity of Scope 3 reporting and general lack of sector specific methodologies, particularly for resources sector, we recommend that paragraph 23(a)(i)(3) remain open to future Scope 3 methodologies improvements that may be influenced, derived, or based on the GHG Protocol Scope 3 Standard.

Question 10 - Targets

a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

BHP is broadly supportive of the disclosures in relation to climate-related targets proposed under paragraph 23 of the Exposure Draft. We also agree that ‘target’ should not be a defined term (noting only ‘Absolute target’ and ‘Intensity target’ are currently defined in Appendix A). This enables an entity to clarify in its disclosures how it defines the terms it uses, such as ‘target’ and ‘goal’, to describe its emissions reduction position. We are, however, concerned about the following:

- The requirement in paragraph 20(d) requiring an entity to disclose any targets set by the entity to mitigate or adapt to climate-related risks and maximise climate-related opportunities. An entity may have established KPIs, milestones or similar targets as internal management metrics to encourage and/or measure progress with respect to mitigation or adaptation, or pursuit of opportunities, but which are not formalised as targets intended for public disclosure.

- The current wording of the first sentence of paragraph 23 that would require an entity to disclose all its climate-related targets, whether or not they have been designed for public disclosure (see the comment above in relation to paragraph 20(d)). We recommend that this should be framed instead as a requirement to provide the relevant information (subject to our comments below) described in paragraph 23 for each climate-related target that an entity sets and publicly discloses.
- The inclusion in paragraph 23(a) of the wording "and achieving its strategic goals", which is potentially a significantly broader requirement than a description of the metrics used to assess progress towards a specific target. We recommend revising this wording.
- The inclusion in paragraph 23(f) of a requirement to disclose how the target compares with those created in the latest international agreement on climate change. Because international agreements on climate change are designed to address national-level commitments, not readily referrable at an entity-level, this requirement would require an entity to make a subjective assessment of comparability and is unlikely to assist with comparable disclosures across entities. We recommend this paragraph should instead only require disclosure about whether the target has been validated by a third party, and that the approach or method by which the target has been set is addressed as described in our comment below with respect to paragraph 23(f).
- The present wording in paragraph 23(f) regarding stating whether the target was derived using a sectoral decarbonisation approach (SDA). The current wording presents a framing narrative in the disclosure that the SDA approach is the preferred target-setting approach. However, this fails to recognise that SDA pathways do not exist for all sectors at the moment, and most do not address the question of equitable allocation in emission reductions for sectors across different geographic regions and national circumstances. The current wording also does not recognise other legitimate approaches to target–setting, such as the absolute contraction method. We recommend amending the wording in paragraph 29(f) to allow entities to specify and explain the approach or method used to set its climate-related target.

<u>Question 11 - Industry-based</u>

a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

Overall, BHP supports the disclosure against SASB standards. However, we believe further work is needed to improve international applicability as well as consistency in language between the main document 'IFRS S2 Climate-related Disclosures' and 'Appendix B Industry-based disclosure requirements'. We note the requirements in paragraph EM-MM-110a.1 (2.3) regarding consolidation approach that states that the organisational boundary shall be aligned with "financial control" approach defined by the GHG Protocol is inconsistent with the wording of paragraph 21(a)(iv) that would allow an organisation to choose between equity or operational control boundaries for associates, joint ventures, unconsolidated subsidiaries, or affiliates not included in paragraph 21(a)(iii)(1). The “financial control” approach as described in Table 1 on page 19 of GHG Corporate Accounting and Reporting Standard does not allow choice between boundaries for associates, joint ventures, and unconsolidated subsidiaries or affiliates but instead prescribes a specific set of rules on how these would be accounted for (I.e., either equity method or accounted at 0 emissions depending on the specific situation). Per our response to question 9(e), we do not the support the deviation from the GHG Protocol in paragraphs 21(a)(iii) and 21(b)(iv) on definition organisational boundaries. We recommend consideration is given to retaining the boundary selection offered under the GHG Protocol.

b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

BHP notes that the wording in paragraph EM-MM-130a.1. (1.3) regarding the source of data for higher heating values (HHV) is to be taken from the International Panel on Climate Change (IPCC). This may result in an inconsistent application and estimation of energy and emissions as paragraph EM-MM-110a.1 (2.2) allows entities to use industry or region-specific methodologies to estimate emissions. Often, particularly in the case of regulatory methodologies such as Australia’s National Greenhouse and Energy Reporting Act 2007 (NGER Act), energy and emissions factors in many instances are already included in the methodology and therefore would be required to be used. Therefore, requiring using IPCC HHV specifically may create inconsistencies in application of regional regulatory methodologies which will create additional reporting burden for the entities. We recommend broadening the scope of the definition in paragraph EM-MM-130a.1. (1.3) to allow for use of region-specific methodologies when estimating energy consumption, similar to paragraph EM-MM-130a.1. (1.3).

The wording in paragraph EM-MM-130a.1 (3.3) is inconsistent with Corporate GHG Protocol Scope 2 Guidance and would impact the international applicability, as the current wording only allows claiming renewable energy backed by RECs Renewable Energy Certificates (RECs) or Guarantees of Origin (GOs). Energy consumption is inherently linked to emissions reporting as the underlying energy consumed forms the activity data on which the emissions are based. The market-based reporting of Scope 2 GHG emissions is based on the generators (and therefore the generation fuel mix) from which the reporter contractually purchases electricity and/or is directly provided electricity via a direct line transfer. The GHG Protocol provides examples of ‘contractual instruments’ which can be used to allow for energy attributes such as GHG emissions to be allocated along the lines of contractual relationships among producers, suppliers, and consumers. Contractual instruments listed include energy attribute certificates such as RECs or GOs, but also direct contracts (for low-carbon, renewable, or fossil fuel generation), supplier specific emission rates, and finally other default emission factors representing the remaining ‘untracked or unclaimed’ energy and emissions (the ‘residual mix’) which remains after the other contractual instruments are removed from the system if an entity does not have other contractual information that meets the GHG Protocol’s Scope 2 Quality Criteria on page 60 of the Scope 2 Guidance. However, paragraph 3.3 and subpoint 3.3.1 limits the definition of renewable energy to that energy that is explicitly linked to RECs or GOs. We are concerned the current definition fails to recognise other contractual instruments that may grant sole and exclusive rights to the underlying energy supplied via power purchase agreements such as direct contracts which are recognized under the GHG Protocol Scope 2 Guidance. Furthermore, from an international applicability perspective, not all energy markets have a system of renewable energy certificates such as RECs in the United States or GOs in Europe. As a result, for example in the case of BHP's power purchasing agreements in Chile, reliance on direct contractual clauses that attribute the green rights of the energy sold are required.

To address this, we recommend that the definition of renewable energy purchased in paragraph EM-MM-130a.1 (3.3) and generated in paragraph (3.3.1) should be revised to match the definition of the GHG Protocol Scope 2 Guidance, which recognises other contractual instrument apart from RECs and GOs. Otherwise, the renewable energy reporting required under paragraph EM-MM-130a.1 (3.3) will not reconcile to the Scope 2 emissions reported under paragraph 21(a) and will fail to recognise purchased renewable electricity in other markets around the world where no energy attribute certificates exist. Although it appears the intent, for clarity we recommend that the definition be broadened beyond RECs and GOs for energy attribute certificates as these may carry different names in different markets, such as in Australia they are referred to as Large Scale Generation Certificates (LGCs).

j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

Overall, BHP supports the proposed industry-based requirements. We are, however, concerned with the following points:

- EM-MM-140a.1 Part 3 in Volume B10 and EM-CO-140a.1 Part 3 in Volume B7 does not acknowledge that there are multiple tools available for the determination of baseline water stress. We recommend that the reference to the use of one tool, the WRI Aqueduct, is removed and instead there is a requirement that the entity discloses which tool or method has been used to determine water stress areas.
- The leading guidance for water reporting in the mining and minerals sector is the International Council on Mining and metals (ICMM) Water Reporting Good Practice Guide (V2) and, in Australia, the Minerals Council of Australia Water Accounting Framework. The ICMM states that the definition of freshwater being <1000 ppm of dissolved solids is limiting as the major water use in the mining and metals industry is lower quality water. The ICCM recommends the use of broader quality categories to provide better transparency on water management practises for the industry on the preferred use of lower quality water. We recommend that the definition of freshwater in EM-MM-140a.1 Part 1.1 in Volume B10 and EM-CO-140a.1 Part 1.1 in Volume B7 aligns to that within the ICMM guidelines.
- We note that in EM-MM-140a.1 Part 4 and 5 in Volume B10 and EM-CO-140a.1 Part 4 and 5, it is not clear if the percentage in high stress areas compared to totals are intended to be applied entity-wide. For entities that operate within multiple global regions, this has limited usefulness as water characteristics (for example, scarcity, surplus, availability, flood and drought prevalence) are highly variable across the world. Note also that recycled and reuse of water may vary across reporting cycles (for example, withdrawn in one reporting period and recycled in the next) so disclosing a percentage of recycled to total withdrawals may be greater than 100% in some instances. We recommend that the

disclosure be revised to disclose total volumes (withdrawal and consumptions) in all regions and those in water stress areas, and not percentages.

Question 12 - Costs, benefits and likely effects

c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

BHP believes the costs associated with quantifying the risks within an entity's value chain outweighs the benefits to users of financial reporting. We also believe that disclosing geographic coordinates of operations or value chain activities that are exposed to climate risks is an unnecessary level of detail. For more information on our rationale see our response to question 7(d).

Question 13—Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

BHP is concerned that Scope 3 emissions disclosures present inherent verification challenges due to the information being sourced (or derived from information sourced) from third parties. Similar verification challenge may arise from an entity's needs to rely on external estimates, data or other information that is outside its control in relation to:

- Scope 2 emissions disclosures. While these emissions result from an entity's operations, their calculation is dependent on supplier-provided emission factors for purchased electricity or an external average energy generation emission factor for a relevant electricity grid. Methods to calculate Scope 2 emissions are generally more advanced and reliable than for Scope 3, however, Scope 2 disclosure may nonetheless present verification challenges for a reporter, where it is reliant on information that is not wholly within its control.
- Scopes 1 and 2 emissions where they are reported as part of an entity's equity share or financial control boundary emissions inventory for an operation in which it has an interest but does not have operational control (such as non-operated joint venture, joint operations or associate activities). Reporting would therefore rely on data supplied by the operator.

Question 16 - Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

BHP notes the discretion allowed for each jurisdiction to choose how to implement the Standards within its regulatory and corporate reporting frameworks could influence the ability of the IFRS

Sustainability Disclosure Standards to operate as a comprehensive global baseline for the assessment of enterprise value.

Currently, the Exposure Draft does not prescribe the location of the required disclosures within general purpose reports, nor comment on a suitable attendant legal liability regime to promote the accuracy and reliability of climate-related disclosures, while not inhibiting candour and completeness by the level of liability risk. This is particularly important for the proposed climate-related disclosures, given evolving standards and relatively nascent disclosure practice, inherent requirements for judgements and predictions about the future, and dependence on third-party or other forms of uncertain information. A variable set of legal liability regimes across multi-jurisdictional implementation of the Standards is likely to compromise the comparability and decision-usefulness of the disclosures, notwithstanding the Standards' prescription of baseline content and guidance on the role of verification.

More generally, BHP is strongly supportive of an approach that would enable use of a single report and consistent approach for compliance across all of an entity's reporting jurisdictions. This would deliver substantial efficiency savings for entities and avoid investors having to compare an entity's climate-related disclosures across multiple jurisdictions. We support initiatives that enhance the likelihood of standardisation of all forms of climate-related disclosures (whether voluntary or mandatory) across jurisdictions, including the Jurisdictional Working Group's dialogue for enhanced compatibility between the ISSB's exposure drafts and ongoing jurisdictional initiatives on sustainability disclosures.

AY-1. Please provide your full name and email address:

First name:	Bronwyn
Last name:	Winley
Email:	

AY-2. Are you responding as an individual, or on behalf of an organisation?

- Individual

Question 1—Overall approach

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

01-AP. (a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

- Broadly Agree

01-AR. Please explain your answer:

N/A

01-BP. (b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

- Broadly Agree

01-BR. Please explain your answer:
N/A

01-CP. (c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?

- Broadly Agree

01-CR. Please explain your answer:
N/A

01-DP. (d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

- Other

01-DR. Please explain your answer:
N/A

Question 2—Objective (paragraphs 1–7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

02-AP. (a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

- Broadly Agree

02-AR. Please explain your answer:
N/A

02-BP. (b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

- Broadly Agree

02-BR. Please explain your answer:
N/A

Question 3—Scope (paragraphs 8–10)
Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

03-AP. Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?
N/A

03-AR. Please explain your answer:
N/A

Question 4—Core content (paragraphs 11–35)
The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well established work of the TCFD.

Governance
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

> to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

04-AP. (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?
- Broadly Agree

04-AR. Please explain your answer:
N/A

04-BP. (b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

- Broadly Agree

04-BR. Please explain your answer:

Governance:

13 (e) Please consider defining ‘committees’ by providing guidance that they should include people with remunerated responsibility for the reportable metrics. In sustainability related programs of work it is usual to have ‘working groups’ or ‘committees’ responsible for guiding and implementing sustainability actions, usually because this ensures wide representation from a diverse group reflective of the subject matter. However, to meet the objective of effectively enabling users of general purpose financial reporting to assess enterprise value they should consider all the cost inputs of achieving sustainability metrics. Therefore the input (ie the programs of work) into reportable metrics should be remunerated in a consistent way to the inputs into financial accounting of it not, this should be disclosed. Any ‘goodwill’ cost could then be factored into an entity evaluation. This recognises that sustainability programs of work have a direct impact on commercial value of an entity.

13 (f) Remuneration should be linked to specific accountable, measurable and reportable sustainability data. If an entity does not link remuneration with sustainability metrics (relevant to its material risk), alongside its other reportable targets then this could signal to investors that sustainability metrics are not considered of equal value by that entity and this should be factored into their evaluation of the entity.

13 (g) Regarding the requirement for 'the highest level of responsibility in the organisation’.

This should be the CEO (or equivalent) and Chair of the Board. Ensuring responsibility for sustainability governance is addressed in a way that is consistent with other reportable metrics should be a factor for consideration when assessing the entity’s value.

I also note the ‘rise of the Chief Sustainability Officer (CSO)’ role. This is a positive development as long as the ultimate responsibility for metrics reporting in that position is consistent with however a company manages ultimate reporting for all their C-suite executives including Chief Operations Officer or Chief Financial Officer. Entities that currently report sustainability metrics to this Risk & Compliance or Audit Committees should also apply the same consistency in sustainability reporting accountability.

15 (a) Question the inclusion of the statement ‘reasonably expects’. If we accept that sustainability-related risks and opportunities will affect all business models and therefore that’s why we need a standardised reporting, then it follows that we should not leave it up to entities to decide what they think will affect its business model but to report to a set criteria to enable comparison for investors, employees etc. This set criteria could be phased in over a period of time and / or include both mandatory and voluntary disclosures.

17 Resources should be defined as both natural and human capitol. This would ensure factors such as modern slavery, equal gender representation, minority representation and other human rights are taken into account and their material impact on enterprise value is included in the assessment of enterprise value by the primary user. I note that all these factors are grouped under the ‘sustainability’ terminology in various ways so consistent definition and terminology will also be helpful.

This recommendation is consistent with your exposure draft on Page 10 of the UN’s definitions of sustainability. “National provisions on limiting environmental and social damage can also inform how the entity evaluates the impact of its activities. The terms sustainability and sustainable development, therefore, apply widely across social and ecological communities and apply to current and future BC28 BC29 BC30 EXPOSURE DRAFT—MARCH 2022 10 © IFRS Foundation generations; the terms also cover environmental and social notions of justice, health, welfare, preservation and acknowledgement of planetary boundaries.”

20 (b) Description of where in the Value chain significant sustainability related risks & opportunities are located.

An addition to for example list should be access to appropriate human capital, and taking into account gender & minority representation, removal of modern slavery, female pay equality and associated targets eg in Australia including for First Nations employment at all organisational levels including senior positions.

22 Quantitative and qualitative information is relevant here. I disagree that quantitative should be the priority and qualitative only provided if quantitative is unavailable. For some programs of work, qualitative will be equally relevant ie the plans an entity has in place to address gender pay gap are equally relevant to risk as the disclosure of that pay gap. This is also an example of where data is effectively, not useful for the purposes of valuing the enterprise, because we know:

• there is a gender pay gap
• reporting on it won’t change the gap
• BUT the plan in place to address the gap will

This is especially relevant to sub-points C & D regarding ‘how it expects its financial position to change over time’. The plans themselves ie the qualitative data are what will impact the position, not the current gap.

30 Metrics & Measures

Agree that entities should choose their own metrics to apply, in line with their business model. But is there one standard set that applies to all? This would be a positive initiative and could include for example a phased approach with mandatory and / or voluntary metrics.

Question 5—Reporting entity (paragraphs 37–41)
The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

05-AP. (a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?
N/A

05-AR. Please explain your answer:
N/A

05-BP. (b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?
N/A

05-BR. Please explain your answer:
N/A

05-CP. (c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?
N/A

05-CR. Please explain your answer:
N/A

Question 6—Connected information (paragraphs 42–44)
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) between the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

06-AP. (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

- Broadly Agree

06-AR. Please explain your answer:
N/A

06-BP. (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

- Broadly Agree

06-BR. Please explain your answer:

It is a good idea to explain potential options that were evaluated when an entity assessed its sustainability related risks and opportunities and the consequences of its decisions to address those risks and opportunities. This information should include the trade-offs that were considered.
It is sensible to have an explanation that satisfies the evaluator of the risk assessment approach, and ensures an entity is considering impacts (intended or unintended) on other parts of its supply chain)

Question 7—Fair presentation (paragraphs 45–55)

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

07-AP. (a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

N/A

07-AR. Please explain your answer:

N/A

07-BP. (b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

N/A

07-BR. Please explain your answer:

N/A

Question 8—Materiality (paragraphs 56–62)
The Exposure Draft defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

08-AP. (a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?
N/A

08-AR. Please explain your answer:
N/A

08-BP. (b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?
N/A

08-BR. Please explain your answer:
N/A

08-CP. (c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?
N/A

08-CR. Please explain your answer:
N/A

08-DP. (d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?
N/A

08-DR. Please explain your answer:
N/A

Question 9—Frequency of reporting (paragraphs 66–71)
The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

09-AP. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?
N/A

09-AR. Please explain your answer:
N/A

Question 10—Location of information (paragraphs 72–78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

010-AP. (a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?
N/A

010-AR. Please explain your answer:
N/A

010-BP. (b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?
N/A

010-BR. Please explain your answer:
N/A

010-CP. (c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is crossreferenced? Why or why not?
N/A

010-CR. Please explain your answer:
N/A

010-DP. (d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

N/A

010-DR. Please explain your answer:

N/A

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

011-AP. (a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

N/A

011-AR. Please explain your answer:

N/A

011-BP. (b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

- Broadly Agree

011-BR. Please explain your answer:

Yes I agree there should be reasonable flexibility in the ability of an organisation to both use estimates and to disclose when a better metric becomes available for use. However when an 'estimate' is used in the first place the entity should identify it as an estimate and explain why an estimate is being used.

011-CP. (c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

- Broadly Agree

011-CR. Please explain your answer:

N/A

Question 12—Statement of compliance (paragraphs 91–92)

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

012-AP. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

- Broadly Agree

012-AR. Please explain your answer:

N/A

Question 13—Effective date (Appendix B)

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

013-AR. (a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

N/A

013-AP. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

- Other

013-AR. Please explain your answer:

N/A

Question 14—Global baseline

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

014-AP. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

- Other

014-AR. Please explain your answer:

N/A

Question 15—Digital reporting

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

015-AR. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

No

Question 16—Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.

016-AR. (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
N/A

GR16B. (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
N/A

Question 17—Other comments

017-AR. Do you have any other comments on the proposals set out in the Exposure Draft?
N/A

15 July 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
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AUSTRALIA

Via website: www.aasb.gov.au/current-projects/open-for-comment

Dear Keith

Exposure Draft 321: Request for Comment on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

As representatives of over 300,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountant Australia and New Zealand (CA ANZ) welcome the opportunity to provide feedback on the Request for Comment ("ED 321").

Given we are separately responding to the consultation by the International Sustainability Standards Board ("ISSB"), we have opted to focus on the Australian-specific questions that are raised in ED 321. We will forward you a copy of our submission to the ISSB consultation in due course.

The below details the key points from our submission, and the below **Attachment** sets out our responses to selected specific questions raised in ED 321.

Key points

Scope 3 greenhouse gas (GHG) emissions

- We support improved, comparable and consistent disclosure of Scope 3 emissions. In our view, to remain internationally competitive and to align with global best practice, any reporting requirement adopted in Australia should include Scope 3 emissions reporting.
- We note that there are current challenges with the timeliness, availability and quality of the related data. As such, we encourage the consideration of transitional arrangements and the phased adoption of Scope 3 emissions disclosure, particularly related to financed/insured emissions and value chain emissions, to support entities to continually improve their disclosures whilst recognising the challenges of accessing the required data within the specified timeframe.
- We also note that the National Greenhouse and Energy Reporting (NGER) Act does not explicitly require disclosure of Scope 3 emissions. With this in mind, we suggest that the AASB liaises with the Clean Energy Regulator to determine how alignment between NGER reporting requirements and the proposed Greenhouse Gas Corporate (GHGC) Standard can be achieved to encompass alignment with respect to the reporting entity, measurement requirements and guidance for Scope 3 emissions disclosures. This approach would be preferable to minimise onerous duplicate reporting by entities, whilst maintaining the higher level of precision.

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Appendix B metrics

- We note that the metrics contained in Appendix B are inherently based on the United States environment and therefore might not be suitable in the Australian context, particularly given the industry classification, units of measurement and choice of metrics differ between the two jurisdictions.
- However, due to the sheer quantum of the proposed metrics within Appendix B, we have not had the capacity to consider them in detail. We consider this to be concerning given their potential widespread application.

Adoption and effective date

- We suggest a phased in approach for adoption would be most appropriate, initially commencing with a subset of for-profit entities.
- This reflects the readiness of Australian entities to adopt the proposals, with large, listed entities typically being more mature and prepared. However, some entities will require considerable time to scale up their expertise and capacity.
- In the domestic implementation of the ISSB standards, the local legal context needs to be considered fully. We suggest that clear guidance from domestic regulators, and if necessary regulatory support, may be needed to ensure that entities can produce the specific forward-looking statements required by the ISSB standards.

Assurance

- There is a critical role for independent external assurance to enhance the credibility of sustainability information. In our view, the goal should be for investors and other stakeholders to rely on the assurance obtained and the integrity of the information, in a congruent way, similar to the way they rely on assurance obtained in an audit of the financial statements.
- A consistent baseline is needed for there to be trust and confidence in the information that is published and to avoid confusion or misunderstanding amongst investors and other stakeholders. We believe the current Exposure Drafts, overall, could be substantially improved to better encapsulate suitable criteria that could underpin comprehensive assurance engagements.
- We recognise and commend the collaboration between the ISSB and the International Auditing and Assurance Standards Board (IAASB), as well as the ongoing efforts of the IAASB to rapidly refine and develop the available framework for assurance of sustainability information. Notwithstanding, we would encourage making assurability an even more central condition in developing an effective reporting standard – simply put, if the reporting standards do not represent comprehensive suitable criteria, the reporting will not be able to achieve its aims.

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If you require further information or elaboration on the views expressed in this submission please contact at CPA Australia, Patrick Viljoen at patrick.viljoen@cpaaustralia.com.au, or at CA ANZ, Karen McWilliams at Karen.McWilliams@charteredaccountantsanz.com.

Yours sincerely

Simon Grant FCA
Group Executive – Advocacy, Professional Standing and International Development
Chartered Accountants Australia and New Zealand

Gary Pflugrath CPA
Executive General Manager, Policy and Advocacy
CPA Australia

ATTACHMENT

Responses to specific questions

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?

- No specific comment other than those contained in our submission to the ISSB.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

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.6 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 support improved, comparable and consistent disclosure of Scope 3 emissions.
- On an international level we note that there is a reasonable degree of alignment between IFRS S2's requirement for Scope 3 emissions disclosure and the requirements of the European Financial Reporting Advisory Group's ESRS E1 (Para 65), United States Securities and Exchange Commission and the External Reporting Board (XRB) through NZ CS1.
- Therefore, to remain internationally competitive and to align with global best practice, any reporting requirement adopted in Australia should include Scope 3 emissions reporting.
- Currently, there are challenges with the timeliness, availability and quality of the related data.
- We encourage the consideration of transitional arrangements and the phased adoption of Scope 3 emissions disclosure, particularly related to financed/insured emissions and value chain emissions to support entities to continually improve their disclosures whilst recognising the challenges of accessing the required data within the timeframe.

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)?

- The NGER Act and related legislative instruments mandate reporting of Scope 1 and 2 GHG emissions by certain Australian entities, specifically those with high emitting facilities.
- Although the scope for ISSB standards adoption in Australia is yet to be determined, it is likely to represent a different but overlapping group of entities.
- We understand that, generally, the specifications under the NGER Act represent a higher level of precision than those within the GHGC Standard.

- However, we also note that the NGER Act does not explicitly require disclosure of Scope 3 emissions.
- With this in mind, we suggest that the AASB liaises with the Clean Energy Regulator to determine how alignment between NGERS requirements and GHGC Standard can be achieved to encompass alignment with respect to the reporting entity and measurement requirements and guidance for Scope 3 emissions disclosure. This approach would be preferable to minimise duplicate reporting by entities whilst maintaining the higher level of precision.
- It is important to note that for domestic implementation existing NGER GHG emissions reporting requirements are for an Australian financial year, 30 June, which may not align with an entity's financial year.

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 note that the metrics contained in Appendix B are inherently based on the United States environment and are therefore not wholly suitable for the Australian context. For example, industry classification, units of measurement and choice of metrics.
- However, due to the sheer quantum of metrics within Appendix B, we have not had the capacity to consider them in detail. We consider this to be concerning given their potential widespread application.

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?

- We have no additional Australian-specific climate-related matters to raise. It is our view that IFRS S2 is suitably comprehensive in its scope. However, please refer to our comments with respect to other questions.

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? Specifically:

a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? And

- We suggest a phased in approach for adoption would be most appropriate, initially commencing with a subset of for-profit entities.
- This reflects the readiness of Australian entities to adopt the proposals, with large, listed entities typically being more mature and prepared. However, some entities will require considerable time to scale up their expertise and capacity.
- We note that the Australian Sustainable Finance Initiative Roadmap recommended the ASX 300 and financial institutions with more than $100 million in consolidated annual revenue to report in line with the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations.

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- In New Zealand, financial institutions with assets of more than NZ$1 billion and listed issuers with a market price or quoted debt in excess of NZ$60 million are required to produce climate-related disclosures.

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?

- For certain disclosures, transitional time periods will be required due to the current availability and reliability of data and methodologies. Collectively, we are likely to encourage prompt and comprehensive adoption of [Draft] IFRS S2 by entities in our region. However, we suggest finite and structured transition periods may need to be considered for the disclosure of scenario analyses, Scope 3 emissions and some specific industry specific metrics.
- Likewise, we note that climate is one of the most progressed and measurable thematic sustainability areas. Disclosures of other sustainability areas, i.e., under [Draft] IFRS S1, may require more specific transitional arrangements as data and methodologies are typically less well developed

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?

- In the domestic implementation of the ISSB standards, the local legal context needs to be considered. We suggest that clear guidance from domestic regulators, and if necessary regulatory support, may be needed to ensure that entities can produce the specific forward-looking statements required by the ISSB standards.
- It will be important that liability risks do not undermine comprehensive and “in good faith” implementation of the ISSB standards and the appropriate accountability for disclosure.

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? If not:

(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

(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

- Directionally the ISSB’s [Draft] IFRS S2 broadly aligns with the current voluntary adoption of the TCFD recommendations, as encouraged by ASIC Regulatory Guide 247 and the ASX Corporate Governance Principles and Recommendations fourth edition.
- However, we note that for some entities already reporting under broader sustainability frameworks such as Global Reporting Initiative (GRI), the ISSB’s [Draft] IFRS S1 would be new to the Australian environment. Consideration would need to be given to how it, and other subsequent sustainability standards, would fit into Australia’s broader corporate reporting framework.

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?

- No specific comment beyond our submission to the ISSB.

C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?

- There is a critical role for independent external assurance to enhance the credibility of sustainability information.
- In our view, the goal should be for investors and other stakeholders to rely on the assurance obtained and the integrity of the information reported in a congruent way, similar to how they rely on assurance obtained in an audit of the financial statements. While there may be differences in the level of assurance and nature of the information, a consistent baseline is needed for there to be trust and confidence in the information that is published and to avoid confusion or misunderstanding amongst investors and other stakeholders.
- We believe the current draft of the Exposure Drafts overall could be substantially improved to better encapsulate suitable criteria that could underpin comprehensive assurance engagements.
- We recognise and commend the collaboration between the ISSB and the IAASB, as well as the ongoing efforts of the IAASB to rapidly refine and develop the available framework for assurance of sustainability information. Notwithstanding, we would encourage making assurability an even more central condition in developing an effective reporting standard – simply put, if the reporting standards do not represent comprehensive suitable criteria, the reporting will not be able to achieve its aims.

C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?

- We consider that, whilst some entities are reasonably mature and prepared for the introduction of these new disclosure standards, some entities will require considerable time to scale up their expertise and capacity. We recommend consideration be given to a phased approach to adoption across entity types, sectors and/or sizes.
- Further, for certain disclosures, transitional arrangements may be required due to the current availability and reliability of data and methodologies. In particular, we suggest finite and structured transition periods may need to be considered for the disclosure of scenario analyses, scope 3 emissions and some specific industry specific metrics.
- By way of example, in Australia there was a phased transition period for the new prudential standard CPS511 (Remuneration) issued by the Australian Prudential Regulatory Authority (APRA). The implementation was phased by size of entity. For the largest entities, the obligation to comply commenced with the commencement of the entity's financial year.
- The requirements for sustainability-related financial disclosures and notably for climate related disclosures under [Draft] IFRS S2 involve greater complexity. As such, a longer phased transition time period should be considered.
- Likewise, we note that climate is one of the most progressed and measurable thematic sustainability areas. Disclosures of other sustainability areas, i.e., under [Draft] IFRS S1, may require more specific transitional arrangements as data and methodologies are typically less well developed. Consideration would also be needed as further thematic standards are issued, to ensure effective dates are staggered and to avoid over burdening preparers.
- For completeness, it is worth noting that implementation by entities of the TCFD recommendations on a voluntary basis has typically been over a two- to three-year time frame. Therefore, it is reasonable to expect that entities new to this reporting would need a similar implementation period. To this end, we suggest that the AASB considers how a phased approach could be reflected.

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?

- No specific comment beyond our submission to the ISSB.

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?

- No specific comment beyond our submission to the ISSB.

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?

- No specific comment beyond our submission to the ISSB.

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 agree with the proposed approach for a separate suite of standards for sustainability-related financial reporting.
- We consider that this approach is most appropriate given the possible difficulties with trying to reconcile the new standards with the existing Australian corporate reporting framework.

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?

- We consider clear, comprehensive and comparable disclosure of sustainability-related information to be part of the foundation of a well-functioning global financial system and to be in the best interests of the Australian economy.
- We fully support a global approach to the development of sustainability disclosure standards and are supportive of the ISSB as the global body to issue these standards.
- Our submissions raise some key considerations in relation to the two ISSB Exposure Drafts that require resolution.
- We also note that [Draft] IFRS S1 and [Draft] IFRS S2 are underpinned with considerations aimed at ensuring that organisational thinking and the resulting business models remain resilient. Moreover, that such resilience is sought against sustainability-related considerations. Noting that implementation of the standards by entities may inevitably cause disruption, it is our opinion that such risks would be outweighed by the future resilience from which businesses would benefit.

28 July 2022

International Sustainability Standards Board
Columbus Building
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London, E14 4HD

Via email commentletters@ifrs.org

Dear Board Members,

Submission on the International Financial Reporting Standards' (IFRS) Sustainability Disclosure Standards

CPA Australia and Chartered Accountant Australia and New Zealand (together the Australasian Professional Accountancy Organisations) welcome the opportunity to provide a submission on the following 'Sustainability Disclosure Standards':

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (referred to as [DRAFT] IFRS S1)
- IFRS S2 Climate-related Disclosures (referred to as [DRAFT] IFRS S2)

Together, we represent over 300,000 professional accountants in Australia, New Zealand and around the world.

We also supported the coordination of and contributed to the *Peak Australian Bodies* submission, which collectively represents the voice of 20 peak professional, industry and investor bodies in Australia who came together to prepare a joint response to the two exposure drafts.

The key points from our submission are outlined below.

The **Attachment** contains our detailed responses to the specific questions raised in this consultation. Our feedback reflects the significant outreach undertaken with our members and engagement with other stakeholders within our region.

Overarching comments

We fully support a global approach to the development of sustainability disclosure standards and are supportive of the ISSB as the global body to issue these standards. The overarching goal should be a globally consistent, comparable, reliable corporate reporting system. from which assurance can be obtained on reported information, to provide all stakeholders with a clear and accurate picture of an organisation's ability to create sustainable value over time.

Overall, in our view the current proposed [DRAFT] IFRS S1 does not achieve the clarity, appropriate scope or objectives required to foster and improve sustainability reporting toward the agreed purpose of a globally consistent, comparable, reliable corporate reporting system. We believe substantial improvements are needed, addressing the issues detailed in our responses to the specific questions, to create a conceptual basis for sustainability reporting that is appropriate for adoption. Consequently, we recommend [DRAFT] IFRS S1 be re-exposed for comment prior to finalisation.

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Comprehensive global baseline and collaboration

- The burden of potentially differing reporting requirements is a key concern among our stakeholders.
- Many entities in this region are also affected by the development of mandatory climate-related financial reporting within New Zealand, the United States of America and Europe.
- There is significant confusion amongst stakeholders about how the ISSB's Exposure Drafts would interact with these developments.
- We consider it crucial for entities to effectively and simply collect data and report in a way which meets both local and global requirements whilst avoiding duplication.
- Consistency and comparability are critical to the success of the IFRS Sustainability Disclosure Standards and the achievement of a comprehensive global baseline.
- We consider it critical that the ISSB and other jurisdictions developing sustainability standards take a coordinated approach to avoid regulatory and standard setting fragmentation by aligning key concepts, terminologies, and metrics on which disclosure requirements are built.

Clear terminology, criteria and guidance

- We believe sustainability standards should be built on sound principles and a clear conceptual framework, and should provide sufficient detail for consistent application.
- However, we are concerned that paragraph 51 of [DRAFT] IFRS S1 states that "an entity **shall** consider" and lists items in a) to d) which are unspecified and external to the ISSB and IFRS Foundation. In our opinion, [Draft] IFRS S1 should standalone as a standard and not rely on other external frameworks for key matters such as these.
- We understand that this may be intended to represent guidance. Where external standards and frameworks are referenced (e.g., such as those used for identifying suitable metrics), it is our view that there must be clarity as to whether these do represent guidance or whether they are considered mandatory.
- Further work is also required to ensure the proposed standards, including key terms and definitions, are clear, concise, and understandable. This will aid consistency and comparability.
- For example, the term "sustainability" is not defined. This is particularly important in the context of issuing sustainability reporting standards.
- Additionally, the use of the terms "significant" and "material" could be confusing as currently drafted. There also appears to be other inconsistencies int eh use of terms within the proposed standards.
- Greater clarity in these areas would ensure that preparers understand what is expected of them and would also facilitate the ability to obtain assurance on the reported disclosures.

Scalable and practical implementation of best practice

- The proposed disclosure requirements in the Exposure Drafts are extensive and represent more than what is currently regarded as a minimum set of disclosures based on current market practices and capabilities.
- Smaller entities, in particular, have not prepared similar disclosures in the past and therefore will need to develop systems, processes, and controls. The cost for larger entities is likely to be higher given the extent of the requirements.
- It is important for the ISSB to consider the readiness and capability of preparers and how this may impact the widespread adoption of certain aspects of the proposed standards.
- This might include the need to adopt a "phased in" approach for smaller entities to ensure that there is sufficient capacity in the corporate ecosystem to enable the orderly and effective adoption of these proposed standards.
- We also encourage the ISSB to consider field testing to better understand how the proposals might be applied by entities of different sizes, particularly smaller entities.

Industry specific metrics

- Whilst we support disclosure of industry specific metrics, we are concerned with the quantum of industry metrics included, for example within [Draft] IFRS S2.
- We also note that the metrics contained in Appendix B of [DRAFT] IFRS S2 are inherently based on the United States environment and therefore might not be suitable in the Australian or New Zealand context, particularly given that the industry classifications, units of measurement and choice of metrics differ between the two jurisdictions.
- We consider these matters could be prohibitive to widespread global adoption, particularly as further IFRS Sustainability Disclosure Standards are developed.
- We recommend that industry specific metrics be reviewed and field tested for their usefulness to users of general purpose financial reports, before their inclusion within any standards.

Assurance

- There is a critical role for independent external assurance to lend credibility to sustainability information.
- In our view, the goal should be for investors and other stakeholders to rely on the assurance obtained and the integrity of the information provided, similar to the reliance currently placed on audited financial statements.
- We believe certain aspects of the current Exposure Drafts could be improved to better encapsulate suitable criteria to underpin the appropriate use of limited and reasonable assurance engagements
- It is important that the ISSB develop standards that have the essential characteristics necessary to enable an independent practitioner to perform an assurance engagement. Robust criteria and definitions are essential.
- It is also very important that the ISSB works closely with the International Auditing and Assurance Standards Board (IAASB) to ensure that assurance can be obtained on the sustainability information being reported and disclosed. We note that the IAASB has introduced a project to develop an assurance standard on sustainability reporting.

Effective date

- An effective date would need to consider the financial report preparation cycle of entities; the availability and quality of data and the need for preparers to build their reporting capability.
- We consider that whilst some entities are reasonably mature and prepared for the introduction of these new disclosure standards, some entities will require considerable time to scale up their expertise and capacity. We recommend consideration be given to a phased in approach to adoption across entity types, sectors and/or sizes.
- Further, for certain disclosures, transitional arrangements may be required due to the current availability and reliability of data and methodologies.
- We also note that the effective date should take into account that jurisdictions will be in different states of readiness, both in terms of the adoption mechanism (e.g., legislative and regulatory architecture) and the availability of skilled practitioners.

Education

- We recognise that establishing a comprehensive global baseline for sustainability reporting will take time and some amendments may be required to achieve a baseline that is capable of consistent application, and over which independent practitioners can obtain assurance.
- Building professional capacity to support implementation of the standards and ongoing collaboration globally with regulators, standards setters, policy makers and key players within the sustainability reporting ecosystem will be critical.

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- We are committed to supplementing the efforts of the ISSB by developing relevant educational programs and resources to build professional capacity in sustainability reporting and assurance in our region.

If you require further information or elaboration on the views expressed in this submission please contact at CPA Australia, Patrick Viljoen at patrick.viljoen@cpaaustralia.com.au, or at CA ANZ, Karen McWilliams at Karen.McWilliams@charteredaccountantsanz.com.

Yours sincerely

Simon Grant FCA
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ATTACHMENT

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (referred to as [DRAFT] IFRS S1)

Question 1 – Overall approach

a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

- No, we do not consider the current requirements in [DRAFT] IFRS S1 to be clearly stated.
- Whilst we acknowledge the requirement to identify and disclose material information about all of the sustainability-related risks and opportunities is reasonably clear, there are different understandings as to how this could be interpreted and the guidance to support the statement is currently insufficient to enable compliance.
- In our opinion, [DRAFT] IFRS S1 currently attempts to provide both a conceptual framework for sustainability-related financial disclosures and guidance for disclosures in the absence of a specific IFRS Sustainability Disclosure Standard.
- We suggest they be split into separate documents, or alternatively, that there is improved clarity about them if they continue to be included within the same document.
- We are particularly concerned that the current process for the identification of significant sustainability-related risks and opportunities directs the preparer to existing disclosures standards or frameworks.
- The identification by the reporting entity of its significant sustainability-related issues should initially incorporate a broad stakeholder engagement process, including internal and external stakeholders beyond the primary users and engagement with its governing body.
- The entity may then also consider other existing guidance, including sector specific information to ensure significant matters have not been overlooked.
- The entity would then need to consider these issues with reference to its enterprise value and the usefulness of information to primary users using IFRS Sustainability Disclosure Standards or alternative non-mandatory guidance.
- We consider the broad stakeholder engagement process to be critical as primary users are interested in sustainability-related issues which affect a broad range of stakeholders as these are the most likely to in turn affect enterprise value. Likewise, IFRS Sustainability Disclosure Standards may exist for certain thematic areas which are not significant to the entity.
- We recommend that [DRAFT] IFRS S1 be field tested first, given it represents new reporting requirements for sustainability information. By way of example, the adoption of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations by entities and jurisdictions means that climate-related disclosure requirements have been field tested. This is not the case with other sustainability areas.

c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?

- With respect to question 1(c) in particular, while [DRAFT] IFRS S1 and [DRAFT] IFRS S2 could be applied together, the lack of a conceptual framework makes this unclear, particularly with respect to the future architecture of other thematic standards and industry standards and the general requirements standard.

d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

- No, we do not consider the requirements proposed in [DRAFT] IFRS S1 currently provide a suitable basis for auditors and regulators to determine compliance.
- There is a critical role for independent external assurance to enhance the credibility of reported sustainability information.
- In our view, the goal should be for investors and other stakeholders to rely on the assurance obtained and the integrity of the information provided, in a similar way to how they rely on assurance obtained by an audit of the financial statements.
- A consistent baseline is needed for there to be trust and confidence in the information provided and to avoid confusion or misunderstanding amongst investors and other stakeholders.
- We believe that certain aspects of the current draft of [DRAFT] IFRS S1 could be improved to better encapsulate suitable criteria that could underpin the appropriate use of limited and reasonable assurance engagements.
- In particular, we draw attention to our comments in response to questions 2, 7 and 8 covering the scope and boundary of the [DRAFT] IFRS S1.
- Suitable criteria are described in ISAE 3000 as exhibiting the following characteristics Relevance, Completeness, Reliability, Neutrality and Understandability. The current [DRAFT] IFRS S1 presents challenges across all of these aspects. For example, with regard to providing a clear boundary and scope for reporting, which affects relevance and completeness, and with regard to the refinement of metrics which impacts reliability and neutrality. We note paragraph 28 includes 'metrics developed by an entity itself' subject to an explanation for the metrics (paragraph 31). We do not believe such practice would promote reliability and neutrality.
- The understandability of sustainability information will be an ongoing challenge as this reporting is rolled out and adopted more widely. However, refining the approach in the [DRAFT] IFRS S1 with this goal in mind, and the achievement of a meaningful, consistent level of assurance, will be a key and defining factor.
- We recognise and commend the collaboration between the ISSB and the IAASB, as well as the ongoing efforts of the IAASB to rapidly develop a standard for assurance of sustainability information. Notwithstanding, we would encourage making the ability to obtain assurance an even more central condition in developing an effective reporting standard. In our opinion, if the reporting standards do not encompass comprehensive suitable criteria, the ISSB will not be able to achieve its aims.

Question 2 – Objective

a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

- No, we do not consider the proposed objective to be clear.
- We note the requirement to '*disclose material information about all of the significant sustainability-related risks and opportunities*.'
- We provide feedback on 'materiality' in our response to question 8. Further, we note that the term 'significant' is less well understood. Preparers are reasonably familiar with the use of materiality. The inclusion of significant, without a more adequate explanation could cause confusion, particularly as there is no indication of the difference between these terms in the current list of definitions provided.
- We recommend consideration be given to providing greater clarity on the definitions and differences between 'significant' and 'material' in [DRAFT] IFRS S1. It would be useful to provide clear, illustrative guidance to explain the difference between the two concepts.

- Additionally, we consider a need to provide additional guidance in relation to sustainability-related opportunities, with respect to materiality, as well as for disclosure requirements.

b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

- No, we do not consider the definition to be clear.
- There is currently no definition of "sustainability" provided within [DRAFT] IFRS S1. Whilst we understand the ISSB may have reservations about providing a definition of sustainability, we consider a clear definition of sustainability is fundamentally required in this specific context. That is, for the purposes of issuing sustainability disclosure standards. The ISSB may need to re-consult on such definitions to ensure consistency.
- The information required to be disclosed exceeds financial statement disclosure requirements (e.g., direction, governance, strategy relating to risk and opportunities of sustainability decision making that impact inflows and outflows). These separate pieces of information should therefore be defined.
- If key terms are not well-defined and left open to interpretation, preparers and users may apply different judgments to the meaning of the disclosures, impacting comparability and usability.
- Further, we note that the definition of sustainability-related financial information specifies that it could include '*the entity's development of knowledge-based assets'* (paragraph 6(d)). We consider that this inclusion requires further explanation to explain what is included as a knowledge-based asset and how these assets would be related to sustainability and paragraph 2. We suggest close collaboration between the ISSB and the International Accounting Standards Board (IASB) to align workplans and avoid duplication of effort.
- Likewise, paragraph 6(b) does not clearly demonstrate a linkage to sustainability-related financial information and could be interpreted as relating to all decisions affecting future inflows and outflows which are currently not recognised.
- We acknowledge the use of the TCFD recommendations in defining the dimensions of sustainability-related financial disclosures.

Question 3 – Scope
Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

- We note that both Australia and New Zealand adopt IFRS Accounting Standards.
- We agree that [DRAFT] IFRS S1 could be used by entities irrespective of whether they use the IFRS Accounting Standards or local generally accepted accounting principles (GAAP). The inclusion of those jurisdictions that do not use IFRS Accounting Standards will also potentially aid the breadth of adoption globally.
- We recommend that paragraph 9 be removed as it is both confusing and unnecessary. We are also unclear how paragraph 9 interacts with paragraph 2 and those paragraphs addressing materiality.

Question 4 – Core content
a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

- The disclosure objectives are clear and appropriately defined.
- We support the alignment of the disclosure objectives to the TCFD.

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- This approach provides preparers with a structure that many will already be familiar with, as well as one that has been already subject to industry application. We also note it forms the basis of the Taskforce for Nature-related Financial Disclosures (TNFD).

b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

- With respect to the disclosure requirements for governance, strategy, risk management and metrics and targets, we consider the disclosure requirements to be broadly appropriate for their stated disclosure objectives.
- However, we note that there are several specified disclosures (i.e., entities *shall* disclose), which result in the requirements being more prescriptive, rather than being principles-based requirements. We recommend that the ISSB reviews and revises the requirements accordingly.
- We also consider that the disclosure requirements should be sufficiently flexible to allow for entities to incorporate these disclosures with others made by the entity. We welcome the flexibility provided by paragraph 70 for cross-referencing of disclosures.
- We also offer the following comments with respect to each of the disclosure areas:

  Governance
  - We note that paragraph 13(d) states *how and how often the body and its committees (audit, risk or other committees) are informed about sustainability-related risks and opportunities*. We do not consider frequency equates to relevance. Likewise, it is not just about being informed of internal risks but also about being informed of external trends. This requirement could therefore be phrased as '*how does the body ensure it is appropriately informed on a timely basis via internal or external means…'.*

  Strategy
  - With respect to the strategy disclosure requirement, we note that, as climate change response matures, some elements of strategy will be commercially sensitive.
  - To this end, the ISSB could consider providing an exemption from reporting commercially sensitive information under this pillar.
  - With respect to paragraph 18, we consider the time horizon will be specific to the specific sustainability topic.
  - We are unclear how the information required by paragraph 22 would interact with the financial statements. The requirements within this paragraph seem particularly financially focused compared to other requirements. Further, there seems to be a lack of consistency between the reference to timeframes in the opening statement for paragraph 22 which refers to '*short, medium and long term'*, and paragraphs a) – d) which refer to a) current financial year, b) next financial year and then c) and d) 'over time'.

  Risk management
  - We note paragraph 25 refers to 'Integrated into overall risk management processes'. However, paragraph 26(f) requires disclosures on how opportunities are 'integrated into the overall management process'. We recommend that there be further alignment between the overarching objective and the disclosure requirements with respect to opportunities.

  Metrics and targets
  - Paragraph 28 appears to duplicate disclosures already made in accordance with other (eventual) sustainability standards. If there will be a disclosure requirement contained in another standard, we suggest that [DRAFT] IFRS S1 should not require another (duplicate) disclosure.
  - It is unclear what is contemplated by paragraph 31(b) where it states "*validated by an external body"*. We suggest that this requirement is clarified to clearly state whether validation refers to assurance or refers to the metrics used being developed independently from the entity.

Question 5 – Reporting entity

a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

- We agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements.
- However, while we consider that sustainability-related financial information should use the same reporting boundary as the associated financial statements, we acknowledge that there are challenges that will need to be considered further by the ISSB.
- In particular, a sustainability-related risk or opportunity that is significant for an entity within a group, may not be material when considered at the consolidated group level.

b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

- We do not consider this requirement to be clear.
- We believe that this requirement will be challenging as [DRAFT] IFRS S1 lacks clarity around the definition of the value chain, which is needed to provide a consistent boundary for an entity's reporting.
- There is a definite need for clear guidance in [DRAFT] IFRS S1 (with examples) as the sustainability-related risks and opportunities related to activities, interactions and relationships along an entity's value chain will be different, and sustainability matter-specific, for each entity.
- Further, the relevant information related to activities, interactions and relationships along an entity's value chain will also be topic specific. The examples described in the Basis for Conclusions (BC) paragraph BC51 state that the information required along the value chain will vary depending on the sustainability-related matter. As such, we consider that the requirement in paragraph 40 should be amended to recognise this point.
- We also question the usefulness of paragraph 41 given that it does not refer to any specific Standard. We recommend that it be incorporated into paragraph 40.
- Lastly, the [DRAFT] IFRS S1 recognises that information from third parties may need to be included, but it does not indicate how to navigate situations where those third parties are not themselves subject to the Standard.

c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

- Yes, we agree with the proposed requirement for identifying the related financial statements. We consider this important for connectivity between the financial and sustainability-related disclosures.

Question 6 – Connected information

a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

- We agree that the requirement is clear but are of the view that entities will not be able to comply with the requirement without supporting guidance to assist them to understand how to achieve connectivity between the related risks and opportunities, and where such connectivity exists and would aid holistic and succinct reporting.

- The environmental, social and economic issues covered by sustainability disclosure standards frequently have implications for financial reporting.
- We welcome the recognition by the ISSB of the need for reporting entities to assess and disclose the connectivity between traditional financial reporting and sustainability-related financial reporting.
- However, we note that there are limited details on when this would be required and how it would be done, in particular with regards to the disclosure of quantitative information (e.g., potential financial impacts of climate-related risks).
- We also note that the IFRS Sustainability Disclosure Standards will need to consider connectivity between themselves, as many thematic areas interconnect with other areas. Guidance on how to disclose this interconnectivity will be important.
- Additionally, we support the ISSB's Memorandum of Understanding with the Global Reporting Initiative (GRI) and encourage that clarity be provided for entities as to how the GRI interacts with the ISSB. Further, the ISSB should consider similar arrangements with, amongst others, the Principles for Responsible Banking, the Principles for Responsible Investing and the United Nations Global Compact Communication on Progress.
- Finally, we note that in some jurisdictions, requirements already exist for the disclosure of sustainability-related matters, such as modern slavery, human rights and water. In the absence of specific IFRS Sustainability Disclosure Standards, we recommend that entities be required to reference these disclosures.

Question 7 – Fair presentation

a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

- Our response to this question should be considered with reference to our responses to questions 1 and 2.
- We do not consider the proposal to be clear and are of the view that it may be challenging for assurance practitioners and regulators to assess whether entities have met this requirement.
- Paragraph 51 refers entities to IFRS Sustainability Disclosure Standards and other information to determine the risks and opportunities that influence decision making. As we note in our response to question 1, we consider this process should be separate from the IFRS Sustainability Disclosure Standards, with topics within existing standards and frameworks instead used to confirm that no major risks or opportunities have been overlooked.
- The open-ended nature of paragraphs 51-54 creates critical challenges for compliance and assurance.
- In particular, we are concerned that paragraph 51 states that 'an entity **shall** consider' and lists items in a) to d) which are unspecified and external to the ISSB and IFRS Foundation. Likewise, paragraph 54 is similarly broad and open-ended in its requirements to consider many unspecified sources of information.
- In our opinion, [Draft] IFRS S1 should standalone as a standard and not rely on other external frameworks for key matters such as these. We appreciate that in the absence of a full set of IFRS Sustainability Disclosure Standards, paragraph 51 may have been intended as an interim measure. However, we believe that [DRAFT] IFRS S1 should be clear about its own intent, and as indicated in our response to question 1 we see a need for two distinct pieces of work. That is, a conceptual framework and the provision of interim/transitional guidance.
- We also consider it important for [DRAFT] IFRS S1 to explicitly require that sustainability-related financial disclosures be presented with equal prominence to the financial statements within the entity's general purpose financial report.
- Likewise, all sustainability-related financial disclosures should be presented with equal prominence across thematic areas.

- With respect to aggregating information, the ISSB should provide additional guidance to support reporting entities. The ISSB might also consider how aggregation of information would apply when further thematic standards are developed.

b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

- We do not consider that the sources of guidance have been appropriately presented as 'sources of guidance'.
- Where external standards and frameworks are referenced (e.g., such as those used for identifying suitable metrics), we are of the view that there must be clarity as to whether these represent guidance or whether they are considered mandatory.
- As noted above, the current drafting presents these 'sources' of non-mandatory guidance as a requirement. That is, for entities to consider them all, despite all of them not being specified.
- We do not consider this appropriate for the standard and recommend they be framed as sources of guidance that management can use as part of their process to determine the significant sustainability risks and opportunities and when making their judgements in identifying disclosures.

Question 8 – Materiality

a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

- We do not consider the definition and application of materiality is clear throughout the proposed standard, as indicated in our response to question 2.
- We agree that materiality should be determined using the same approach as the financial statements. Therefore, we support the alignment of the definition to that in the IFRS Conceptual Framework and IAS 1.
- However, we consider that there is misalignment between the definitions in the scope (paragraph 9) and materiality (paragraph 56). Information that affects the assessment of enterprise value may not directly align with information that may influence decision making (for materiality assessments). For example, it may be possible that information might not affect an enterprise value assessment but could still affect decision-making by a particular primary user (such as in the case of lending).
- In practice, preparers that currently report on sustainability-related considerations apply the term materiality to the process of identifying those critical sustainability-related topics.
- The proposed standard uses the term "significant" to refer to this particular process, which would be at odds with established practice. We also note that the focus in paragraph BC71 is placed on financial implications over longer time periods. We contend that these considerations may not necessarily be financial in nature. However, this would not mean explicitly that the effect on the organisation would be any less.
- For example, the reputational risk of damage to sacred first nation sites as a result of extractive operations may be difficult to quantify, but could have a substantial impact on both revenue (loss of customers) and expenditure (legal fees). However, we acknowledge that the approach contemplated in paragraph BC72 is prudent.
- As previously recommended, we suggest that references to materiality and enterprise value (and significant) be clearly delineated from each other to better illustrate their relevance to the preparer. Guidance is also needed with respect to this delineation and subsequent application.
- Further, we note paragraph 58 states that materiality will be entity specific. We also consider it important for [DRAFT] IFRS S1 to clearly state that materiality will also be specific to the particular sustainability matter.

- By way of example, we note that this clarity is provided in the Australian Accounting Standard Board's (AASB) and Auditing and Assurance Standards Board's (AuASB) Joint Bulletin: *Climate-related and other emerging disclosures: assessing financial statement materiality using AASB Practice Statement 2.*

b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

- No, we do not consider the current definition and application will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time.
- As noted in our responses to questions 1 and 7, we consider the breadth of sustainability-related risks and opportunities should be identified through the stakeholder engagement process.
- This question highlights the need for clarification to distinguish between the identification of significant sustainability-related risks and opportunities and the identification of information material to primary users.
- In particular, we recommend that the ISSB provides guidance on the application of the definition to forward-looking information and opportunities.

c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

- We consider the illustrative guidance document to be helpful, but believe that additional guidance is needed.
- The definition and application of materiality are dependent on the definition and application of the term "significant" in the context of sustainability-related risks and opportunities.
- Likewise, in the Illustrative Guidance (IG) paragraph IG6 could further emphasise the importance of qualitative factors in the materiality assessment of sustainability-related financial information.
- There is also a lack of guidance on how an entity should deal with a topic where more than one standard or framework exists. The illustrative guidance currently only focuses on the application of a single standard or framework.

d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

- We consider the proposed relief to be reasonable.
- We recommend that, if such relief applies, the entity discloses the basis for utilising the relief.

Question 9 – Frequency of reporting
Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

- We agree in principle that sustainability-related financial disclosures are to be provided at the same time as the financial statements of the reporting entity to which they jointly relate.
- However, we consider that this requirement will need to be achieved over time and that the ISSB should provide flexibility to enable this practice to evolve.
- It is unlikely that the sustainability-related disclosures can be provided at the same time as the financial statements until data, methodologies and systems are upgraded and human capital is trained.

- We suggest that transitional arrangements will need to be put in place until such a time when all information can be released concurrently.
- These transitional arrangements will provide lead in time for assurance practitioners, who could be required to carry out assurance engagements on both financial statements and sustainability-related disclosures at the same time.

Question 10 – Location of information

a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

- We agree with the proposal to disclose information required by IFRS Sustainability Disclosure Standards as part of an entity's general purpose financial report, e.g., as part of management commentary or in a location required by regulators.
- As noted in our response to question 6, some jurisdictions already have requirements for the disclosure of sustainability-related matters, such as modern slavery, human rights and water. In the absence of specific IFRS Sustainability Disclosure Standards, we recommend that entities be required to reference these disclosures.

b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

- We are currently unaware of any Australian or New Zealand specific requirements that would prevent information being disclosed by an entity.
- However, as noted in our responses to questions 6 and 9, there may be some challenges aligning the reporting cycle that will require transitional arrangements.

c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general-purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

- We support the concept of cross-referencing as it reduces the amount of information in the general purpose financial report.
- However, it may also make sense to allow preparers to make the decision to disclose information separately, outside the general purpose financial report, provided this is properly referenced as proposed in paragraph 77.

d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

- No, we do not consider this requirement is clear.
- The example in paragraph 78 suggests that *when* an entity has integrated its oversight of sustainability-related risks and opportunities, the disclosure should be integrated.
- We recommend paragraph 78 be amended to clarify that integrated disclosures on each aspect of governance, strategy and risk management are encouraged across thematic areas wherever possible.

Question 11 – Comparative information, sources of estimation and outcome uncertainty, and errors

a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

- The requirements to update comparative information in paragraphs 63 and 64 do not appear to distinguish between an 'error' and a 'better estimate'.
- With respect to statements made in error, we support the requirement to disclose the metric in comparative reports. However, we believe that many differences will be as a result of 'better' estimation methods. The rate of change will be significant with respect to methodology and modelling development and improvement, as well as data acquisition, quality, and storage creation. These developments may enable more targeted scenario analysis or a move from emissions factors to actuals in subsequent reporting periods. This could lead to a disconnect in metrics from one reporting period to the next.
- Given the premise that each annual disclosure is made with the best possible knowledge and tools available at the time, we do not consider it reasonable to recalculate and restate previous disclosures based on evolved techniques and data.
- Sustainability-related data is often reliant on estimation and whilst in theory it makes sense to require restatement of comparatives when estimations are updated to demonstrate trends, this might not be practicable and may create an onerous burden on the reporting entity.
- We suggest that the standards include clarifying language to the effect that restatements of comparatives are required when there has been an error, but disclosure only is required if changes result from improved estimation methods and when the time and cost involved in restatements would be prohibitive.

Question 12 – Statement of compliance
Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

- In principle, we agree with the concept of a statement of compliance as it enables users to understand the basis on which the sustainability-related disclosures have been prepared. There is a similar requirement for financial statements.
- However, we also believe that there may be a case for a 'comply or explain' type of statement to address where entities are unable to, or choose not to, disclose information for all disclosure obligations.
- Further, we consider it would be unrealistic to expect entities to be able to respond to all requirements for all sustainability-related risks and opportunities within the first year of reporting.
- In the domestic implementation of the IFRS Sustainability Disclosure Standards, the local legal context will need to be considered. We suggest clear guidance from domestic regulators, and if necessary regulatory support, may be needed to ensure that entities can produce the particular forward-looking statements required.
- For the ISSB, it will be important that liability risks do not undermine comprehensive and good faith implementation of the IFRS Sustainability Disclosure Standards and appropriate accountability for disclosure.
- We suggest that any mandatory reporting obligations will need to balance the urgency of commencing the disclosures with the serious potential for vexatious litigation against well intentioned and well considered disclosures by preparers.

Question 13 – Effective date

a) **When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.**

- An effective date would need to consider the financial report preparation cycle of entities; the availability and quality of data and the need for preparers to build their reporting capability.
- We consider that whilst some entities are reasonably mature and prepared for the introduction of these new disclosure standards, other entities will require considerable time to scale up their expertise and capacity. We recommend consideration be given to a phased in approach to adoption across entity types, sectors and/or sizes.
- Further, for certain disclosures, transitional arrangements may be required due to the current availability and reliability of data and methodologies.
- For example, collectively, we are likely to encourage prompt and comprehensive adoption of [Draft] IFRS S2 by entities in our region. However, we suggest finite and structured transition periods may need to be considered for the disclosure of scenario analyses, scope 3 emissions and certain industry specific metrics.
- The requirements for sustainability-related disclosures, and notably for climate-related disclosures, under [Draft] IFRS S2 involve great complexity. As such, a minimum of two to three years phased transition period should be considered.
- The implementation of the TCFD recommendations by entities has typically been carried out using a phased approach over two to three years.
- Likewise, we note that climate is one of the most progressed and measurable thematic sustainability areas. Disclosures of other sustainability areas, i.e., under [Draft] IFRS S1, may require more specific transitional arrangements as data and methodologies are typically less well developed.
- Therefore, it is reasonable to expect that entities would take a similar approach to implementing the IFRS Sustainability Disclosure Standards.
- We also note that the effective date should take into account that jurisdictions will be in different states of readiness, both in terms of the adoption mechanism (e.g., legislative and regulatory architecture) and the availability of skilled practitioners.
- To this end, we suggest that the ISSB considers how a phased in approach could be reflected in the effective date.

b) **Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?**

- Yes, we agree with the relief from disclosing comparatives in the first year of application to allow entities reasonable time to adopt the requirements in the Standard, which could be costly and time consuming to comply with in the first year of reporting.
- However, we consider this would be best included in a specific standard covering transitional arrangements for first time adoption and not within the general disclosure standard.

Question 14 – Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

- We fully support a global approach to the development of sustainability disclosure standards and are supportive of the ISSB as the global body to issue these standards.
- The overarching goal should be a globally consistent, comparable, reliable corporate reporting system, from which assurance can be obtained on reported information, to provide all

stakeholders with a clear and accurate picture of an organisation's ability to create sustainable value over time.
- We consider it critical that the ISSB and other jurisdictions developing sustainability standards take a coordinated approach to avoid regulatory and standard setting fragmentation by aligning key concepts, terminologies, and metrics on which disclosure requirements are built.
- Collaboration and coordination are important between sustainability disclosure initiatives and financial accounting standard-setting. In our opinion the ISSB is best placed to achieve this with its connection the IASB.
- The burden of potentially differing reporting requirements is a key concern among our stakeholders.
- Many entities in this region are also affected by the development of mandatory climate-related financial reporting within New Zealand, the United States of America and Europe. There is significant confusion from stakeholders about how the ISSB's Exposure Drafts would interact with these developments.
- We consider it crucial for entities to effectively and simply collect data and report in a way which meets both local and global requirements whilst avoiding duplication. Consistency and comparability are critical to the success of the IFRS Sustainability Disclosure Standards and the achievement of a comprehensive global baseline.
- The consolidation and harmonisation of existing frameworks is a key objective of the ISSB. Therefore, we consider it critical that the comprehensive global baseline provides entities with clarity about how the ISSB standards interact and overlap with broader sustainability disclosure frameworks, such as the GRI.
- For completeness, whilst we support disclosure of industry specific metrics, we are concerned with the quantum of industry metrics included, for example, within [Draft] IFRS S2.
- We consider this could be prohibitive to widespread global adoption, particularly as further IFRS Sustainability Disclosure Standards are developed.
- While we support the inclusion of industry-specific metrics, we recommend that industry specific metrics be reviewed and field tested for their usefulness to users of general purpose financial reports before their inclusion within the Standard.

Question 15 – Digital reporting
Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

- We strongly endorse the need for the reporting standards to facilitate the development of a consistent Taxonomy and digital reporting. The potential volume and complexity of sustainability reporting means a consistent Taxonomy and the ability for users to put digital technology to use in analysing and digesting the information is essential.
- As detailed in our response to question 7, we have concerns regarding the open-ended nature of the requirements in paragraph 51. In addition to the other aspects raised, this is also likely to create difficulty in facilitating the development of a consistent Taxonomy and digital reporting.

Question 16 – Costs, benefits and likely effects
a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

- We have not carried out a cost benefit analysis on the proposals set out in either of the Exposure Drafts. However, we expect significant development, implementation and maintenance costs, as they relate to supporting regulatory frameworks, to be borne by jurisdictions.

- Consultation with our various stakeholders has indicated that costs will be incurred with respect to implementing or strengthening reporting systems and internal controls for the collection and production of relevant data.
- The proposed disclosure requirements are extensive and represent a step-change, especially for smaller entities who have not prepared similar disclosures in the past and will need to implement new systems.
- Conversely, the cost for larger entities is likely to be higher given their complex value and supply chains and the need to collect data from third-party sources.
- This might include the consolidation of information at a group level, which would require the implementation of new reporting structures that are consistent across the group.
- When completing a cost-benefit analysis it is essential to assess the proportionality of anticipated costs.
- Further, given the high-level of uncertainty for some sustainability-related matters, it is likely that ongoing costs will be incurred where methods of calculation are improved and estimates are refined.
- Entities may also have the additional expense associated with having sustainability-related disclosures assured.
- We recommend that the ISSB field tests the proposals to better understand and quantify the costs, benefits and effects of applying them and explore a phased in approach to the implementation of the proposed requirements.

Question 17 – Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

- Overall, in our view, the current proposed [DRAFT] IFRS S1 does not achieve the clarity, appropriate scope or objectives required to foster and improve sustainability reporting toward the agreed purpose of a globally consistent, comparable, reliable corporate reporting system.
- We believe substantial improvements are needed, addressing issues as detailed in our responses to the specific questions, to create a conceptual basis for sustainability reporting that is appropriate for adoption. Consequently, we recommend that [DRAFT] IFRS S1 be re-exposed for comment prior to finalisation.

IFRS S2 Climate-related Disclosures (referred to as [DRAFT] IFRS S2)

Question 1—Objective of the Exposure Draft

a) **Do you agree with the objective that has been established for the Exposure Draft? Why or why not?**
b) **Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?**
c) **Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?**

- Yes, we agree with the objective that has been established for the [DRAFT] IFRS S2, particularly given its alignment with widely adopted TCFD recommendations.
- However, a significant level of judgment from preparers is needed to determine the factors and information that influence enterprise value.
- If key terms are not well-defined and left open to interpretation, preparers and users may apply different judgments to the meaning of the disclosures, impacting comparability and usability.

Question 2 – Governance
Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

- We broadly agree with proposed disclosure requirements, although we note that these requirements are more onerous than those contained in the TCFD recommendations.
- We note that ensuring boards and senior management teams have the appropriate skills and competencies in relation to climate and broader sustainability-related risks and opportunities will be a key challenge. However, we welcome this addition.
- Recognising the importance of integrated reporting and internal risk management, we suggest that disclosures should also cover skills and competencies at a governance level, beyond just the body with oversight of climate-related risks and opportunities.
- We also recommend that the ISSB considers how [DRAFT] IFRS S2 can more effectively interact with [DRAFT] IFRS S1, minimising the need to duplicate general disclosure requirements for each thematic area.

Question 3 – Identification of climate-related risks and opportunities

a) **Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?**

- We agree with the requirement to identify and disclose a description of significant climate-related risks and opportunities.
- However, we recommend that the ISSB considers how [DRAFT] IFRS S2 can more effectively interact with [DRAFT] IFRS S1, minimising the need to duplicate general disclosure requirements for each thematic area.
- As with our comments in relation to [DRAFT] IFRS S1, we note that the term ‘significant’ is less well understood. As such, we recommend consideration be given to providing greater clarity about the distinction between ‘significant’ and ‘material.’
- Further, we consider that the ISSB should provide guidance on how entities should establish time horizons. Those charged with governance are expected to determine the appropriate time horizon and provide justification for why they consider that period to be appropriate. Also, it should align with an entity’s business cycle. However, we recognise the challenges in defining short-, medium- and long-term time horizons that are suitable for every entity, and as such, believe further guidance is necessary.

b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

- We do not agree with the proposed requirement, in terms of the disclosure topics defined within the industry requirements.
- We note that the metrics contained in Appendix B are inherently based on the United States environment and therefore might not be suitable in the Australian or New Zealand context, particularly given that the industry classifications, units of measurement and choice of metrics differ between the two jurisdictions.
- Further, due to the sheer quantum of the proposed metrics within Appendix B and the available time and resources, we have not had the capacity to consider the industry metrics in detail with members and stakeholders.
- We are concerned abut the implications of this for widespread global adoption, particularly as further IFRS Sustainability Disclosure Standards are developed.
- For completeness, we note comparability within sectors is helpful, especially when assessing performance. However, by referring to a pre-selected list of topics there is a risk that this requirement, if mandated, may prevent entities from applying their own processes to identify and assess risks and opportunities.
- We consider that these requirements should not be mandatory but instead act as guidance for preparers. Although they may lead to improved relevance and comparability of disclosures in some cases, this should be left to the judgement of the preparer of the report.

Question 4 – Concentrations of climate-related risks and opportunities in an entity's value chain

a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

- Yes, we broadly agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain.
- However, we note there appears to be an inconsistency within paragraph 12 of [DRAFT] IFRS S2 where both paragraphs 12(a) and (b) focus on the impact of the value chain, but the focus of the paragraph itself is on the business model.
- Entities should be required to consider the effects of climate-related risks and opportunities on the business model separately from the effects on the value chain.
- We recommend that this paragraph be split into two to ensure that the requirements on business model and value chain are distinct.
- For completeness, we note that these disclosure requirements are also duplicated in paragraph 20 of [DRAFT] IFRS S1 and suggest that this repetition be removed.
- Further, it would be useful if guidance, in the form of examples, be provided to assist preparers as value chain disclosures are a new concept and preparers would be faced with challenges in preparing the disclosures.

b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

- Yes, we agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative.

Question 5 – Transition plans and carbon offsets

a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

- In principle, we agree with the proposed disclosure of transition plans.
- However, we recognise that not all entities are uniform in their level of maturity. Further, as organisations progress on their respective journeys, their transition plans may become business sensitive as these plans could potentially provide competitive advantage.
- Specifically, we consider paragraph 13 to be complicated and difficult to understand. We recommend this paragraph be revised for clarity.
- We also note that the terms 'strategy' and 'business model' appear to be used interchangeably. While an entity may be required to change its strategy in relation to climate, this may not necessarily impact the business model. As such, we consider that the distinction between these two terms should be clearer.

c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

- We recognise that carbon offsets can play an important role in transition plans, but consider that related disclosures should instead be included as part of the metrics and targets requirements. We consider that transition plans should cover elements like adaptation.
- Further, we consider that carbon offsetting should only be utilised to the extent that no other viable option is available to the entity or where no further potential diversification or change in operations is possible. As such, we also consider that evidence should be required on how an entity has sought to change its business operations or the extent to which other mitigation mechanisms have been deployed.

Question 6 – Current and anticipated effects

a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

- We disagree with the requirements related to current and anticipated effects.
- We consider it to be difficult for entities to isolate and quantify the effects of climate on their financial position, performance and cash flows.
- Additionally, we note that the current effects on the financial position, performance and cash flows should already be disclosed within the entity's financial statements. In the interests of connectivity and conciseness, we do not believe that these disclosures should be duplicated.

- Whilst we agree with encouraging the disclosure of quantitative information, we would prefer the Standard to provide greater flexibility, clearer definitions as to what is considered ‘climate-related’ in the context of the Standard and enhanced guidance.
- Similarly, guidance should be provided as to the use of assumptions and how entities should navigate situations where assumptions relied on differ from those relied on for general financial reporting purposes.
- Further, we consider there may be a challenge regarding the requirements in paragraph 14 for disclosure on investment and funding plans. We appreciate that the intent is to seek clarity on how entities would both deploy capital on their transition ambition and seek to fund this ambition.
- However, information on the sources of funding is highly sensitive, and as plans on investment become more sophisticated, they too may also become business sensitive. The depth of disclosure required should be balanced against the practicalities of business practice.

c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity’s financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

- We disagree with the proposed requirements.
- We do not consider that there is sufficient clarity between the requirement to disclose ‘over the short, medium and long-term’ and the requirements in 14 c) and d) which refer to ‘change over time’.
- We also consider it to be difficult for entities to isolate and quantify the effects of climate on their financial position and financial performance.
- In the domestic implementation, the local legal context will need to be considered. We suggest clear guidance from domestic regulators, and if necessary regulatory support, may be needed to ensure that entities can produce the particular forward-looking statements required.
- For the ISSB, it will be important that liability risks do not undermine comprehensive and good faith implementation of climate-related disclosures and the appropriate accountability for disclosure.
- We suggest that any mandatory reporting obligations will need to balance the urgency of commencing the disclosures with the serious potential for vexatious litigation against well intentioned and well considered disclosures by preparers.

Question 7 – Climate resilience

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity’s strategy? Why or why not? If not, what do you suggest instead and why?

- We agree with the items listed in paragraph 15(a).
- However, we do have concerns about the level of specificity required by paragraphs 15(a)(iii)(1) and (2). Both of these considerations could reside at one of two extremes, either indicating availability of resources or an unwanted minutia of detail being provided.
- We consider that entities are unlikely to disclose information that would expose their own critical approaches to generating or maintaining competitive advantage.

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

i. Do you agree with this proposal? Why or why not?

ii. Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

iii. Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

- We agree with the need to allow for options other than scenario analysis. However, we are of the view that this should be considered as a transitional arrangement, rather than a permanent inclusion within the Standard.
- We also agree with the resourcing and capability constraints as highlighted in BC94.
- With regards to BC94 and BC95, we also note the intent of the ISSB for scenario analysis to become the preferred methodology over time.

c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

- We agree with the proposed disclosures and consider the requirements for the use of scenario analysis to be suitably comprehensive.
- However, we note that paragraph 15(b)(i)(3) views transition or physical risks in a mutually exclusive way. We consider that scenarios may increasingly encompass both transition and physical risks and recommend that the paragraph be amended to enable a cohesive view of the overall impact.

d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

- As noted in our response to question 7b, we agree with permitting alternative methods as a transitional arrangement only. On this basis, we agree with the requirements for an alternative solution being used. This provides relief whilst still requiring an equivalent level of rigour.

e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

- We have not received specific feedback regarding the implementation costs. However as noted in paragraph BC94, the implementation costs will not be borne in a uniform way across all entities.
- We also note the approach taken in New Zealand with regards to the structuring of its own climate-related disclosures framework, and the importance being placed on alignment of sectoral scenarios against which entities are able to test the resilience of their own business models.
- It is our opinion that industry or sectoral cooperation will be key to unlocking the maximum amount of benefit from this process.
- We recommend that the ISSB field tests the proposals to better understand and quantify the costs, benefits and effects of applying them.

Question 8 – Risk management
Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

- We agree with the intent of the [DRAFT] IFRS S2 to broaden the definition of the TCFD recommendations to encompass climate-related opportunities. We are also aware of the potential overlap with [DRAFT] IFRS S1 (as per BC104).
- We recommend that paragraphs 16 and 17 be amended to remove duplication with [DRAFT] IFRS S1. Paragraph 18 would then no longer be required.

- However, we note that overlaps would continue to exist between this requirement and climate resilience, in as much as the inputs required for the scenario analysis would presumably also impact the inputs for an entity's risk management approach.

Question 9 - Cross-industry metric categories and greenhouse gas emissions

a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

- Yes, we broadly agree with the proposals and recognise that most of the cross-industry metric categories may be useful in the assessment of enterprise value.
- With respect to transition and physical risk disclosures, we note that these are focused on quantitative information. In order to provide comparable disclosures, there will need to be clear definitions of 'business activities' and 'vulnerable' for the purposes of determining the impact.
- With respect to the requirement to disclose the internal carbon price, the disclosures assume an entity has an internal carbon price. We recommend that entities should be able to disclose if they do not currently use an internal carbon price.
- We note that, within Australia, there already exists detailed remuneration disclosure requirements. Further, consideration would need to be given to how the requirement to link remuneration to climate matters relates to enterprise value and whether such a requirement would be extended for additional sustainability thematic areas.

b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

- No specific comments.

c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

- Whilst we agree that the IFRS Sustainability Disclosure Standards should reference the use of the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions, we do not consider that this should be a requirement.
- We consider that entities should be able to use jurisdictional GHG protocols or standards if relevant. For example, Australia's National Greenhouse and Energy Reporting Scheme is more comprehensive and detailed than the GHG Protocol.
- We consider that entities should be required to disclose the methodologies used to prepare data, regardless of whether or not they choose to use the GHG Protocol.

d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (N_2O))?

- We broadly agree with the aggregation of GHGs into a single CO_2 equivalent and for the equivalent to be utilised as a starting point for assessing the resulting impact, particularly as this is the global approach.
- However, we would suggest that entities produce a statement that sets out the composition of its Scope 1 GHGs with the factor applied to each. Given the uneven lifecycle of each GHG, this would better explain the longer-term impact.

e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

- Yes, we agree with requirement (i). However. we consider requirement (ii) would represent a duplication of Scope 3 emissions disclosures.

f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

- We support a common purpose for improved comparable and consistent disclosures and support the disclosure of Scope 3 emissions.
- We acknowledge that while there are existing data, methods and tools for calculating Scope 3 emissions, there will be challenges in obtaining complete data in the early reporting periods for some reporting entities.
- Transitional arrangements for some entities at the national level and clear disclosure of assumptions, limitations and uncertainties in the data, will be important in early reporting periods, to enable users to understand the information.

Question 10 – Targets

a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

- We agree with the disclosure requirements for climate-related targets.
- The requirements assume an entity has a target and therefore, we consider it appropriate to enable entities without a target to be required to disclose that fact – i.e., that they do not have a target – instead.
- We also note the dynamic nature between those targets set for climate-related considerations with broader sustainability-related considerations (such as water and biodiversity). This dynamic nature should be critically considered when further IFRS Sustainability Disclosure Standards are developed, including their interaction with [DRAFT] IFRS S2.
- For clarity, we recommend that entities provide details of whether different targets apply to the consolidated group, entities within the group, its upstream or downstream value chain, or specific geographic regions.
- We consider that the 'latest international agreement' should be an explicitly defined term with the standard through the use of italics. We also consider it should refer directly to the latest international agreement within the definition.

Question 11 – Industry-based requirements

a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

- We disagree with the approach taken to revise the SASB Standards to improve international applicability.
- As noted in our response to question 3(b), the metrics contained in Appendix B are inherently based on the United States environment and therefore might not be suitable in the Australian or New Zealand context, particularly given that the industry classifications, units of measurement and choice of metrics differ between these jurisdictions.
- We consider that there are challenges relating to the use of the SASB Standards in an international context, and in particular, we are aware of the current low adoption rate in the Australian and New Zealand contexts.
- We also note the implications of an inherently rules-based approach for those preparers that have traditionally utilised a principles-based approach in their reporting.
- Further, this rules-based approach of Appendix B is at conflict with the largely principles-based approach within [DRAFT] IFRS S2.

b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

- We agree with the need for amendments to improve international applicability. However, we do not consider the proposed amendments to be sufficient.

c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

- Given the current low adoption rate in the Australian and New Zealand contexts we have no comments here.

d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

- As noted in our response to Question 9 f), we consider the cross-industry requirement to disclosure Scope 3 emissions to be sufficient.
- We do not agree with this requirement being duplicated here.
- However, as indicated, there will need to be transitional arrangements to allow for the availability and quality of data to be improved.

e) Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don’t agree, what methodology would you suggest and why?
i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management

provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

- Please see our response to question 11(j).

j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

- We strongly disagree with the inclusion of industry-based requirements within the Standard.
- In particular, we note that due to the sheer quantum of the proposed metrics within Appendix B, we have not had the capacity to consider them in detail with members and stakeholders. Further, we consider this quantum to be beyond what would be expected of a comprehensive global baseline.
- As noted above, we also have concerns with their current international applicability.
- We consider these issues to be prohibitive to widespread global adoption, particularly as further IFRS Sustainability Disclosure Standards are developed.
- While we support the inclusion of industry-specific metrics, we recommend industry specific metrics should be reviewed and field tested for their usefulness to users of general purpose financial reports before their inclusion within the Standard.

k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

- Please see our response to question 11(j).

Question 12 – Costs, benefits and likely effects

a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

- We have not carried out a cost benefit analysis on the proposals set out in either of the Exposure Drafts. However, we would expect significant development, implementation and maintenance costs, as they relate to supporting regulatory frameworks, to be borne by jurisdictions.
- Consultation with our various stakeholders has indicated that costs will be incurred with respect to implementing or strengthening reporting systems and internal controls for the collection and production of relevant data.
- The proposed disclosure requirements are extensive and represent a step-change, especially for smaller entities who have not prepared similar disclosures in the past and therefore will need to implement new systems.
- Conversely, the cost for larger entities is likely to be higher given their complex value and supply chains and the need to collect data from third-party sources.
- This might include the consolidation of information at group level, which would require the implementation of new reporting structures that are consistent across the group.

- When completing a cost-benefit analysis it is essential to assess the proportionality of anticipated costs.
- Further, given the high-level of uncertainty for some sustainability-related matters, it is likely that ongoing costs will be incurred where methods of calculation are improved and estimates are refined.
- Entities may also have the additional expense associated with having their sustainability-related financial disclosures assured.
- We recommend that the ISSB field tests the proposals to better understand and quantify the costs, benefits and effects of applying them and explore a phased approach to the implementation of the proposed requirements.

Question 13 – Verifiability and enforceability
Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

- We note that there are potential challenges with assurance in relation to scenario models and scope 3 emissions, given the quantum of inputs, level of estimation and variability in assumptions.
- Moreover, we note that these potential challenges could extend to defining and scoping the boundary of a reporting entity and how the scenarios used would interact with any related information reported in the financial statements.
- Clear disclosure of assumptions, limitations and uncertainties is particularly important to enable assurance to be obtained, and for users to understand the information.
- Assurance on this type of broader climate-related information is a developing field and we encourage continued collaboration with the IAASB as it undertakes a project to develop a standard for assurance of sustainability information.

Question 14 – Effective date

a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information? Why?

- The same effective date for both [DRAFT] IFRS S1 and S2 could be achievable.
- We also consider [DRAFT] IFRS S2 could be applied earlier than [DRAFT] IFRS S1 given the current urgency in relation to climate-related reporting. However, this needs to be considered in conjunction with our earlier comments around revisions to [DRAFT] IFRS S1.

b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.

- Refer to our response to question 13 of [DRAFT] IFRS S1.

c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

- Yes, we consider entities may be able to apply some disclosure requirements earlier than others.
- We suggest the need for transitional arrangements for metrics and targets given the challenges around data availability.

Question 15 – Digital reporting
Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

- We strongly endorse the need for the reporting standards to facilitate the development a consistent Taxonomy and digital reporting. The potential volume and complexity of sustainability reporting means a consistent Taxonomy and the ability for users to put digital technology to use in analysing and digesting the information is essential.

Question 16 – Global baseline
Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

- We fully support a global approach to the development of sustainability disclosure standards and are supportive of the ISSB as the global body to issue these standards.
- The overarching goal should be a globally consistent, comparable, reliable corporate reporting system, from which assurance can be obtained on reported information, to provide all stakeholders with a clear and accurate picture of an organisation's ability to create sustainable value over time.
- We consider it critical that the ISSB and other jurisdictions developing sustainability standards take a coordinated approach to avoid regulatory and standard-setting fragmentation by aligning key concepts, terminologies, and metrics on which disclosure requirements are built.
- Collaboration and coordination are important between sustainability disclosure initiatives and financial accounting standard-setting and in our opinion the ISSB to be best placed to achieve these aims, given its connection the IASB.
- Many entities in this region are also affected by the development of mandatory climate-related reporting within New Zealand, the United States of America and Europe. We consider it crucial for entities to effectively and simply collect data and report in a way which meets both local and global requirements whilst avoiding duplication.
- The consolidation and harmonisation of existing frameworks is a key objective of the ISSB. Therefore, we consider it critical that the comprehensive global baseline provides entities with clarity about how the IFRS Sustainability Disclosure Standards interact and overlap with broader sustainability disclosure frameworks, such as the GRI.
- For completeness, whilst we support disclosure of industry specific metrics, we are concerned with the quantum of industry metrics included, for example, within [Draft] IFRS S2.
- We consider this could be prohibitive to widespread global adoption, particularly as further IFRS Sustainability Disclosure Standards are developed.
- While we support the inclusion of industry-specific metrics, we recommend industry specific metrics should be reviewed and field tested for their usefulness to users of the general purpose financial reports before their inclusion within the Standard.

Question 17 – Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

- We have no further comments.

Submission to IFRS on the Exposure Draft General Requirements for Disclosure of Sustainability-related Financial Information Survey

Completed on 28 July 2022 and submitted to IFRS Foundation via email on customersservices@ifrs.org

Introduction

CarbonPump Pty Ltd is a climate action methodology developer based in Australia. Founded in 2020, we have established several methodologies based on the issuance of short-term climate action units called STUs (Short Term Units).

STUs have a base unit of one tonne year CO2e (1ty CO_2e) representing one thousand kgs of carbon dioxide equivalent verified for a period of one year and issued retrospective to the evidence-based measurement.

CarbonPump launched the first of our methodologies, being Carbon Farming, in May 2022 with agricultural land holders. The first of our STUs will be listed on the Singapore carbon Exchange (ACX) late in 2022.

Our contribution to the 'Exposure draft' is based on our experience in soil & mineral related carbon schemes.

Sustainability Disclosure

CarbonPump welcomes the introduction of IFRS and the ISSB to climate and sustainability reporting.

Undisclosed Financial Risks

In our opinion, significant undisclosed uncertainty around the quantity and credibility of sustainability standards based credits like ACCU's exists which undermines their value placing and expose well intentioned investors at financial risk. Some of the issues are listed below:.

1. The Long Term 'permanence',10 to 25 years is typical, of sustainability credits forces speculative forecasting on variables like seasonal changes which renders financial forecasts highly speculative. Without a regular audited (Annually) claims by holders will invariably be unsubstantiated, leading to scepticism, project failure and discredit of the industry.

2. Given community awareness of sustainability and its ability to influence purchase decisions across all industries the financial and brand implications of false disclosure

or non-disclosure are commercially significant and therefore will impact company value.

3. In many cases the lack of an independent audit and the reliance on modelled estimates is the root cause of failure and/or non-disclosure in sustainability projects.

4. The 'permanence' period of many sustainability credits is related to the validity period of the credit e.g. 25years in the case of ACCUs. . However, there is often a mismatch between the issuance date of the 25 year ACCU and the shorter active period of the underlying project. If the ACCU is issued in year 15 of the project then it will claim validity for 15 years in which time, no maintenance, monitoring or audit has ever been conducted to verify validity.

5. Verification – many schemes use the word verified referring to a baseline and measurement sequence as proof of the material change caused by anthropogenic activity. This is in fact validation, not verification. The measurement quantifies, validates that the initial credit value it cannot however verify 25 years of static value and conditions as these don't exist in nature. Insurance schemes to address the invalidation risk over long permanence period, use high thresholds to mitigate the risks of claims. . If the fundamental premise is that the credits are too hard to measure, there is no effective insurance possible or it will be limited to a very small number of projects that can validate the credits.

6. Many standards set aside a portion of the actual measurement to mitigate credit loss over the permanence period as a type of insurance scheme. For a project with a long permanence period each year of set-aside credits leads to a point where the project will fail for not having any valid credits left.

CarbonPump therefore is encouraging IFRS to

1. Adopt mandatory annual independent audit for sustainability related financial disclosure

2. Land based project to have mandatory disclosure on location data (polygon definition, not point)

3. Mandatory disclosure for measurement date and verified period of sustainability outcome.

    a. If the verification period is greater than one year, then mandatory disclosure for measurement for each one year interval for the verified period.

    b. If the verification period includes future speculation, the sustainability outcome must be categorised as non-verified, and invalid for the purposes of substantiating sustainability-related financial statements.

4. Introduction of disclosure for validity period in the basic sustainability unit (ie. 1 tonne **year** CO_2e (1ty CO_2e)) rather than the ambiguous association of credits to permanence periods of 25 or 100 years (notated as 1 tonne CO_2e (1t CO_2e)) and associated minting dates and retirement dates.

   a. Minting dates must be no earlier than the related measurement date and mandatorily disclosed.

   b. Retirement dates must be no later than the end date of the underlying project and mandatorily disclosed

Summary of Survey Response:

Question 1: Overall Approach

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity’s general purpose financial reporting when they assess the entity’s enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?
DISAGREE

Speculative long-term risks associated with Carbon Farming methodologies do not verify the associated units at issuance. The claim of the 'credit' is storage of GHG for a period of 25 or 100 years. The issuance of the 'credit' is normally at the beginning of the claimed period and not at the end.

Sustainability-related financial disclosure would rely on the endurance of such ghg storage on an annual basis, but the reality is that the GHG Storage in most Carbon Farming methodologies is not

re-validated annually, and in our experience is more often proving untrue (invalid).

Speculative forward-looking claims of common 'carbon credits' for periods of 25 or 100 years carry risks not otherwise tolerated in IFRS standards.

CarbonPump has introduced IFRS compliant Climate action tokens which remove this risk, and are retrospectively issued once the full storage period had been confirmed and verified.

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

DISAGREE

I dont think there is enough scrutiny on the verification of 'Carbon credits' where they are part of Sustainability-related financial disclosure.

In our opinion an 'credit' should be validated within the financial reporting period. Once it is validated, it can be encapsulated as an asset if it is connected to a time period. eg. 1 tonne carbon stored for 25 years. (this means the full 25 years have occured (retrospective) and it is a fact, not a guess).

(c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?

AGREE

No comment

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

DISAGEE

In the case of Carbon Farming projects, Auditors would need to validate

a. duplication risk of the underlying project - confirm that each carbon credit is issued to one tokenisation scheme only.

This does not mean one scheme to one project. This means the carbon credit claimed is not the same carbon credit claimed to multiple schemes.

b. validity of the underlying project measurement at the time of the audit

c. ability to trace the sustainability-related disclosure to specific projects, and independent verifiers.

Question 2 Objective

The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?
DISAGREE

In relation to CarbonFarming:

Reliance upon scientific suppositions about the permanence of soil carbon in soil is not sufficient to support the Sustainability-related financial disclosures.

Evidence in the last decade is more often proving the variable nature of soil carbon in soil is in contradiction to scientific suppositions.

The alternative is to install rigorous audit over sustainability claims which we believe is the more robust model, and assimilating existing financial audit standards.

The financial risks that are largely undisclosed today, can be eliminated.

(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

AGREE

Question 3 SCOPE

Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

AGREE

No comment

Question 4 CORE CONTENT

The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well established work of the TCFD.

Governance

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets

The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

AGREE

Requirement for Financial style Product Disclosure attached to each "Carbon Credit" along with audit capability would provide support for users of general purpose financial reporting.

For example compliance to IFRS & ISO14064 would be appropriate accreditation for CarbonFarming projects.

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

AGREE

No comment

Question 5 REPORTING ENTITY

The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

AGREE

No comment

b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

AGREE

Toxicity testing on waste streams should absolutely be reported as part of the Sustainability-related financial disclosure.

Other activity such as inputs, processing and outputs (products & services) should also be considered in this context.

An example is the use of Glyphosate in agriculture, and the likely future remediation cost of contaminated land - would be a sustainability-related financial disclosure linked to the purchase of Glyphosate as an input to the company operations.

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

AGREE

No comment

Question 6 CONNECTED INFORMATION

The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) between the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.
(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

AGREE
No comment

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

AGREE
It will better inform users on the financial risks of an entity's operations. I suggest that this level of reporting would provide clarity in such historic cases as the Exxon Valdez and other events of financial significance.

Question 7 FAIR REPRESENTATION

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?
AGREE

Reference to external standards, would be required to verifiy what constitutes compliance or non compliance to accreditation, as a financial risk. We see IFRS and ISO standards as being appropriate financial and operational standards. (for clarity the dominance of private standards is not appropriate as is the case today)

In our case we have identified a broad industry wide ignorance of speculative forward looking financial risks related to substantiating claims of soil carbon in soil.

We conducted global research to discover that broadly all Carbon Farming methodologies have copied those that existed previously and perpetuated the ignorance of risk.

We set about developing an entirely new standard which is now deployed. I submit that this should be able to be accommodated in the framework(s).

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft

DISAGREE

I think more work is needed to define risk disclosure in the context of accreditations & Standards.

Question 8 MATERIALITY

The Exposure Draft defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?
AGREE
Materiality in legacy Carbon Farming methodologies may well be the reason for false or non-disclosure in "users' information needs".
We suggest that legacy Carbon Farming schemes (Gold standard, Verra etc) cloud the verification of a project by stating the project is verified by a process of baseline and measurement to identify additionality. The additionality is then speculated to remain

constant for a period of "permanence" (25`100 Years) during which "monitoring" is occurring to re-validate in as few as 3 events in 25 years. This is our opinion is high risk, and introduces very significant financial risks for all stakeholders.

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

DISAGREE

The standard should specifically detail that the issuance date to the last audit date is the only verified period of the underlying project, and speculation for future performance should not be relied upon for sustainability claims.

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

AGREE

Examples for soil carbon should be more defined.

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

DISAGREE

Sustainability is a global commodity, not jurisdiction based. If jurisdiction law prohibits or restricts disclosure, then the global / international standard must prevail to provide standards integrity.

Further, if jurisdiction law impacts sustainability disclosure then the jurisdiction should determine if sustainability is important enough to change legislation. Surely this is within the imperatives of global climate action?.

Question 9 FREQUENCY OF REPORTING

The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.
Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

AGREE
Yes, it is common practice NOT to disclose within a reasonable period. Legacy CarbonFarming methodologies do not validate sustainability claims annually or even within reasonable periods making way for significant financial impact when measurement and disclosure is made.
In our opinion the reporting period should be annual, consistent with existign financial reporting standards and auditable in similar existing audit infrastructure.
CarbonPump has in fact developed one year retrospective credits verified and encapsulated at the time of issuance (as against being related to a 25 or 100 year speculation). In our case this provides that we can measure, verify and issue our units (credits) and substantiate one year carbon capture units for the purposes of sustainability-related financial disclosure.

Question 10 LOCATION OF INFORMATION

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

AGREE
No comment

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

YES
Carbon credits currently carry duplication risk where the same action may be claimed under multiple accreditation schemes, inside and outside of the jurisdiction.
This at the moment is dealt with in the form of proponent declarations however it was identified at COP26 as a dilution of confidence in carbon credits moving forward.
A number of initiatives are currently under way to create jurisdiction based registries linking to an international registry of the UN (or other) to collect authenticity data of underlying projects and capture duplication where it may occur. This requires universal location declarations, and disclosures and for CarbonPump is included in our Product Disclosure Statements.

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is crossreferenced? Why or why not?
AGREE
No comment

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?
AGREE
No comment

Question 11 COMPARATIVE INFORMATION

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

OTHER

We have no comment on this other than to say that speculation cannot be the basis for substantiating sustainability-related financial disclosure. Managing the risks of forecast should be similar to that in financial reporting

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

AGREE

No comment

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

AGREE

No comment

Question 12 STATEMENT OF COMPLIANCE

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

DISAGREE

This would permit non-disclosure as a component of compliance creating unfair parity of those entities in full compliance and those partially or not in compliance. What is the purpose of the standards in such a case?

Question 13 Effective Date

The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

ANSWER: one year

(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

DISAGREE

The entity is compliant to the standard in the financial reporting year or it is not.

Question 14 GLOBAL BASELINE

IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?
NO

No comment

Question 15 DIGITAL REPORTING

The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.
Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?
COMMENT

Location data of land based projects should be included in the mandatory declarations. This data (as digital data) could be used by the UN to address duplication risk.

Question 16 COSTS BENEFITS & LIKELY EFFECTS

The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.
(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
COMMENT

No.

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

COMMENT

No.

Question 17 OTHER COMMENTS

Do you have any other comments on the proposals set out in the Exposure Draft?

COMMENT

1. Do you intend to issue an IFRS Sustainability compliance official 'badge'?

2. Who might be authorised to issue the badge

3. If entities can claim compliance on the basis of self assessment, how will this be policed?

4. What requirements are there in place to qualify an auditor or accreditor of IFRS sustainability related financial compliance.

CarbonPump Pty Ltd is happy to be contacted regarding any aspect of our submission. We are a new product in the Sustainability space and we are well aligned with the objectives of IFRS Foundation for the Sustainability-related financial disclosures.

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20th May 2022

Comment letter on the IFRS S1 Exposure Draft (ED)

Thank you for the opportunity to comment on the IFRS S1 Exposure Draft (ED).

I provide my comments as a leading accounting academic and Chartered Accountant with substantial research, practice and policy experience in sustainability and other forms of non-financial reporting. This experience is detailed here.

I provide an overall critique, key suggestions for addressing the problematic issues and responses to the most pertinent consultation questions.

Overall critique

Overall, the conceptual framing is muddled and flawed. This is perhaps inevitable given the Exposure Draft is the outcome of a recent amalgamation of bodies with reporting frameworks that have either an indirect or unclear relationship to sustainable development (sustainability) or financial statements. But it also stems from a confused and changing picture of what the IFRS Foundation is seeking to achieve beyond that amalgamation.

Problems with the proposed conceptual framing were highlighted by academic responses to the Trustees' initial *Consultation Paper on Sustainability Reporting* most of which objected (strongly) to the proposals, providing evidence to support those objections (see Adams and Mueller, 2022 for an analysis of academic responses). Issues have also subsequently been discussed in recently published work (see, for example, Abelo, 2022; Adams and Abhaywansa, 2022; Giñer and Luque Vílchez, 2022).

The conceptual framing in the ED is: a) inconsistent with the stated objective of the proposed standard; b) a poor fit with the examples of information to be disclosed; and, of most concern, c) requires a high level of judgement on matters that mean different things to different investors. These issues will not be resolved by using the SASB Standards as encouraged by the IFRS Foundation.

Key definitions are imprecise and problematic to apply. They appear to be an attempt to align the IFRS desire to serve capital markets with an intention to include selective impact indicators in GRI Standards. At the same time the IFRS Foundation is *not* encouraging the use of GRI Standards but *is* encouraging the use of SASB and CDSB Standards, which are not concerned with impact of the organisation.

Key suggestions

There is much to be done to develop reporting requirements concerned with facilitating decisions on enterprise value for the purpose of allocating financial resources. I (again) recommend that the IFRS Foundation urges the mandatory use of GRI Standards as the starting point or *baseline* for sustainability reporting. This will allow the ISSB to focus on identifying matters that are directly related to the assessment of enterprise value and provide a coherent baseline for that purpose.

An organisation cannot identify all material sustainability-related financial matters unless it has first identified its material impacts through use of the GRI Standards. GRI is best placed to develop Standards concerning the impact of organisations on economies, society and the environment. GRI Standards are clearly drafted (including relative to these Exposure Drafts) as one might expect having been developed over more than two decades. GRI has a robust governance structure which is fit for this purpose[1].

Investors can and do make assessments regarding how these corporate impacts on economies, society and the environment influence enterprise value. They should not have to rely on solely on reporters to make this determination. They need comprehensive impact information.

I urge the IFRS Foundation to move on from the amalgamation and associated frameworks and look to what is needed from this single body in the future regarding financially relevant information.

I believe the conceptual framework and the relationship with GRI and GRI Standards needs to be addressed and another Exposure Draft issued by a full Board on base-line *financial disclosures* resulting from sustainable development mega trends and corporate impacts on economies, society and the environment (reported using GRI Standards, which companies use to report to a wide range of stakeholders including investors).

Question 1 (relating to overall approach)

The key issue with the requirements is the considerable amount of judgement involved on matters that are not well understood and with respect to terms and matters that are understood differently by the intended users of the standards. As such, they will *not* lead to harmonisation (a stated aim of the IFRS Foundation Trustees), green washing will flourish and disclosures will be challenging to audit. Green washing will be facilitated because reporters lack knowledge about how risks might influence enterprise value and because reporting on impact is not the focus of the ISSB (and the IFRS Foundation has no experience in this). Some will also use the looseness in the wording to avoid disclosing matters they prefer not to. The most efficient way to reduce green washing would be for GRI Standards to be mandated alongside standards that focus on financial statement implications of sustainable development trends and corporate impacts.

According to the ED the decision regarding whether to disclose requires consideration of a range of matters that involve considerable judgement:

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[1] See https://www.icas.com/landing/sustainability/non-financial-reporting/explainer-the-global-reporting-initiative-and-the-gssbs-sustainability-reporting-standards-what-you-need-to-know for a description.

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a) Whether information is useful to providers of finance when they assess 'enterprise value' and decide whether to provide resources (para 1)

b) What constitutes 'enterprise value' and what influences it across different time horizons (paras 2, 5)

c) The risk appetite of providers of finance (para 2)

d) The boundaries around relevant information (for example, the information relevant to para 6b and 6d is broader than what I would consider to be 'sustainability-related financial information')

e) The link between potential disclosures and enterprise value (this is unclear, for example with respect to the information required in para 6a (governance oversight) and 6c ("relationships with people, planet and the economy, and its impacts and dependencies on them")

At this point there is only one other ED, so this proposed Standard would apply to all sustainability matters other than climate change. This is concerning.

Given the significant amount of judgement involved in all the above determinations my answer to questions 1 a) to d) is 'no'. With regard to the requirements of sustainability reporting standards to facilitate the assurance of sustainability reporting (your question 1 d), I recommend to you reports published by the Institute of Chartered Accountants of Scotland (ICAS, 2022a,b).

Question 2 (relating to paras 1-7, Objective)

No, to a) and b) – The objective of disclosing sustainability-related financial information and its connection with impact reporting covered in GRI Standards, needs clearer articulation. This also applies to what comprises 'sustainability-related financial disclosures'. See my answer to Q1 above re the amount of judgement involved and the matters requiring judgement.

Question 3 (relating to paras 8-10, Scope)

The nature of GAAP is irrelevant. Financial risks and opportunities are difficult to assess. The proposals need to be narrowed down to and go deeper into the financial statement implications with GRI Standards being the *baseline* regarding impact reporting.

Question 4 (relating to paras 11-35, Core content)

No, to a) and b) regarding clarity and appropriateness of proposed disclosures.

The content elements include matters that are more clearly and appropriately expressed in GRI 2 on governance and strategy. The ISSB should not seek to rewrite these (given they are widely used in their current form) but rather include only additional matters relevant to the organisation's approach to sustainability risks and opportunities.

Governance. The governance disclosure requirements in GRI 2-9 to GRI 2-21 are excellent. I suggest IFRS S1 focusses on additional matters relevant to oversight of sustainability-related risks and opportunities from the organisation's perspective.

Strategy. Strategy disclosures should include, but not be limited to, allowing an investor "to understand the effects of significant sustainability-related risks and opportunities on its strategy and decision making" (ED, p 12). The strategy itself should be disclosed. This could be clearer in the text. For example, does the reporting entity plan to change its product/service mix? What you refer to here is management approach to risk and opportunity, rather strategy. The required strategy disclosures in GRI 2 are clearer and more appropriate (as would be expected given their relatively advanced stage of development) (see GRI2-22 to G2-25).

Sustainability related risks and opportunities. Paras 16-20 are clear and appropriate for an organisation that has already considered its material impacts following GRI 3, GRI Topic Standards and GRI Sector Standards. The requirement to disclose how sustainable development risks and opportunities are incorporated into board-agreed strategy is critical to ensuring it is given appropriate consideration.

Financial position, financial performance and cash flows and resilience. I suggest that effort is expended on enhancing this section rather than rewriting the disclosures required in G2.

Risk management. This section should be retitled so as not to preference a focus on risks. Identifying opportunities is critical to improving the performance of companies (enterprise value) and hence should be disclosed according to the conceptualisation in the ED.

Metrics and targets. The IFRS Foundation should focus its requirements on a) how organisations identify which of the matters that it reports using GRI Standards that affect future cash flows; b) any matters additional to the organisation's impacts on economies, society and the environment that affect future cash flows.

[See the *Sustainable Development Goals Disclosure Recommendations* (Adams et al, 2020) for changes to the TCFD categories to address these points and the explanation in Adams (2020)].

Question 5 (relating to paras 37-41, Reporting entity)

a) The language regarding reporting entities is confusing. The examples ask reporters to report information in its value chain i.e. relating to organisations that are not the reporting entity. A starting point to considering financial implications of value chain activities should be reporting on value chain impacts. The link to the reporting organisation's financial position of these impacts should the focus of the ISSB – not the impacts themselves.

b) No, an organisation needs to first report the impacts of its value chain on economies, society and the environment before it can identify sustainability-related risks. See answer to a).

c) Yes. The sustainability related financial reporting requirements and their relationship with GRI impact reporting need further development first, but it would seem logical.

Question 6 (relating to paras 42-44, Connected information)

Yes, to a) and b). The requirement to report on connectivity is clear. However, I suggest that examples and guidance are extended and provided separately, not in the requirements themselves. I commend to you the way the GRI Standards do this.

Question 7 (relating to paras 45-55, Fair presentation)

The amount of judgement involved (as discussed above) will make 'fair presentation' and assurance of it, challenging.

Question 8 (relating to paras 56-62, Materiality)

The definition of materiality assumes that the only sustainability information investors use to make investment decisions is sustainability-related financial information. Many investors use the impact reporting provided by companies complying with GRI Standards to make their own assessments concerning its relevance to their investment decisions and some will not trust reporting organisations to do this for them. I reiterate the need for a double materiality approach, recognising that investors need information on corporate impacts on economies, society and the environment (provided through GRI Standards) and information on the financial implications of sustainable development issues. The ISSB must focus on the latter if either are to be done well.

Any definition of materiality will be difficult to apply unless the amount of judgement required (see answer to question 1) is first addressed and guidance given. Considerably more guidance would need to be provided to reporting entities. (See Adams et al, 2021 for a summary of research on the application of materiality.)

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29 July 2022

Emmanuel Faber
Chair
International Sustainability Standards Board
Columbus Building, 7 Westferry Circus
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By Email: commentletters@ifrs.org

IFRS Sustainability Disclosure Standards
Cbus welcomes the opportunity to make a submission in respect of:

- IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information (Exposure Draft IFRS S1).
- IFRS S2 Climate Related Disclosures (Exposure Draft IFRS S2).

About Cbus
Cbus Super was established in 1984. Created by workers for workers. We are a proud industry super fund, representing those that help build Australia. Everything we do is to benefit our members, and only our members, so they can eventually enjoy the retirement they have worked hard for. We work hard to make sure that the super system is delivering for our members. As one of Australia's largest super funds, we provide superannuation and income stream accounts to more than 775,000 members and we manage over $68 billion of our members' money (as at 31 December 2021)[1].

At Cbus, we believe investing responsibly for the long term is important for our members' returns and their quality of life in retirement. Cbus is both a user and producer of sustainability reports.

Cbus aims to be a leader in the reporting space commencing our sustainability reporting journey in 2013 against the GRI G3.1 disclosures and the updated version GRI G4 disclosures in 2014/2015. We are proud to be one of only two Australian industry funds who commenced utilisation of the International Integrated Reporting <IR> Framework in 2014/15, subsequently publishing our first Annual Integrated Report in 2015/16. We were also the first Australian Super Fund to introduce independent limited assurance over our report in 2018 and again took pride in being the first mover for independent limited assurance over our responsible investment supplement in 2021.

Cbus has been recognised for leadership in the reporting space, winning the Australian Institute of Superannuation Trustees best corporate reporting award in 2016, 2017 and 2019 for the Cbus Annual Integrated Reports. In addition, Cbus' 2017 report was one of eight commended out of 2,500 researched in the Global Responsible Investor awards. More recently, in 2021 and 2022, Chant West, a leading Australian ratings, research and data company for superannuation and financial advice, awarded Cbus Best Fund: Integrity. In doing so, Chant West stated:

[1] Media Super is now a division of Cbus, offering Media Super products. For more than 30 years Media Super has been the industry super fund for Print, Media, Entertainment and Arts, and broader creative industries. As at 31 December 2021 Media Super provided superannuation and retirement accounts to 72,000 members and managed $7 billion.

…the Annual Report shows how it's going on meeting its sustainability goals together with all its PRI material. Its integrated annual report shows how the fund is delivering on its promises across areas such as member and employer satisfaction, member engagement, risk management, complaints and insurance claims. Metrics are shown for each area, along with targets, and where targets are not met these are highlighted.

Cbus supports the development of global sustainability disclosure standards

Cbus is supportive of the development of global sustainability disclosure standards because as a global investor who allocates capital internationally, the Exposure Draft Standards seek to:

- Provide clear, comprehensive, consistent and comparable disclosure of sustainability-related information which is key to a well-functioning global financial system and will lead to better long-term decision making and contribute to sustainable long-term returns.
- Allow companies to collect and report in a manner that serves both local and global requirements.
- Create a global baseline for capital markets that will help reduce cost, complexity, and confusion among reporting entities who operate and raise capital across national borders — increasing the useability, comparability of the information, while contributing to sustainable long-term returns.

We understand concerns regarding a **distinction between investors** and the interests of other **stakeholders** as two different approaches to determine materiality. However, we are of the view that such a distinction does not need to be drawn, in fact we believe that over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful.

Notwithstanding this, in relation to the draft standards we would encourage and welcome:

- Clarity over the terms 'significant' and 'material' and how they differ in application.
- Explicit reference to materiality in financial terms.
- Increased focus on long term sustainability risks.

We also acknowledge concerns have arisen with respect to forward looking statements. However, we note that while this may appear challenging, companies already make forward looking statements in relation to provisions and when reporting against the TCFD. As an investor what we are looking for is clarity from companies about the limitations of their disclosures and would encourage regular updates regarding material changes to underlying assumptions.

Additionally, as a member of the Australian Council of Superannuation Investors (ACSI), we have been consulted and are supportive of their submission on this matter. We also reinforce our support for ACSI's position regarding the need for an appropriate transition period to allow preparers to develop systems and processes to support their disclosures.

I trust our comments are of assistance. Please contact myself or Ros McKay (Rosalind.mckay@cbussuper.com.au) should you require any further information.

Yours sincerely

Kristian Fok

Kristian Fok
CIO
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27 July 2022

Mr Emmanual Faber
Chair
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Dear Mr Faber

AUSTRALIAN COUNCIL OF FINANCIAL REGULATORS COMMENT LETTER

This is a joint comment letter by Australia's Council of Financial Regulators (**CFR**).

CFR is the coordinating body for Australia's main financial regulatory agencies. There are four members: the Australian Prudential Regulation Authority (**APRA**), the Australian Securities and Investments Commission (**ASIC**), the Australian Treasury and the Reserve Bank of Australia (**RBA**).

CFR established a climate working group in 2017 having identified '*improving the ability of Australian corporates and financial institutions to manage the financial risks associated with climate change and to provide high-quality comparable disclosures on these risks'* as a key priority.

In November 2021, the Australian Government welcomed the announcement of the establishment of the International Sustainability Standards Board (**ISSB**) as a crucial next step to drive more consistent, comparable disclosures.

We therefore welcome the opportunity to comment on the International Sustainability Standards Board (**ISSB**) *Exposure Draft IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information)* (**IFRS S1**) and *Exposure Draft IFRS S2 (Climate-related Disclosures)* (**IFRS S2**).

General comments

We consider that the provision of consistent, comparable and reliable climate and sustainability-related information by entities enhances transparency and is a critical component of ensuring investors can make fully informed decisions and capital markets remain fair and efficient. As such, CFR's members have encouraged entities with material exposure to climate change to consider reporting voluntarily under the recommendations of the G20 Financial Stability Board's Taskforce on Climate-Related Financial Disclosures

(**TCFD**).[1] High quality sustainability disclosures improve the resilience of banks and insurers and promotes financial stability.

We express our support for:

- the establishment of the ISSB to deliver a comprehensive global baseline for sustainability-related disclosure standards that provide investors and other capital market participants with information about entities' sustainability-related risks and help them make informed decisions.
- the 'climate-first' approach to standard-setting adopted by the ISSB.
- the work of the ISSB to date including, but not limited to, the publication of, and current consultation on, IFRS S1 and IFRS S2.
- the incorporation of the recommendations of the TCFD.
- the formation of the working group of key relevant jurisdictional representatives to establish a dialogue for enhanced compatibility between the ISSB's exposure drafts that are currently open for comment and ongoing jurisdictional initiatives on sustainability disclosures.

Whilst we also express our in-principle support for adopting IFRS S1 and IFRS S2 (subject to their final form) as reporting standards in Australia, the commencement, scope and mandatory nature of any new reporting regime are ultimately matters for the Australian Government to determine.

Specific comments

Without detracting from the broad support as described above, we draw attention to the following matters which, in our view, may benefit from further consideration as the ISSB progresses towards finalisation of IFRS S1 and IFRS S2:

- transitional and phasing arrangements that balance demands for information from investors and other users with giving adequate time for reporting entities to prepare for new disclosure requirements (including upskilling, developing appropriate systems and processes, and having access to necessary data).
- whether some flexibility may be required in terms of the proportionality and/or scalability of the standards where they are applied to smaller entities. This is particularly relevant for Australia given the large number of small to medium sized listed entities in Australia relative to some other international jurisdictions.[2]
- the need for clear and consistent definitions, guidance and support for entities adopting the proposed standards, in order to promote consistent and comparable disclosure. For example, ISSB guidance on applying the 'significance' and 'materiality' criteria in IFRS S1, and the distinction between the two, as well as a clearer definition of the value chain and its operational boundaries.
- whether the industry-based disclosures in Appendix B to IFRS S2 and paragraph 54 of IFRS S1 should be field tested by some issuers in different industries and jurisdictions. Experience from the field tests may assist to improve those metrics and ensure their relevance and applicability across different jurisdictions.

[1] 86% of ASX50 entities in 2021 reported (either fully or partially) under the TCFD recommendations or disclosed that they were in the process of aligning their reporting to the TCFD recommendations. Further, 80 ASX200 companies aligned (or partially aligned), their disclosure to the TCFD recommendations. See Promises, pathways and performance: Climate Change Disclosure.

[2] Historical market statistics (asx.com.au)

CFR has, through its Climate Working Group, consulted with industry stakeholders, including bodies representing entities and investors, and professional accounting bodies and has considered their feedback in preparing this comment letter.

ASIC is contributing to input to the ISSB as a member of the International Organisation of Securities Commissions (**IOSCO**) Sustainability Technical Review Coordination Group. APRA is also contributing to feedback through the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors.

If you would like to discuss this with us further, please contact Claire LaBouchardiere, Senior Executive Leader, Corporations, ASIC at Claire.LaBouchardiere@asic.gov.au or on +612 9911 2226.

Yours sincerely,

Helen Rowell

Helen Rowell
Deputy Chair, APRA
Chair, CFR Climate Working Group

About CFR

CFR's objectives are to promote stability of the Australian financial system and support effective and efficient regulation by Australia's financial regulatory agencies.[3] In doing so, we recognise the benefits of a competitive, efficient and fair financial system. The members achieve this by:

- identifying important issues and trends in the financial system, with a focus on those that may impinge upon overall financial stability
- exchanging information and views on financial regulation and assisting with coordination where members' responsibilities overlap
- harmonising regulatory and reporting requirements, paying close attention to regulatory costs
- ensuring appropriate coordination among the agencies in planning for and responding to instances of financial instability; and
- coordinating engagement with the work of international institutions, forums and regulators as it relates to financial system stability.[4]

[3] Charter – About – Council of Financial Regulators (cfr.gov.au)

[4] See above.

Mr Emmanuel Faber
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31 July 2022

Dear Emanuel

ED/2022/S1 General Requirements for Disclosure of Sustainability-Related Financial Information and ED/2022/S2 Climate-Related Disclosures

Deakin University is in Melbourne, Australia. While Australian-based Deakin has a global outlook - particularly when it comes to integrated reporting.

Deakin was one of the first universities in the world to produce its own integrated report. It also has one of the world's only dedicated integrated reporting centres, the Deakin Integrated Reporting Centre (DIRC).

We congratulate the IFRS Foundation and ISSB for the speed at which the ISSB was formed and issued its first two exposure drafts; and the IFRS Foundation, IASB and ISSB[1] in recognising the importance of the Integrated Reporting Framework and Integrated Thinking Principles through its consolidation of the VRF into the IFRS Foundation; their call to the market to continue preparing integrated reports; and their commitment to maintaining and improving them.

We join the many Australian organisations who have made submissions to the ISSB in expressing their near unanimous support for the ISSB and its exposure drafts, and in highlighting some areas needing clarification (refer Appendix 1).

We highlight below four areas of most significance to the DIRC. As may be expected from an academic centre focused on integrated reporting, the areas of most significance to the DIRC relate to integrated reporting.

The IFRS Foundation's 25 May 2022 announcement, 'Integrated Reporting – articulating a future path', confirmed that the Integrated Reporting Framework will become part of the materials of the IFRS Foundation; and that the IFRS Foundation and Chairs of the IASB and ISSB actively encourage continued adoption of the Framework by users. We welcome this announcement but note that it post-dates the release of the ISSB's exposure drafts.

As a dedicated integrated reporting centre, we applaud IFRS Foundation's prescience for the ISSB asking integrated reporting-related questions. We believe that integrated reporting is key to the quality and utility of corporate reporting in Australia (and internationally), including the successful adoption of ISSB standards. The necessary pre-conditions for success have now been established with the IFRS Foundation housing the ISSB and owning the Integrated Reporting Framework, IASB and ISSB Standards, and SASB industry-based standards.

We note that several questions asked in the consultation document bear directly on the role of the Integrated Reporting Framework[2]. Below we link our responses to these questions together under the following headings, with further detail provided in Appendix 2:

Question		Deakin Theme
1	Overall approach	Conceptual framework, integrated thinking principles, assurance
6	Connected information	Conceptual framework, Australian market concerns, integrated thinking principles, assurance
9	Frequency of reporting	Australian market concerns
10	Location of information	Australian market concerns
16	Costs, benefits & likely effects	Australian market concerns

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- **Conceptual framework** – the Integrated Reporting Framework should be embedded as the conceptual framework for all corporate reporting as a high priority – *Questions 1 and 6.*
- **Australian market concerns** – integrated reports founded on a description of *The Business* which is connected to one set of sensible metrics and is in accordance with the Integrated Reporting Framework can address concerns about:
  - volume and complexity in corporate reporting; and
  - liability concerns in relation to forward-looking statements.

  The metrics in integrated reports will be derived from standards (IASB, ISSB and GRI) or be self-determined (eg in relation to intangibles) – *Questions 6, 9, 10 and 16*.

- **Integrated Thinking Principles** – The description of *The Business* in the integrated report can be produced by applying the Integrated Thinking Principles, providing investors and other stakeholders with a window into the quality of the organisation's integrated thinking.
  As well as driving better business performance, the Integrated Thinking Principles can become a *common language of business*, bringing comparability and consistency to the description of businesses in integrated reports – *Questions 1 and 6*.
- **Connected and more integrated assurance** – Integrated reports as described above will meet the pre-conditions for assurance and the required Basis of Preparation and Presentation can provide suitable criteria for assurance under ISAE 3000 – *Questions 1 and 6*.

We recommend that the IFRS Foundation develop guidance for the market on the above four areas as a matter of priority – principally for directors and executives as preparers, investors and other stakeholders as users, and assurance practitioners as those enhancing the credibility of information resulting from applying IASB and ISSB standards and of the integrated report.

The DIRC has three connected workstreams, research, and teaching, in relation to integrated and sustainability reporting, and industry engagement and thought leadership on such reporting.

In the latter workstream, the DIRC provides the secretariat for and hosts the Australian Business Reporting Leaders Forum (BRLF). As well as providing a collaboration forum for leaders in the Australian corporate reporting system, the BRLF is a reporting stakeholder to the Australian Financial Reporting Council and has made submissions to the Value Reporting Foundation, and before it the IIRC.

The DIRC will undertake integrated reporting-based research and teaching and executive education on the guidance recommended above and produce thought leadership for the market on integrated reporting assurance.

Please contact us for required further detail: john.v.stanhope@gmail.com and p.carey@deakin.edu.au.

Yours faithfully,

John Stanhope AM
Chancellor Deakin University
Chair Deakin Integrated Reporting Centre Advisory Board

Professor Peter Carey
Executive Director, Deakin Integrated Reporting Centre

[1] Collectively referred to as the 'IFRS Foundation' in this submission

[2] Also the Integrated Thinking Principles, which are now also overseen by the IFRS Foundation

Conceptual Framework

As an academic centre, the DIRC believes in the value of conceptual frameworks for providing the basis for standards, principles and guidance which drive practical application of the concepts.

The Integrated Reporting Framework is ideally positioned as the basis of the conceptual framework for corporate reporting[3]. Tried and tested over a decade, adopted by over 2,500 organisations, it is a well-recognised market resource. Its acquisition by the IFRS Foundation confirms its future.

The Integrated Reporting Framework stands apart as the connector of the global corporate reporting system under the stewardship of the IFRS Foundation. In fact, it goes beyond being 'only' a conceptual framework. The <IR> Framework is a 'one stop shop':

1. It has an ***embedded*** *conceptual framework* in its integrated thinking foundation and three fundamental concepts. These fundamental concepts recognise the fundamental importance of board leadership to good corporate governance and the critical importance of what happens in the boardroom in terms of enterprise value creation.
2. It requires that the integrated report be *concise, designated and identifiable*:
3. It requires a *board responsibility* statement as to the integrity of the integrated report being a reflection of the integrated thinking in and performance of *The Business,* and being in accordance with the <IR> Framework[4].
4. It has *guiding principles* for the preparation of integrated reports which are written as standards (bold letter italics). These guiding principles are closely aligned with those in IASB and so ISSB standards.
5. It has *content elements* with bold italics status. These elements include generic requirement for metrics that can now be provided by applying IASB and ISSB Standards.

Possibly most importantly, the Framework provides the key to **connectivity** in the corporate reporting system:

- it provides a foundation for application of IASB, ISSB and GRI standards
- it provides the link between integrated thinking principles as drivers of better business practice and through the integrated report, provides a window for communicating the quality of that integrated thinking to investors and other stakeholders
- more than providing the framework for connecting IASB, ISSB and GRI Standards, the Framework provides connectivity between the foundational description of *The Business* to the metrics selected to measure its performance and prospects in the integrated report.

Pleasingly, the IFRS Foundation has recognised the conceptual importance of the Integrated Reporting Framework and connection to the Integrated Thinking Principles through the VRF consolidation. We highlight specific enhancements resulting from more conceptual elements of submissions that can be addressed through the Integrated Reporting Framework as it becomes the basis for the conceptual framework for connected corporate reporting:

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[3] This is consistent with the case made by the Australian Financial Reporting Council to the then newly formed IIRC about the need for a conceptual framework for integrated reporting. In its submission to the newly formed IIRC on its 2011 discussion paper it said: *"The FRC is of the view that the development of an Integrated Reporting conceptual framework should be of top priority for the IIRC – as any definitions, analysis and actions are ultimately dependent on the framework."*

[4] Remediation plan if gaps

- The Framework is the ideal location for defining ‘sustainability’ and sustainability-related concepts such as ‘sustainability-related financial’ and the connection to enterprise value of ‘sustainability-related’, ‘materiality’ and the distinction between ’material’ and ‘significant’.
- The Framework is also the ideal location for positioning intangibles relative to *The Capitals* and *Value Creation Process* fundamental concepts of the Integrated Reporting Framework. This includes how the use of an organisation’s intangibles in its business model creates enterprise value, and extends to the management of climate and other ESG matters, as well as other business-critical matters such as innovation, intellectual property, technology, customer and regulatory relationship management.
- Inclusion of the so-called ‘nested materiality diagram’ as a central Figure now that the consolidation of the global corporate reporting system has greatly simplified its presentation and value as a resource for explaining the relative positioning of the <IR> Framework, and the interoperable ISSB and GRI standards.
- However, for use in the conceptual framework for connected corporate reporting, the diagram will need some small but important adjustments where:
  - the term ‘*integrated reporting’* is replaced with ‘*The Integrated Reporting Framework’*
  - *The Integrated Reporting Framework* is stretched across all three boxes; and
  - *‘The Integrated Report’* is added to the second box with a slight incursion into the third box to demonstrate that the primary audience for the integrated report is investors, while integrated reports will be of interest to all stakeholders.

The IFRS Foundation will need to produce market guidance on what a good integrated report ‘looks like’.

Australian market concerns

Two factors that may in their scale at least be peculiar to Australia, including perceptions that the ISSB standards will firstly add to the volume and complexity of integrated reporting and secondly will increase the personal liability of directors, need to be managed.

Volume and Complexity

Directors are concerned that the ISSB standards **may add to the volume and complexity of corporate reporting** given that GRI standards are already widely adopted in Australia.

In our view, integrated reporting offers a solution, within existing legislation, regulation and standards, to this concern. As set out above, one integrated report in accordance with the Integrated Reporting Framework can contain all material ISSB and GRI metrics.

Uncertainty about the future of the Integrated Reporting Framework has been resolved, with the IFRS Foundation:

- assuming ownership of the Integrated Reporting Framework on 1 August 2022
- recommending to organisations that they continue to produce integrated reports under the Integrated Reporting Framework
- committing to further develop and improved the framework as business conditions evolve.

The integrated report will be founded on a concise description of *The Business*[5] – which is connected to the metrics selected to measure the performance and prospects of *The Business*.

The Integrated Reporting Framework will guide boards and executives on selecting those metrics - be they required by standards, IASB, ISSB and GRI – or be otherwise business-critical and self-determined (eg in relation to intangibles). We recommend that the IFRS Foundation produce guidance on this matter as a priority.

[5] *The Business*: Purpose, Governance, Strategy, Strategic Management and Business Model, Risk Management

Director Liability

Directors believe that unique features of the legal regulatory framework compared to jurisdictions such as the UK and USA (the continuous disclosure regime coupled with no safe harbour being provided in relation to forward-looking statements) give rise to increased liability exposure because some of the proposed mandated requirements of ED/2022/S1 are open ended, where it will be difficult to obtain evidence to support certain forward-looking statements.

Integrated reporting again offers a solution. As well as enabling a reduction in the volume and complexity of reporting, integrated reports of the sort described above will give directors confidence in signing board responsibility statements under the <IR> Framework and provide suitable criteria for assurance, enhancing the credibility of the report in the eyes of investors.

It may take a test case to finally resolve this matter. However, in the interim directors may find the recent International Federation of Accountants / Institute of Internal Auditors paper on the responsibility of boards for the integrity of integrated reports, and the support that internal audit can provide, useful[6].

The paper explains how by following its recommendations directors can have confidence to sign director responsibility statements, including for the forward-looking information in the integrated report, and be a prompt to obtain independent external assurance. Such integrated reports may meet the required pre-conditions for assurance under IASE 3000, provided they contain the *Basis of Preparation and Presentation* required by the Integrated Reporting Framework which will provide suitable criteria for assurance[7].

We support the proposal for reporting sustainability-related financial disclosures at the same time as the related financial statements are issued – in the integrated report. In Australia, this may take the form of an Operating and Financial Review adopting the Integrated Reporting Framework as its primary Basis of Preparation and Presentation. The board of directors would communicate this through its adoption statement under Recommendations 4.3 and 7.4 of the ASX Corporate Governance Principles and Recommendations.

We recommend that the IFRS Foundation develop market guidance on this matter and the connectivity of integrated reporting to financial and sustainability reporting as a priority.

Common language of business

The Integrated Thinking Principles, now owned by the IFRS Foundation, codify practice experienced by successful integrated reporting adopters whereby adopting the process of integrated reporting drives business performance improvements.

One of the distinctive contributions of integrated reporting is that it allows the unique features creating an organisation's competitive advantage to be communicated to investors in a way that they can readily use in their decision-making. By using the common language of business to describe the business, a desirable level of consistency and comparability can be achieved.

The Integrated Thinking Principles offer considerable potential as being a common language of business, which can bring a level of consistency and comparability to the description of *The Business,* which is the foundation of the integrated report, in the same way that standardised IASB and ISSB metrics bring comparability and consistency to reporting ESG metrics.

We recommend that the IFRS Foundation produce market guidance on this matter as a priority.

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[6] 'Executing the board's governance responsibility for the integrated report", IFAC and IIA 2022

[7] Refer to the 2021 IFAC / IIRC paper, 'Accelerating Integrated Reporting Assurance in the Public Interest;. IFAC and IIRC Support Pathway to Integrated Reporting Assurance'

Assurance

Support for assurance was expressed in many submissions on ED/2022/S1 and S2. In the context of this paper, it is important that the IFRS Foundation express its support for the more integrated approach to assurance that the IAASB is contemplating[8].

The key to integrated reports providing underlying subject matter capable of assurance under ISAE 3000 is the Basis of Preparation and Presentation required by paragraph 4.41 of the <IR> Framework and further explained in the associated commentary.

Unlike sustainability reporting under ISSB and GRI standards - where arguably a Basis of Preparation and Presentation simply stating compliance with those standards may suffice - that is not the case with integrated reports. The Basis of Preparation and Presentation in integrated reports must be a fulsome and insightful description of:

- the frameworks and standards applied
- how the description of *The Business* has been prepared
- how metrics have been selected – with clear linkage to the stakeholder management and materiality determination processes for assessing the materiality of standardised metrics as well as selection of non-standard, business critical metrics (e.g., in relation to intangibles).

It will be important for the IFRS Foundation and IAASB to work closely on assurance connectivity given that assurance standards have some way to go to catch up with all that has been achieved in corporate reporting over the last decade and in particular, the last two years.

Given the support for assurance expressed in many submissions, and the importance of assurance to resolving the director concerns summarised above, assurance standards will need to be further developed in parallel with the underlying reporting standards as soon as possible. The IAASB has expressed its aim of achieving this in its submission to the ISSB.

Just as directors seek safe harbour while sustainability reporting processes, systems and skill sets develop, assurance practitioners will need to feel safe in developing integrated and sustainability reporting assurance processes, methodologies, skill sets and accreditation systems.

We agree with the IAASB that ISAE 3000 provides a sound foundation for integrated and sustainability reporting assurance given its proven use in integrated and sustainability reporting assurance, and given its strong independence, ethics and quality control system requirements.

The value of integrated reporting assurance for investors will need to be demonstrated before integrated reporting assurance becomes widespread. We understand that the next instalment in the IFAC integrated reporting assurance series will examine this matter, featuring comments from leading investors. This paper should assist integrated reporters and their auditors in meeting the 'rational purpose' requirement of ISAE 3000.

There will inevitably be innovation and experimentation in early years as reporting organisations develop their processes, systems and controls to a level meeting the pre-conditions for assurance in ISAE 3000. For instance, it is

[8] "The IAASB agreed to dedicate capacity and resources to the assurance of sustainability/ESG reporting. Information gathering and research activities, using dedicated staff resources, to determine future IAASB action will commence in January 2022. This initial work will also determine the precise scope and timing of the IAASB's efforts. The initial work will also include a willingness to collaborate with key stakeholders throughout the world, including the standard-setting and regulatory communities." Statement by IAASB Chair Tom Seidenstein, 15 December, 2021 The Demand for Assurance Engagements on Sustainability and ESG Reporting Is High. Here is How the IAASB Is Responding. | IFAC

likely that there will be a continuum to independent, external reasonable assurance of integrated reports, starting with assurance readiness reviews, internal assurance for the board of directors, and finally independent external assurance, starting with limited assurance (today's benchmark).

We recommend that the IFRS Foundation engage in proactive and detailed collaboration with the IAASB on assurance connectivity and integrated reporting assurance as a priority. The DIRC stands ready to assist the IFRS Foundation in this area.

Common Themes Supported by DIRC

We highlight common themes of support which we endorse:

- the ISSB being formed as a demonstration of consolidation and simplification of a fragmented corporate reporting system
- the ISSB developing a global baseline which is suitable for local adoption, mitigating the risk regional fragmentation
- the ISSB enabling full and aligned adoption of ISSB standards in Australia
  In this respect, we favour the formation of a 'third board' in Australia in time (an Australian Sustainability Standards Board) to fully mirror the global system. This would enable clear objectives and mandate, dedicated specialist resources, with no conflicts.
- the ISSB for adopting a 'climate first', not 'climate only', strategy for ISSB standards, and for leveraging the TCFD Recommendations in a way that does not increase the volume of reporting
  On 'climate first, not climate only', we flag that we will highlight the importance of intangibles to integrated reporting and of integrated reporting to intangibles when we respond to the ISSB's foreshadowed agenda consultation.
- the ISSB accepting the case for industry-based standards, while noting the merit of those suggesting global field testing before making industry-based requirements ISSB standards
- the ISSB for emphasising the importance of the ISSB and GRI's collaboration
- the need for the ISSB to recognise that data (processes and systems) and workforce skills have gaps relative to financial reporting
  There is a need to adopt strategies as maturity in these areas is developed (e.g., transitional arrangements, protection of innovation and experimentation, not setting the bar so high on initial adoption that it becomes a barrier to adoption).
- need for the ISSB to recognise the critical importance of assurance of sustainability information and integrated reports as a means of enhancing the credibility of reporting, facilitating investor confidence and effective and efficient investor and other stakeholder decision-making.

Clarification Needed

- Certain terminology, such as 'sustainability', 'sustainability-related', 'shall', 'material' and 'significant' needs to be clarified.
- The loop needs to be closed on open ended 'other related guidance' to be consulted (e.g., other frameworks and standards) to assert compliance with the ISSB standards and to enable the required board responsibility statements and assurance

  Some have interpreted the current open-ended statements as *requiring* adoption of the *related* guidance, which would add to volume and complexity.

- The need for the ISSB to specifically consider the application of ISSB standards by SMEs, not-for-profits and in the public sector.

DIRC Future Activity

The DIRC will in future:

- Undertake integrated reporting-based research – for example, contributing to future IFRS Foundation work on the conceptual framework for corporate reporting including on the concept of sustainability and the positioning of intangibles.
- Teach and deliver executive education on the Integrated Reporting Framework, Integrated Thinking Principles and market guidance recommended in this submission.
- Engage with industry and produce thought leadership by making submissions and offering to assist with the market guidance recommended above, and engaging with the market on integrated reporting assurance.

ENERGETICS

29 July 2022

International Sustainability Standards Board
Emmanuel Faber – ISSB Chair
Sue Lloyd – ISSB Vice-Chair
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Re: International Sustainability Standards Board Exposure Draft IFRS S2 Climate-Related Disclosures

Energetics welcomes the publication of and the opportunity to comment on the International Sustainability Standards Board (ISSB) Exposure Draft IFRS S2 on Climate-Related Disclosures.

Energetics affirms our support of a global standard for company disclosure that is built upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in helping to facilitate comparison across sustainability-related financial disclosures.

Building upon what has already been outlined in the TCFD recommendations, we appreciate the inclusion of:

- Specific mention of value chain risks as well as opportunities and where these are concentrated
- Highlighting the need to identify direct and indirect (value chain) adaptation options
- The planned use of offsets (quantity, quality and type of offsets)
- The need to better understand current climate impacts on an organisations financial position, performance and cash flows
- A greater focus on investment / research and development (R&D) plans including the financing required, any impacts to the viability of the organisations business model including the repurposing of any legacy assets.

Upon our review of the Exposure Draft, other items for consideration include further clarification and guidance around:

- The disclosure of financial impacts over time horizons as opposed to through scenario analysis
- The scenarios that could be used to stress test the extremes of plausible futures – the current guidance highlights alignment with the latest international agreement on climate change, but does not specify the book ends e.g. 1.5°C or 2°C scenario
- The steps required by an organisation to state alignment with the ISSB under IFRS S2 if they are unable to meet all requirements that “an entity shall disclose” under the recommendations and the timelines required to meet full alignment i.e. if disclosure around how they are progressing with specific items sufficient that they have not fully met sufficient for a specific time period.

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Energetics looks forward to the outcomes from ISSB's review process to finalise the standard, and are available to discuss our response if required.

Yours sincerely,

Peter Holt
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Energetics Pty Ltd
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AY-2. Are you responding as an individual, or on behalf of an organisation?

- Organisation

AY-3. Please provide the name of the organisation you are responding on behalf of:

Evalue8 Sustainability Pty Ltd

Question 1—Overall approach

The Exposure Draft sets out overall requirements with the objective of disclosing sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

Proposals in the Exposure Draft would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.

01-AP. (a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

- Broadly Agree

01-AR. Please explain your answer:

The paper is aimed at those who already have some expertise in the area. Small and medium enterprises generally do not have such expertise, and even large enterprises are for the most part still developing it. This paper sets the definitions and principles but needs to be supported by guidelines and examples showing how to interpret the requirements. Otherwise the quality of the information that will be developed using this may vary a great deal, making analysis of the differences across enterprises much more difficult.

Evalue8 Sustainability provides software to enable organisations to automate the production of their carbon accounts. Once the IFRS general requirements are finalised, we anticipate our clients will want additional functionality added to our software to enable them to meet these requirements more easily. Quality guidance on how to meet the IFRS general requirements will help us support quality reporting by our clients.

01-BP. (b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

- Other

01-BR. Please explain your answer:

Any discussion of risk management processes is likely to be very high level. How an organisation meets opportunities and risks is integral to its competitive advantage. We suspect that most of our clients will give high level process information to provide reassurance to stakeholders, including little detail, and while it will be complete and free of error, it may not be neutral or useful.

01-CP. (c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?

- Broadly Agree

01-CR. Please explain your answer:

The theory is clear. We suspect that many of our clients would have difficulty quantifying the effects on their business model, strategy and cash flows, their access to finance and its cost of capital if particular environmental risk events occurred. They could in general indicate the direction of the effect and whether the impact was negligible, small, medium, large, or would put them out of business.

01-DP. (d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

- Other

01-DR. Please explain your answer:

We think that there is enough in the Exposure Draft to enable those that want to make a good job of disclosure to do so. It may be difficult for auditors and regulators to say "no, this particular entity has not complied" if it has provided some high level information, particularly on matters of process, but insufficient detail to be useful to stakeholders.

Question 2—Objective (paragraphs 1–7)
The Exposure Draft sets out proposed requirements for entities to disclose sustainability-related financial information that provides a sufficient basis for the primary users of the information to assess the implications of sustainability-related risks and opportunities on an entity's enterprise value.

Enterprise value reflects expectations of the amount, timing and uncertainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information in an entity's financial statements and sustainability-related financial information.

Sustainability-related financial information is broader than information reported in the financial statements that influences the assessment of enterprise value by the primary users. An entity is required to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Sustainability-related financial information should, therefore, include information about the entity's governance of and strategy for addressing sustainability-related risks and opportunities and about decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements. Sustainability-related financial information also depicts the reputation, performance and prospects of the entity as a consequence of actions it has undertaken, such as its relationships with, and impacts and dependencies on, people, the planet and the economy, or about the entity's development of knowledge-based assets.

The Exposure Draft focuses on information about significant sustainability-related risks and opportunities that can reasonably be expected to have an effect on an entity's enterprise value.

02-AP. (a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?

- Other

02-AR. Please explain your answer:
The general requirements are clear in relation to their intent.

02-BP. (b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

- Broadly Agree

02-BR. Please explain your answer:
We suggest developing guidance material and examples.

Question 3—Scope (paragraphs 8–10)
Proposals in the Exposure Draft would apply to the preparation and disclosure of sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Sustainability-related risks and opportunities that cannot reasonably be expected to affect users' assessments of the entity's enterprise value are outside the scope of sustainability-related financial disclosures.

The Exposure Draft proposals were developed to be applied by entities preparing their general purpose financial statements with any jurisdiction's GAAP (so with IFRS Accounting Standards or other GAAP).

03-AP. Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

- Broadly Agree

03-AR. Please explain your answer:
Yes for Australia. We are not in a position to comment on other jurisdictions.

Question 4—Core content (paragraphs 11–35)
The Exposure Draft includes proposals that entities disclose information that enables primary users to assess enterprise value. The information required would represent core aspects of the way in which an entity operates.

This approach reflects stakeholder feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting, and builds upon the well established work of the TCFD.

Governance
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on governance would be:

> to enable the primary users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage significant sustainability-related risks and opportunities.

Strategy
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on strategy would be:

> to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability-related risks and opportunities.

Risk management
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on risk management would be:

> to enable the users of general purpose financial reporting to understand the process, or processes, by which sustainability-related risks and opportunities are identified, assessed and managed. These disclosures shall also enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.

Metrics and targets
The Exposure Draft proposes that the objective of sustainability-related financial disclosures on metrics and targets would be:

> to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant sustainability-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

04-AP. (a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

- Broadly Disagree

04-AR. Please explain your answer:
We are not sure that you will obtain enough detail from enterprises to assess their overall risk profile (as opposed to the adequacy of their risk processes).

04-BP. (b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

- Other

04-BR. Please explain your answer:
We think they are appropriate for large enterprises. We would like to see consideration of a small enterprise in an example.

Question 5—Reporting entity (paragraphs 37–41)
The Exposure Draft proposes that sustainability-related financial information would be required to be provided for the same reporting entity as the related general purpose financial statements.

The Exposure Draft proposals would require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. Such risks and opportunities relate to activities, interactions and relationships and use of resources along its value chain such as:

- its employment practices and those of its suppliers, wastage related to the packaging of the products it sells, or events that could disrupt its supply chain;
- the assets it controls (such as a production facility that relies on scarce water resources);
- investments it controls, including investments in associates and joint ventures (such as financing a greenhouse gas-emitting activity through a joint venture); and
- sources of finance.

The Exposure Draft also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate.

05-AP. (a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?
- Broadly Agree

05-AR. Please explain your answer:
We can't see how analysts could be expected to use the information if the reporting entity was different.

05-BP. (b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?
- Other

05-BR. Please explain your answer:
As discussed previously, while the requirement is clear, we are concerned about whether consistent application would result, and the impact on small enterprises. We think the principles embedded in the document are the right ones, but further guidance and examples will be needed.

05-CP. (c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?
- Broadly Agree

05-CR. Please explain your answer:
This will be needed to enable analysts to use the information.

Question 6—Connected information (paragraphs 42–44)
The Exposure Draft proposes that an entity be required to provide users of general purpose financial reporting with information that enables them to assess the connections between (a) various sustainability-related risks and opportunities; (b) between the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets; and (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements.

06-AP. (a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?
- Broadly Agree

06-AR. Please explain your answer:
The IFRS needs to consider that the metrics and targets for small enterprises may be quite basic, and their analyses are also likely to be more primitive.

06-BP. (b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

- Broadly Agree

06-BR. Please explain your answer:

Again, please illustrate the level of detail expected.

Question 7—Fair presentation (paragraphs 45–55)

The Exposure Draft proposes that a complete set of sustainability-related financial disclosures would be required to present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation would require the faithful representation of sustainability-related risks and opportunities in accordance with the proposed principles set out in the Exposure Draft. Applying IFRS Sustainability Disclosure Standards, with additional disclosure when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.

To identify significant sustainability-related risks and opportunities, an entity would apply IFRS Sustainability Disclosure Standards. In addition to IFRS Sustainability Disclosure Standards to identify sustainability-related risks and opportunities, the entity shall consider the disclosure topics in the industry-based SASB Standards, the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures), the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting, and sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

To identify disclosures, including metrics, that are likely to be helpful in assessing how sustainability-related risks and opportunities to which it is exposed could affect its enterprise value, an entity would apply the relevant IFRS Sustainability Disclosure Standards. In the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk and opportunity, an entity shall use its judgement in identifying disclosures that (a) are relevant to the decision-making needs of users of general purpose financial reporting; (b) faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and (c) are neutral. In making that judgement, entities would consider the same sources identified in the preceding paragraph, to the extent that they do not conflict with an IFRS Sustainability Disclosure Standard.

07-AP. (a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

- Broadly Agree

07-AR. Please explain your answer:

N/A

07-BP. (b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

- Broadly Agree

07-BR. Please explain your answer:

N/A

Question 8—Materiality (paragraphs 56–62)
The Exposure Draft defines material information in alignment with the definition in IASB's *Conceptual Framework for General Purpose Financial Reporting* and IAS 1. Information 'is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity'.

However, the materiality judgements will vary because the nature of sustainability-related financial information is different to information included in financial statements. Whether information is material also needs to be assessed in relation to enterprise value.

Material sustainability-related financial information disclosed by an entity may change from one reporting period to another as circumstances and assumptions change, and as expectations from the primary users of reporting change. Therefore, an entity would be required to use judgement to identify what is material, and materiality judgements are reassessed at each reporting date. The Exposure Draft proposes that even if a specific IFRS Sustainability Disclosure Standard contained specific disclosure requirements, an entity would need not to provide that disclosure if the resulting information was not material. Equally, when the specific requirements would be insufficient to meet users' information needs, an entity would be required to consider whether to disclose additional information. This approach is consistent with the requirements of IAS 1.

The Exposure Draft also proposes that an entity need not disclose information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information. In such a case, an entity shall identify the type of information not disclosed and explain the source of the restriction.

08-AP. (a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

- Broadly Agree

08-AR. Please explain your answer:
N/A

08-BP. (b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

- Broadly Agree

08-BR. Please explain your answer:
N/A

08-CP. (c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

- Broadly Agree

08-CR. Please explain your answer:
N/A

08-DP. (d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

- Broadly Agree

08-DR. Please explain your answer:
If there are such laws, the impact of the IFRS general requirements will be lessened anyway. However, from a stakeholder perspective, some information is usually better than none.
We have not encountered this issue in Australia.

Question 9—Frequency of reporting (paragraphs 66–71)
The Exposure Draft proposes that an entity be required to report its sustainability-related financial disclosures at the same time as its related financial statements, and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements.

09-AP. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

- Broadly Agree

09-AR. Please explain your answer:
This would aid comparability. While reporting dates differ across the world, having complete point in time data regarding a particular enterprise is more helpful than having environmental and financial data for different time periods. Otherwise analysts have to do more work if there have been significant changes between reports.

Question 10—Location of information (paragraphs 72–78)

The Exposure Draft proposes that an entity be required to disclose information required by the IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting—ie as part of the same package of reporting that is targeted at investors and other providers of financial capital.

However, the Exposure Draft deliberately avoids requiring the information to be provided in a particular location within the general purpose financial reporting so as not to limit an entity's ability to communicate information in an effective and coherent manner, and to prevent conflicts with specific jurisdictional regulatory requirements on general purpose financial reporting.

The proposal permits an entity to disclose information required by an IFRS Sustainability Disclosure Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. However, the entity would be required to ensure that the sustainability-related financial disclosures are clearly identifiable and not obscured by that additional information.

Information required by an IFRS Sustainability Disclosure Standard could also be included by cross-reference, provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. For example, information required by an IFRS Sustainability Disclosure Standard could be disclosed in the related financial statements.

The Exposure Draft also proposes that when IFRS Sustainability Disclosure Standards require a disclosure of common items of information, an entity shall avoid unnecessary duplication.

010-AP. (a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

- Broadly Agree

010-AR. Please explain your answer:
This is sensible. If the IFRS general requirements conflict with the requirements of a particular jurisdiction, they are less likely to be accepted. The principles are more important than the order or layout.
The IFRS might want to suggest a particular order except where a particular jurisdiction requires something different, to make comparisons easier for analysts. Most countries will not have imposed any restrictions at this stage and are likely to facilitate local arrangements consistent with the IFRS general requirements. We suggest you allow for the exceptions but provide for the majority.

010-BP. (b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

- No

010-BR. Please explain your answer:
We are not aware of any but can only give a definite answer with regard to Australia.

010-CP. (c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is crossreferenced? Why or why not?

- Broadly Agree

010-CR. Please explain your answer:

N/A

010-DP. (d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

- Broadly Agree

010-DR. Please explain your answer:

We note that some entities may need to do this internally anyway, in order to obtain an aggregated answer. Many enterprises delegate control to subsidiaries, locations and offices and the parent body looks after common threads but would not be across local details.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63–65, 79–83 and 84–90)

The Exposure Draft sets out proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. These proposals are based on corresponding concepts for financial statements contained in IAS 1 and IAS 8. However, rather than requiring a change in estimate to be reported as part of the current period disclosures, the Exposure Draft proposes that comparative information which reflects updated estimates be disclosed, except when this would be impracticable —ie the comparatives would be restated to reflect the better estimate.

The Exposure Draft also includes a proposed requirement that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements, to the extent possible.

011-AP. (a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

- Broadly Agree

011-AR. Please explain your answer:

N/A

011-BP. (b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

- Broadly Agree

011-BR. Please explain your answer:

Where there has been a series break, both metrics should be reported.

011-CP. (c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

- Broadly Agree

011-CR. Please explain your answer:

We are not aware of any circumstances where this requirement cannot be applied.

Question 12—Statement of compliance (paragraphs 91–92)
The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements.

The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards.

012-AP. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

- Broadly Agree

012-AR. Please explain your answer:
As stated previously, some information is better than none.

Question 13—Effective date (Appendix B)
The Exposure Draft proposes allowing entities to apply the Standard before the effective date to be set by the ISSB. It also proposes relief from the requirement to present comparative information in the first year the requirements would be applied to facilitate timely application of the Standard.

013-AR. (a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.
Reprogramming our software to support the addition of text fields and guidance will take our business and IT team 3 months full-time, assuming no other duties, which of course we always have. Our clients will need to start collecting data a year prior, and will need preparation time. Based on this, we would suggest most of our clients would be able to be compliant given a two year gap between the issuance of a final standard and the effective date.

013-AP. (b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

- Broadly Agree

013-AR. Please explain your answer:
There are going to be issues initially. There should be no disadvantage from moving early.

Question 14—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of sustainability-related risks and opportunities. Those needs may be met by requirements set by others, including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

014-AP. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

- Other

014-AR. Please explain your answer:
We suspect most of our small enterprise customers will have difficulty in assessing enterprise value, as they have no obvious market value in the way listed companies do. Likewise, they are not well-equipped to estimate how their value will be affected by changes in interest rates. We believe the height of the bar in terms of what is acceptable needs to vary by enterprise size.

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption as compared to paper-based consumption is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S2 *Climate-related Disclosures* Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

015-AR. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

The evidence from our own client base suggests that the emissions intensity of an enterprise is heavily correlated with its industry classification. It would be helpful to adopt common standards for the classification of enterprises, otherwise every country will use a different standard and results will be harder to analyse across national borders, lowering the potential benefits from implementing a global standard. Given that International Standard Industrial Classification (ISIC) is so outdated that it is unusable, and it would take 5-10 years to update ISIC, we suggest adopting the Standard & Poors Global Industry Classification Standard (S&P GICS), at least for the medium term. Countries may then wish to add their local standards to this (e.g. Australia would probably use the Australia New Zealand Standard Industry Classification (ANZSIC) as well as S&P GICS). While there are dangers in adopting any private sector standard, at least this one has a long history and is regularly updated, so it is fit to apply to the green economy, the blue economy, the IT industry, and all the other industries that didn't exist the last time ISIC or most classification standards "maintained" by national statistical organisations were updated.

Question 16—Costs, benefits and likely effects
The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.

016-AR. (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

Yes.
We are concerned that the proposals are heavily focused on the investor community and not designed to benefit stakeholders more broadly. We would like to see more consideration of shareholder privacy as well as stakeholder capitalism. Publication of an enterprise's response to the IFRS general requirements should not require so much detail that this would put that enterprise's strategies or survival at risk by making its plans transparent to competitors.
2. IFRS has not asked for any detail on where electricity is coming from. Some granularity is required. One emissions factor may be appropriate for small countries where there is little if any variation in how electricity is generated. It is not appropriate for large countries where some states/provinces/counties are heavy users of renewables and others are heavy users of fossil fuels. Having only one emissions factor for the whole of the USA seems to us to be a very significant flaw.

GR16B. (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

Please give thought to how to support the automation of the collection and assessment of information. We have seen some environmental proposals fall over because of high costs of compliance and administration. In this instance, because the focus has clearly been on enabling better investor choices, there may also be costs to enterprises through a degree of transparency that could potentially be harmful to their ability to compete.

Question 17—Other comments

017-AR. Do you have any other comments on the proposals set out in the Exposure Draft?

No

Comment Letter - IFRS S2 Climate-related Disclosures

Organisation: Future Super

Note: Future Super's responses are in blue text.

Question 1—Objective of the Exposure Draft

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

- to assess the effects of climate-related risks and opportunities on the entity's enterprise value;
- to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and
- to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.

  Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

    (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

    (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

    (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

Q1(a): Partially agree.

We support the rationale provided in paragraph BC22 of the Basis for Conclusions but do not believe the objective of the Exposure Draft adequately reflects this. Paragraph BC22 appropriately references governance, strategy, risk management, metrics and targets as the types of mix of information needed to understand an entity's climate-related risks and opportunities. However, only strategy is referred to in Paragraph 1 (a) to (c) of the Exposure Draft with the other types of information only inferred. Including such references in the objective would be consistent with how the rest of the content in the Exposure Draft is presented. Altering the wording would also facilitate a simplification of the terms used.

Alternate proposal:

Paragraph 1 (b) could instead read:

"to understand how the entity's use of resources including risk management, and corresponding activities, outcomes and metrics support the entity's response to and strategy for managing its significant climate-related risks and opportunities."

Q1(b): Partially agree - see above.

Q1(c): Partially agree - see feedback throughout the rest of this submission.

Question 2—Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate- related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate- related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

PARTIALLY AGREE

> *5 (b) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;*
>
> *5 (g) a description of management's role in assessing and managing climate related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee.*

Guidance does not include explicit requirement to disclose the scope of decision-making authority afforded to the body responsible for oversight of climate related risks & opportunities. It may be that the body makes decisions and recommendations that are not observed by other organisational units. This information would be relevant to users of the disclosure, but is not explicitly required by the proposed standard.

Alternate proposal:

Clause 5 (b) could be expanded to include specific reference to decision making authority in relation to other organisational units as part of (or as well as) the terms of reference.

Question 3—Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

> (a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?
> (b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

(a) Requirement sufficiently clear? **PARTIALLY**

> *9 (a) a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium* ***<u>or</u>*** *long term*

The use of conjunction OR in this clause leaves open the possibility for entities to disclose only part of the climate risks and opportunities, and exclude different time periods that might still have relevance. e.g. disclose only short or medium term risks, but omit long term risks.

Alternative proposal:

> Using the conjunction AND instead eliminates this loophole.

(b) Agree with disclosure of industry-specific climate risks and opportunities? **YES.**

No additional suggestions for additional requirements, after reviewing the appendix volume B-15 Asset Management & Custody Activities. These are comprehensive.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

While the proposed disclosure requirements on climate-related risks and opportunities work well in helping an entity understand it's own risk to climate-related events, what could be improved is a disclosure on what role the entity plays in the collective system and where they operate, and how their day-to-day business may exacerbate or contribute to the climate-related risks they face. Only paying attention to how climate-related risks impact an individual entity without understanding the role the entity plays in a wider, connected system can lead to entities being tunnel visioned into protecting themselves and or the financial gains of their shareholders.

(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

The benefits of having a qualitative disclosure with regards to understanding climate-related risks and opportunities provides flexibility for a range of entities to report – which is necessary for the broad range of entities that will be reporting. The potential drawback to the qualitative nature is that entities may report in ways that position them in a better light with regards to the climate-related risks and opportunities they face. Careful wording, definitions and guard rails should be put in place in the final reporting framework to encourage honest reporting, while at the same time not being too prescriptive at the risk of losing potential reportees.

Question 5—Transition plans and carbon offsets

Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate- related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
(c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?
(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

INPUT:

(a) Future Super supports requiring businesses to report on climate risks and plans to achieve climate related targets, because they will prove "important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities".

(b) Additionally, we would like to see reporting on how business risks, opportunities and targets correspond to Paris aligned goals. I.e., what temperature the overall business is aligned with at time of reporting, and how the temperature business targets align to (ideally 1.5 degrees)

(c) While the proposed offset disclosures will require some important reporting - specifically around removal vs avoidance, the credibility of offsets and their permanence - we believe any climate related reporting must emphasise the need to prevent as much emission as is possible before using offsets. Therefore, **organisations must be held accountable to prove and report that offsets are used only for hard-to-abate emissions, and not as a substitute for decarbonising their value chains to the fullest extent possible.** Additionally, we would welcome reporting (perhaps via the appendix) details about independent auditing, verification and certification of offsets. Australia, like many other jurisdictions, has seen a rise in "junk" offsets even in methodologies traditionally considered robust. Mandatory reporting will increase the integrity of offsets and allow users to compare and understand how meaningful these offsets truly are.

(d) The current proposal does not put additional burden on preparers to gather data or information. The data required surrounding emissions and offsets should already be accessible to companies who are thorough with their due diligence of climate impacts and the offsets they buy. As stated above, we would welcome reporting on whether offsets are used as a last resort for hard to abate emissions, or whether they're simply used as substitutes for preventing emissions in the first place. While this reporting requirement may increase the burden on organisations, it will play a vital role in increasing users' understanding of how a company approaches climate action and their willingness to make meaningful contributions in order to realise Paris goals.

Question 6—Current and anticipated effects

The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?
Agree where quantitative data is an enhancement of qualitative data. Where quantitative data is separate from qualitative, disclosure requirements could be: "Quantitative and qualitative information…unless they are unable to provide quantitative data, in which case only qualitative data can be provided."

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?
Agree

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?
Agree

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks. These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using:
    - climate-related scenario analysis; or
    - an alternative technique.

      Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk- management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

      Although scenario analysis is a widely accepted process, its application to climate- related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

      Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate- related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

Yes, the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy, as it provides specific guardrails for a user to provide sufficient information on the entity. However, further clarification is required around paragraph 15(a)(iii), where entities may have varied definitions over what encompasses short, medium, and long term horizons. The risk in a lack of clarification around this term gives way to entities who underestimate the length of their long term horizon, to overestimate their resilience to climate-related changes.

(b) The Exposure Draft proposes that if an entity is unable to perform climate- related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

(i) Do you agree with this proposal? Why or why not?

Yes - this proposal acknowledges the difficulty of some entities to perform a scenario analysis, especially entities that may not have the sufficient resourcing or capacity to perform a scenario analysis.

(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

Yes – disclosing why would provide information on what potential roadblocks there might be in undertaking a climate-related scenario analysis.

(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

A mandatory application should be required if there are opportunities for smaller and less resourced entities to be given some form of assistance in the scenario analysis.

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

Yes – section (b)(i)(8) is also a great consideration and addition to the proposed disclosures because it helps entities think about their position in the wider system, and the importance and influence external stakeholders and forces play in the transition to a lower-carbon economy.

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

Yes, as it provides entities with a starting point on alternatives to a climate-scenario analysis.

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

Yes – we need a robust and uniform way of reporting in order to gather information on how an entity views their resilience to climate change. The costs of applying such requirements are not too high in comparison to the benefits reaped from this additional information.

Question 8—Risk management

An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

AGREE with proposed disclosure requirement. For regulated financial institutions in Australia, current regulations require risk management frameworks and processes to be in place. This should result in minimal effort needed to comply with this proposed disclosure requirement.

Question 9—Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metrics and metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.
  The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.
  The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.
  To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:
    - separately Scope 1 and Scope 2 emissions, for:
        - the consolidated accounting group (the parent and its subsidiaries);
        - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
    - the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.
  Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non- mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?
(b) Are there any additional cross-industry metric categories related to climate- related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.
(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?
(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3— expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?
(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:
    (i) the consolidated entity; and
    (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?
(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

(a) **PARTIALLY**

21 (a) (ii) … greenhouse gas emissions intensity for each scope in paragraph 21(a)(i)(1)–(3), expressed as metric tonnes of CO2 equivalent per unit of physical or economic output;

This definition leaves scope for multiple interpretations of emissions intensity, which will hamper comparability between different entities. A more prescriptive minimum technical requirement for emissions intensity calculation would result in the availability of more standardised metrics and hence easier comparisons between entities.

Alternative proposal:

Minimum disclosure requirement of emissions intensity on the basis of enterprise value (rather than market cap).

The requirement for *Asset Management and Custody Activities* (Volume B-15) should require emissions intensity per unit of reporting currency (e.g. per $million invested).

Question 10—Targets

Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
The disclosure could be expanded to include:

- An explanation of why targets are not aligned to the latest international agreements, if they are not.
- The planned frequency of review and assessment against these targets.
- Measures of progress against existing targets.

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?
Yes - the definition is sufficiently clear

Question 11—Industry-based requirements

The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?
(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?
(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?
(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon

Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?
(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?
We agree with the requirements for asset managers (B-15), these proposals are comprehensive. We have no comments re: other industries.

(k) Are there any additional industry-based requirements that address climate- related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.
(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

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Limited Liability of Members

International Sustainability Standards Board
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London, E14 4HD

28 July 2022

Dear International Sustainability Standards Board,

Executive Summary

Thank you for inviting comments on the ISSB's recently published Exposure Draft IFRS S1 (*General Requirements for Disclosure of Sustainability-related Financial Information)* and Exposure Draft IFRS S2 (*Climate-related Disclosures*), the **Exposure Drafts**. The G100 supports the disclosure of robust, comparable and decision useful information as part of the urgent response needed to mitigate climate, and other environmental and social risks.

In seeking to support the emergence of widely adopted and consistent standards and by drawing upon some of the existing reporting frameworks, the Exposure Drafts represent a helpful contribution, and we welcome further consultation as these standards are developed.

The G100 is a signatory to the Australian Voice submission representing the voice of combined peak professional, industry, and investor bodies in Australia. In addition to this overarching response, the G100 being Australia's peak body for CFOs and senior finance professionals provide the following comments that build on the Australian Voice submission in areas of particular interest to our membership. Our purpose is to create better businesses for tomorrow, and part of how we deliver this is to pro-actively contribute on a business-to-government level on matters affecting business regulation, financial reporting, corporate governance, capital markets, taxation, and financial management.

We believe that any non-financial or ESG-related disclosure standards should be underpinned by the following considerations:

1) Provide a principles-based framework for the structure and minimum reporting requirements of this regime.

2) Align with relevant existing reporting standards to promote harmonization and convergence, to the greatest extent possible.
3) Align with financial reporting concepts to ensure the entity boundaries for both financial and climate (or other environmental or social reporting) adheres to the same definitions
4) Consider the nature of materiality and recognize that climate, environmental and other social risks, and opportunities vary across industries. The assessment of risks and opportunities should occur as a first step, with the overlay of materiality to investors added second.
5) Have sufficiently clear guidelines that enable preparers to report in a transparent, consistent, and comparable manner. Linking to existing reporting regimes will help limit the need for extensive footnotes and supplemental disclosures and ensure verifiability.
6) Recognize that the understanding and reporting of the less advanced environmental and social factors and the immature nature of the reporting systems and processes that underpin these sustainability-related items prove a challenge for all entities. In the absence of clear reporting methodologies and guidance these areas are not able to meet the same level of assurance as climate-related reporting.
7) Address the broad set of environmental, social, and economic issues that materially impact decision making, starting with climate, and then moving promptly to other topics.

In summary, we believe that S1, as a framework setting standard, could be better focussed on establishing broad principles against which other standards are prepared against, rather than setting the detailed rules in itself. Furthermore, in relation to S2, we have some concern that the magnitude of the requirements limits the ability for assurance to be provided on full compliance. In this respect, other international alternate approaches could link the proposed climate standard to current carbon and energy reporting regimes, for example the GHG Protocol Standards which would allow for comparable and verifiable reporting.

Our consultation process and subsequent assessment of the requirements of the proposed standards is referenced against the request of the Financial Stability Board (FSB) to incorporate the Taskforce on Climate-related Financial Disclosures (TCFD) into the annual filings of entities and to create a climate-related financial standard that can then be used as the foundation for other ESG reporting. We have also referenced feedback we have received from our own stakeholders, investors, and shareholders, regarding what they would like included in the financial filings based on its usefulness in capital allocation decisions.

The feedback from the report preparers is a chorus in support of the need for the adoption of a consistent set of climate standards that allows them to report information once to fulfil different stakeholder needs. Once this requirement has been met expansion of the reporting requirements to other social and environmental areas will then need to occur.

We welcome the ISSB’s consultation on the Exposure Drafts for the IFRS sustainability disclosure standards as an important step to meeting these different needs, in particular where there are clear links to financial reporting. The ISSB and the IFRS Foundation are well placed to build upon existing expertise in developing robust, reliable, and independent global standards, and to ensure that any new climate, environment, social or sustainability-related disclosures connect and integrate with existing IFRS standards.

Observations

In response to the ISSB's consultation, we offer the following observations and perspectives, building upon the commentary above, to deliver the information needed to enable informed decision making in relation to climate and other ESG issues. We hope the ISSB will consider these perspectives and continue to consult into the future as these standards evolve.

1) **Align with relevant existing reporting standards to promote harmonization and convergence, to the greatest extent possible (IFRS S1 Questions 3, 14)**

There is an urgent need for a global set of internationally recognized climate, environment, social and sustainability disclosure standards. There is already a small number of globally recognized standard setters and framework providers, such as TCFD, GRI, SASB and IIRC, whose standards are adopted in varying degrees by companies, investors, regulators, and other stakeholders. We believe global CESG disclosure standards should build upon the work of these existing bodies, enabling continued convergence and promoting widespread global adoption. As noted by the FSB the TCFD framework is the only one of the above frameworks to receive widespread, rapid acceptance by the capital markets sector, hence the FSB request to use this framework first.

We support the ISSB's alignment to several existing standards and frameworks as evidenced by the Exposure Drafts. We encourage the ISSB to continue to promote consolidation and harmonization with existing standards. We believe the ISSB is well suited to establish a comprehensive baseline that can enhance compatibility and interoperability to deliver a global disclosure system. However, this requires the ISSB to undertake additional technical work with other standard setters to align definitions and achieve consistency, particularly in relation to the diverging applications of materiality. As noted above the G100 has concerns regarding the identification of significant sustainability risks and opportunities in the standard, our view is that you assess the risks and opportunities, then identify material disclosures for investors.

It will also require the ISSB to think about practical mechanisms to maintain consistency into the future, including as additional sustainability-related topics are addressed. The ISSB's working group to enhance compatibility between its global baseline and jurisdictional initiatives is an initial step in this direction, but more focus is required.

2) **The materiality of sustainability-related risks and opportunities is dynamic and industry-specific (IFRS S1 Question 8)**

The ISSB has decided to focus on enterprise value to assess the materiality of sustainability-related risks and opportunities. Our experience with sustainability disclosure finds that materiality is dynamic, with sustainability-related risks and opportunities moving across the materiality spectrum. As a result, under the ISSB's definition, preparers may find themselves 'guessing' primary users' expectations on what constitutes enterprise value.

Our experience has found that the materiality of ESG-related risks and opportunities can vary based on an organization's business model, industry, and geography. Careful consideration should be given to sector and geographical sustainability issues as standards are developed. It is important that the nuances and detail are addressed. We support the disclosure of industry-specific reporting requirements and a common global baseline; however, we are concerned with the volume and usefulness of SASB industry metrics within S2 and consider this could be prohibitive to adoption within jurisdictions, particularly as more domestic compliance standards are developed. Further, the choice of metrics for industries currently reflects the US market and are largely unchanged from the existing SASB standards, as a result they have minimal international relevance and consideration should be given to removing entirely or for industry metrics to be encouraged but not specified.

Alternatively, the appendix B should link requirements to an established regime such as the GHG Protocol which has already been materially adopted domestically in many jurisdictions (because of country level reporting requirements under the Paris Agreement).

3) **Clear guidance is needed to enable comparability and to produce assurance-ready disclosures (verifiability), particularly on definitions, estimates and assumptions (IFRS S1 Questions 1, 2, 7)**

Investors and other stakeholders require disclosures to be comparable to allow informed decision making. Reporting entities require clear guidance to prepare such disclosures, particularly regarding applying consistent definitions, assessing enterprise value, using estimates, and disclosing assumptions, while also avoiding the need for lengthy notes on data limitations. For example, of concern is the misalignment between the reporting entity concept (analogous to the Scope 1 and 2 "Operational Control test") and the ESG reporting boundaries that extend to the full supply chain (eg Scope 3).

Regulators proposing assurance requirements on sustainability disclosures require clear guidance that will facilitate assurance. As noted above, in the climate-related financial reporting area this standard is already defined by the TCFD and GHG Protocol, (in the Australian context also linking to the domestic compliance regime) and allows for immediate inclusion of assurance criteria as this reporting regime already meets the reasonable assurance level. This assurance criteria would link directly via the inclusion of these reporting regimes as Appendix B, instead of the SASB standards.

Currently key terms are not well-defined and left open to interpretation, hence preparers and users may apply different judgments to the meaning of the disclosures, impacting comparability and usability. For example, the Exposure Drafts require an entity to disclose material information about all significant sustainability-related risks and opportunities. It would be beneficial to clarify whether the terms "material" and "significant" have different meanings, or whether instead they are used interchangeably. Other key terms requiring clearer definitions and guidance are "sustainability", "enterprise value" and what information is considered useful or relevant to assess enterprise value (in particular, with regards to paragraph 6(c)).

We observe that there are several challenges to ensuring the comparability and verifiability of sustainability-related information including differences in the underlying methodologies applied, limited disclosures on estimates and assumptions, and preparers applying their own interpretation of the guidance. Also, we note that the Exposure Drafts do not prescribe specific methodologies, which could lead to a variety of methods and assumptions being adopted. While we appreciate the flexibility in approaches, ensuring consistency over time would be key as the standards are subsequently updated. A particular area of concern relates to Scope 3 emissions, which require assumptions, estimations, and proxies as well as input from a variety of internal and external sources.

Another area of concern is the set of provisions under paragraph 54 which refer to the possibility of using metrics associated with disclosure topics from other standard-setting bodies, in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity. This openness results in significant challenges in relation to adoption, comparability, and verifiability of disclosures.

The ISSB should work closely with the IAASB, as the globally recognized assurance standard setter, to ensure that its standards constitute suitable criteria for assurance purposes.

1) **Data quality will improve over time (IFRS S1 Questions 4, 9, 11)**

Preparers today are developing the systems and processes required to provide relevant, transparent ESG disclosures in an effective and efficient way. This includes efforts to improve data quality and to align the robustness of ESG-related financial reporting with that used for traditional financial reporting. Clarity in the linkage to guidance, as discussed above, will support these efforts. However, it will also take time for reporting entities to implement the required systems and to upskill teams to be able to respond in an effective manner. Additionally, it is essential to note that there is inherent uncertainty in sustainability-related disclosures which will not change over time. This includes the underlying completeness and accuracy of data points such as modern slavery and ethical sourcing data and definitions, Scope 3 emissions measurement, challenges to assess completeness for environmental spills, the context-specific nature of social capital disclosures, and the nascent nature-based reporting.

We recommend that the ISSB recognizes the evolving nature of the reporting systems and processes that facilitate ESG-related financial reporting. As these systems further develop, preparers will be able to provide such disclosures in a more complete and timely manner. In the interim, we recommend the ISSB emphasize decision-useful information

Considering the data challenge, we recommend the following:

- Start with the remit being climate first. Establish a C1 standard of principles.
- Require disclosures on the governance processes, controls, and procedures with regards to CESG-related risks and opportunities
- Considering phasing in some of the most challenging requirements over several reporting cycles as the ESG reporting standards evolve, we recommend the ISSB recognize that the data quality underlying such reporting (excluding Scope 1 and 2) will improve over time and consider this evolution in the development of the standards.
- Maintaining the proposed requirements around comparative information (not required on year of adoption),

Ultimately, disclosures are intended to support climate action. The focus should therefore be maintained on decision useful information, which in some cases does not require ‘perfect’ data. If disclosure requirements act as a barrier to setting ambitious targets and the allocation of capital towards sustainable outcomes, they are likely to be counterproductive. Enabling organizations to report in a transparent way despite quality constraints will be essential.

2) **Connectivity between financial and sustainability-related information (IFFRS S1 Question 6, IFRS S2 Question 6)**

The environmental, social, and economic issues covered by sustainability disclosure standards frequently have implications for financial reporting. For example, sustainability factors may impair goodwill, reduce the value and useful life of an asset, or have implications for an entity’s inventory balances.

We welcome the recognition by the ISSB of the need for reporting entities to assess and disclose the connectivity between traditional financial reporting and ESG-related financial reporting. However, we note that there are limited details on when this would be required and how it would be done, in particular with regards to the disclosure of quantitative information (eg potential financial impacts of climate-related risks).

These include a requirement to detail “connection” between sustainability-related reporting and other information including:

- Financial statements - to describe how significant sustainability-related risks and opportunities impact financial statements over time;
- Business model and value chain - to describe the strategies responding to significant sustainability-related risks and opportunities including how they impact the business model and value chain;
- Strategy and cash flows - to include an analysis of the resilience of strategy and cash flows to significant sustainability-related risks and opportunities; and
- Other sustainability-related information - to explain the connection between various sustainability related risks and opportunities.

In our judgement, reporting of "connection" in this way will be incredibly difficult to achieve. For four main reasons, we ask that these elements be excluded from the Exposure Drafts:

1. the proposed reporting of "connection" is extremely complex and therefore both incapable of credible assurance and likely to be so extensively qualified that it would be of no value to users of sustainability reporting. This is, in part, because it would necessitate extensive, multi-dimensional scenario analysis on a potentially wide range of issues. For instance, on each material sustainability-related issue, the analysis would need to consider a range of sustainability outcomes (eg very strong through weak waste diversion from landfill performance), and for each of those outcomes, the analysis would imply a wide range of financial implications for each financial statement. Especially in the early years of the adoption, it is unrealistic to expect this kind of highly sophisticated analysis for reporting purposes, and even if it were done, it is unlikely that the output would help with an assessment as to whether to provide resources to that entity. Instead, this kind of analysis is best done by users of sustainability reporting - drawing upon metrics reported and their own views around strategy and future scenarios.
2. references to "connection" include forward looking dimensions which (in addition to the complexity noted above) would introduce significant new risk for reporting entities. Generally, on account of heightened risk, most reporting entities are reluctant to report forecasts. Including forecasts in the Exposure Drafts will likely prompt extensive opposition among reporting entities and introduce new risks (like, for instance, class action risks).
3. there is no precedent for reporting "connection" in the TCFD framework. The TCFD framework encourages reporting entities to undertake scenario analysis, but not to extend the analysis (for reporting purposes) to financial statements, business model, value chain, strategy, and other sustainability issues. To the extent it is of interest, this is left to the users of reporting.
4. there is no similar reporting of "connection" in the IASB standards. For instance, reporting entities are not required to explain the connection between commercial, strategic, or financial issues and the financial statements over time.

3) **Timing of disclosure standards**

Given the urgency of the climate crisis, as well as significant investor demand for climate-related disclosures, we welcome the Exposure Draft IFRS S2 on climate-related disclosures. We also support the inclusion of disclosure for Scope 1, 2, emissions including reasonable assurance based on the GHG Protocol as this is consistent with current disclosure practices and reflective of the approach needed for preparers and users to comprehensively understand climate-related risks and opportunities. We also support the inclusion of Scope 3 emissions however as noted above these may not meet the same assurance levels due to their estimated nature.

We note that other pressing environmental and social risks are closely integrated with climate and a focus on climate only will not provide the complete ESG reporting standards needed by investors and other stakeholders. Recognising that it will take some time for the standards to be implemented and for reporting to mature, we encourage the ISSB to move forward with other ESG disclosure standards soon after the framework and principles are finalised, leveraging the volumes of ESG disclosure standards used on a voluntary basis today and working in close cooperation with other standard setters to achieve consistency and alignment.

Conclusion

The draft proposed IFRS sustainability disclosure standards represent an important step forward towards ensuring that investors and other organizations have the information needed to address significant ESG-related risks and opportunities. There will, however, likely still be regional variation in reporting requirements, as well as demands from investors and other stakeholders for additional disclosure, addressing an organization's broader impact. Companies will also continue to receive reporting requests from the growing set of ESG ratings and indices. Agility and regular stakeholder engagement with a wide set of individuals and organizations will be key for the ISSB to ensure their standards deliver on user needs and remain relevant.

Thank you for the opportunity to respond to this consultation. We would be delighted to discuss any of our comments in more detail should further input be of assistance.

Kind regards

Martyn Roberts
Chair Group of 100 Inc
Group CFO - Ramsay Health Group

Stephen Woodhill
CEO + Executive Director
Group of 100 Inc

AY-2. Are you responding as an individual, or on behalf of an organisation?

- Organisation

AY-3. Please provide the name of the organisation you are responding on behalf of:

Group of 100 (Australia)

Question 1—Objective of the Exposure

Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity is required to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

- to assess the effects of climate-related risks and opportunities on the entity's enterprise value;
- to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and
- to evaluate the entity's ability to adapt its planning, business model and operations to climate-related risks and opportunities.

Paragraphs BC21–BC22 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

01-AP. (a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

- Broadly Agree

01-AR. Please explain your answer:

N/A

01-BP. (b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

- Broadly Agree

01-BR. Please explain your answer:

N/A

01-CP. (c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

- Broadly Disagree

01-CR. Please explain your answer:

Any non-financial or ESG-related disclosure standards should be underpinned by the following considerations:
1) Provide a principles-based framework for the structure and minimum reporting requirements of this regime.
2) Align with relevant existing reporting standards to promote harmonization and convergence, to the greatest extent possible.
3) Align with financial reporting concepts to ensure the entity boundaries for both financial and climate (or other environmental or social reporting) adheres to the same definitions
4) Consider the nature of materiality and recognize that climate, environmental and other social risks and opportunities vary across industries. The assessment of risks and opportunities should occur as a first step, with the overlay of materiality to investors added second.
5) Have sufficiently clear guidelines that enable preparers to report in a transparent, consistent and comparable manner. Linking to existing reporting regimes will help limit the need for extensive footnotes and supplemental disclosures and ensure verifiability.
6) Recognize that the understanding and reporting of the less advanced environmental and social factors and the immature nature of the reporting systems and processes that underpin these sustainability-related items prove a challenge for all entities. In the absence of clear reporting methodologies and guidance these areas are not able to meet the same level of assurance as climate-related reporting.
7) Address the broad set of environmental, social and economic issues that materially impact decision making, starting with climate and then moving promptly to other topics.

Question 2—Governance

Paragraphs 4 and 5 of the Exposure Draft propose that an entity be required to disclose information that enables users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities. To achieve this objective, the Exposure Draft proposes that an entity be required to disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities.

The Exposure Draft's proposed governance disclosure requirements are based on the recommendations of the TCFD, but the Exposure Draft proposes more detailed disclosure on some aspects of climate-related governance and management in order to meet the information needs of users of general purpose financial reporting. For example, the Exposure Draft proposes a requirement for preparers to disclose how the governance body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies. The related TCFD's recommendations are to: describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing climate-related risks and opportunities.

Paragraphs BC57–BC63 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

02-AP. Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

- Broadly Disagree

02-AR. Please explain your answer:

We agreed and support the Exposure Draft's proposed governance disclosure requirements being based on the recommendations of the TCFD, however, it is our view that the ED goes significantly beyond these requirements.

Question 3—Identification of climate-related risks and opportunities

Paragraph 9 of the Exposure Draft proposes that an entity be required to identify and disclose a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity would be required to refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

Paragraphs BC64–BC65 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

03-AP. (a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

- Broadly Disagree

03-AR. Please explain your answer:

The requirement for ALL of the disclosure topics defined in the industry disclosure requirements (Appendix B) is excessive and places a significant burden on reporting entities.

03-BP. (b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

- Broadly Disagree

03-BR. Please explain your answer:

N/A

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

Paragraph 12 of the Exposure Draft proposes requiring disclosures that are designed to enable users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on an entity's business model, including in its value chain. The disclosure requirements seek to balance measurement challenges (for example, with respect to physical risks and the availability of reliable, geographically-specific information) with the information necessary for users to understand the effects of significant climate-related risks and opportunities in an entity's value chain.

As a result, the Exposure Draft includes proposals for qualitative disclosure requirements about the current and anticipated effects of significant climate-related risks and opportunities on an entity's value chain. The proposals would also require an entity to disclose where in an entity's value chain significant climate-related risks and opportunities are concentrated.

Paragraphs BC66–BC68 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

04-AP. (a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?

- Broadly Agree

04-AR. Please explain your answer:

N/A

04-BP. (b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

- Broadly Agree

04-BR. Please explain your answer:
N/A

Question 5—Transition plans and carbon offsets
Disclosing an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

Paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for the entity's enterprise value over the short, medium and long term. The Exposure Draft therefore includes disclosure requirements about the use of carbon offsets in achieving an entity's emissions targets. This proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

The Exposure Draft proposes that entities disclose information about the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when it is compared to a baseline. Avoided-emission approaches in an entity's climate-related strategy are complementary to, but fundamentally different from, the entity's emission-inventory accounting and emission-reduction transition targets. The Exposure Draft therefore proposes to include a requirement for entities to disclose whether the carbon offset amount achieved is through carbon removal or emission avoidance.

The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility of the offsets used by the entity such as information about assumptions of the permanence of the offsets.

Paragraphs BC71–BC85 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

05-AP. (a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?
- Other

05-AR. Please explain your answer:
Given the urgency of the climate crisis, as well as significant investor demand for climate-related disclosures, we welcome the Exposure Draft IFRS S2 on climate-related disclosures. We also support the inclusion of disclosure for Scope 1, 2, emissions including reasonable assurance based on the GHG Protocol as this is consistent with current disclosure practices and reflective of the approach needed for preparers and users to comprehensively understand climate-related risks and opportunities. We also support the inclusion of Scope 3 emissions however as noted above these may not meet the same assurance levels due to their estimated nature.
We note that other pressing environmental and social risks are closely integrated with climate and a focus on climate only will not provide the complete ESG reporting standards needed by investors and other stakeholders. Recognising that it will take some time for the standards to be implemented and for reporting to mature, we encourage the ISSB to move forward with other ESG disclosure standards in the near future after the framework and principles are finalised, leveraging the volumes of ESG disclosure standards used on a voluntary basis today and working in close cooperation with other standard setters to achieve consistency and alignment.

05-BP. (b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.
- Other

05-BR. Please explain your answer:
No comment

05-CP. (c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

- Other

05-CR. Please explain your answer:
No comment

05-DP. (d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

- Other

05-DR. Please explain your answer:
No comment

Question 6—Current and anticipated effects
The Exposure Draft proposes requirements for an entity to disclose information about the anticipated future effects of significant climate-related risks and opportunities. The Exposure Draft proposes that, if such information is provided quantitatively, it can be expressed as a single amount or as a range. Disclosing a range enables an entity to communicate the significant variance of potential outcomes associated with the monetised effect for an entity; whereas if the outcome is more certain, a single value may be more appropriate.

The TCFD's 2021 status report identified the disclosure of anticipated financial effects of climate-related risks and opportunities using the TCFD Recommendations as an area with little disclosure. Challenges include: difficulties of organisational alignment, data, risk evaluation and the attribution of effects in financial accounts; longer time horizons associated with climate-related risks and opportunities compared with business horizons; and securing approval to disclose the results publicly. Disclosing the financial effects of climate-related risks and opportunities is further complicated when an entity provides specific information about the effects of climate-related risks and opportunities on the entity. The financial effects could be due to a combination of other sustainability-related risks and opportunities and not separable for the purposes of climate-related disclosure (for example, if the value of an asset is considered to be at risk it may be difficult to separately identify the effect of climate on the value of the asset in isolation from other risks).

Similar concerns were raised by members of the TRWG in the development of the climate-related disclosure prototype following conversations with some preparers. The difficulty of providing single-point estimates due to the level of uncertainty regarding both climate outcomes and the effect of those outcomes on a particular entity was also highlighted. As a result, the proposals in the Exposure Draft seek to balance these challenges with the provision of information for investors about how climate-related issues affect an entity's financial position and financial performance currently and over the short, medium and long term by allowing anticipated monetary effects to be disclosed as a range or a point estimate.

The Exposure Draft proposes that an entity be required to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (paragraph 14). The requirements also seek to address potential measurement challenges by requiring disclosure of quantitative information unless an entity is unable to provide the information quantitatively, in which case it shall be provided qualitatively.

Paragraphs BC96–BC100 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

06-AP. (a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

- Broadly Agree

06-AR. Please explain your answer:
N/A

06-BP. (b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?
- Broadly Agree

06-BR. Please explain your answer:
The environmental, social and economic issues covered by sustainability disclosure standards frequently have implications for financial reporting. For example, sustainability factors may impair goodwill, reduce the value and useful life of an asset or have implications for an entity's inventory balances.
We welcome the recognition by the ISSB of the need for reporting entities to assess and disclose the connectivity between traditional financial reporting and ESG-related financial reporting. However, we note that there are limited details on when this would be required and how it would be done, in particular with regards to the disclosure of quantitative information (eg potential financial impacts of climate-related risks).

06-CP. (c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?
- Broadly Disagree

06-CR. Please explain your answer:
The requirement to detail "connection" between sustainability-related reporting and other information including:
- Financial statements - to describe how significant sustainability-related risks and opportunities impact financial statements over time;
- Business model and value chain - to describe the strategies responding to significant sustainability-related risks and opportunities including how they impact the business model and value chain;
- Strategy and cash flows - to include an analysis of the resilience of strategy and cash flows to significant sustainability-related risks and opportunities; and
- Other sustainability-related information - to explain the connection between various sustainability related risks and opportunities.

In our judgement, reporting of "connection" in this way will be incredibly difficult to achieve. For four main reasons, we ask that these elements be excluded from the Exposure Drafts:
1. the proposed reporting of "connection" is extremely complex and therefore both incapable of credible assurance and likely to be so extensively qualified that it would be of no value to users of sustainability reporting. This is, in part, because it would necessitate extensive, multi-dimensional scenario analysis on a potentially wide range of issues. For instance, on each material sustainability-related issue, the analysis would need to consider a range of sustainability outcomes (eg very strong through weak waste diversion from landfill performance), and for each of those outcomes, the analysis would imply a wide range of financial implications for each financial statement. Especially in the early years of the adoption, it is unrealistic to expect this kind of highly sophisticated analysis for reporting purposes, and even if it were done, it is unlikely that the output would help with an assessment as to whether to provide resources to that entity. Instead, this kind of analysis is best done by users of sustainability reporting - drawing upon metrics reported and their own views around strategy and future scenarios.
2. references to "connection" include forward looking dimensions which (in addition to the complexity noted above) would introduce significant new risk for reporting entities. Generally, on account of heightened risk, most reporting entities are reluctant to report forecasts. Including forecasts in the Exposure Drafts will likely prompt extensive opposition among reporting entities and introduce new risks (like, for instance, class action risks).
3. there is no precedent for reporting "connection" in the TCFD framework. The TCFD framework encourages reporting entities to undertake scenario analysis, but not to extend the analysis (for reporting purposes) to financial statements, business model, value chain, strategy, and other sustainability issues. To the extent it is of interest, this is left to the users of reporting.
4. there is no similar reporting of "connection" in the IASB standards. For instance, reporting entities are not required to explain the connection between commercial, strategic, or financial issues and the financial statements over time.

Question 7—Climate resilience

The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reporting need to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. Paragraph 15 of the Exposure Draft therefore includes requirements related to an entity's analysis of the resilience of its strategy to climate-related risks.

These requirements focus on:

- what the results of the analysis, such as impacts on the entity's decisions and performance, should enable users to understand; and
- whether the analysis has been conducted using:
    - climate-related scenario analysis; or
    - an alternative technique.

Scenario analysis is becoming increasingly well established as a tool to help entities and investors understand the potential effects of climate change on business models, strategies, financial performance and financial position. The work of the TCFD showed that investors have sought to understand the assumptions used in scenario analysis, and how an entity's findings from the analysis inform its strategy and risk-management decisions and plans. The TCFD also found that investors want to understand what the outcomes indicate about the resilience of the entity's strategy, business model and future cash flows to a range of future climate scenarios (including whether the entity has used a scenario aligned with the latest international agreement on climate change). Corporate board committees (notably audit and risk) are also increasingly requesting entity-specific climate-related risks to be included in risk mapping with scenarios reflecting different climate outcomes and the severity of their effects.

Although scenario analysis is a widely accepted process, its application to climate-related matters in business, particularly at an individual entity level, and its application across sectors is still evolving. Some sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years; others, such as consumer goods or technology and communications, are just beginning to explore applying climate-related scenario analysis to their businesses.

Many entities use scenario analysis in risk management for other purposes. Where robust data and practices have developed, entities thus have the analytical capacity to undertake scenario analysis. However, at this time the application of climate-related scenario analysis for entities is still developing.

Preparers raised other challenges and concerns associated with climate-related scenario analysis, including: the speculative nature of the information that scenario analysis generates, potential legal liability associated with disclosure (or miscommunication) of such information, data availability and disclosure of confidential information about an entity's strategy. Nonetheless, by prompting the consideration of a range of possible outcomes and explicitly incorporating multiple variables, scenario analysis provides valuable information and perspectives as inputs to an entity's strategic decision-making and risk-management processes. Accordingly, information about an entity's scenario analysis of significant climate-related risks is important for users in assessing enterprise value.

The Exposure Draft proposes that an entity be required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience.

Requiring disclosure of information about climate-related scenario analysis as the only tool to assess an entity's climate resilience may be considered a challenging request from the perspective of a number of preparers at this time—particularly in some sectors. Therefore, the proposed requirements are designed to accommodate alternative approaches to resilience assessment, such as qualitative analysis, single-point forecasts, sensitivity analysis and stress tests. This approach would provide preparers, including smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, represents an iterative learning process, and may take multiple planning cycles to achieve. The Exposure Draft proposes that when an entity uses an approach other than scenario analysis, it disclose similar information to that generated by scenario analysis to provide investors with the information they need to understand the approach used and the key underlying assumptions and parameters associated with the approach and associated implications for the entity's resilience over the short, medium and long term.

It is, however, recommended that scenario analysis for significant climate-related risks (and opportunities) should become the preferred option to meet the information needs of users to understand the resilience of an entity's strategy to significant climate-related risks. As a result, the Exposure Draft proposes that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted. Consideration was also given to whether climate-related scenario analysis should be required by all entities with a later effective date than other proposals in the Exposure Draft.

Paragraphs BC86–BC95 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

07-AP. (a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?

- Broadly Agree

07-AR. Please explain your answer:
N/A

(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

07-BiP.
(i) Do you agree with this proposal? Why or why not?
- Broadly Agree

07-BiR. Please explain your answer:
N/A

07-BiiP. (ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?
- Broadly Agree

07-BiiR. Please explain your answer:
N/A

07-BiiiR.
(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?
N/A

07-CP. (c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?
- Broadly Agree

07-CR. Please explain your answer:
N/A

07-DP. (d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?
- Broadly Agree

07-DR. Please explain your answer:
N/A

07-EP. (e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?
N/A

07-ER. Please explain your answer:
The cost and viability of assurance over these disclosures and scenario analysis is concerning with insufficient assurance frameworks currently available to assess this against.

Question 8—Risk management
An objective of the Exposure Draft is to require an entity to provide information about its exposure to climate-related risks and opportunities, to enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on the entity's enterprise value. Such disclosures include information for users to understand the process, or processes, that an entity uses to identify, assess and manage not only climate-related risks, but also climate-related opportunities.

Paragraphs 16 and 17 of the Exposure Draft would extend the remit of disclosures about risk management beyond the TCFD Recommendations, which currently only focus on climate-related risks. This proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of common practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

Paragraphs BC101–BC104 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

08-AP. Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

- Broadly Agree

08-AR. Please explain your answer:
N/A

Question 9—Cross-industry metric categories and greenhouse gas emissions

The Exposure Draft proposes incorporating the TCFD's concept of cross-industry metric categories with the aim of improving the comparability of disclosures across reporting entities regardless of industry. The proposals in the Exposure Draft would require an entity to disclose these metrics and metric categories irrespective of its particular industry or sector (subject to materiality). In proposing these requirements, the TCFD's criteria were considered. These criteria were designed to identify metrics and metric categories that are:

- indicative of basic aspects and drivers of climate-related risks and opportunities;
- useful for understanding how an entity is managing its climate-related risks and opportunities;
- widely requested by climate reporting frameworks, lenders, investors, insurance underwriters and regional and national disclosure requirements; and
- important for estimating the financial effects of climate change on entities.

The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose: greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis; transition risks; physical risks; climate-related opportunities; capital deployment towards climate-related risks and opportunities; internal carbon prices; and the percentage of executive management remuneration that is linked to climate-related considerations. The Exposure Draft proposes that the GHG Protocol be applied to measure GHG emissions.

The GHG Protocol allows varied approaches to be taken to determine which emissions an entity includes in the calculation of Scope 1, 2 and 3—including for example, how the emissions of unconsolidated entities such as associates are included. This means that the way in which information is provided about an entity's investments in other entities in their financial statements may not align with how its GHG emissions are calculated. It also means that two entities with identical investments in other entities could report different GHG emissions in relation to those investments by virtue of choices made in applying the GHG Protocol.

To facilitate comparability despite the varied approaches allowed in the GHG Protocol, the Exposure Draft proposes that an entity shall disclose:

- separately Scope 1 and Scope 2 emissions, for:
    - the consolidated accounting group (the parent and its subsidiaries);
    - the associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and
- the approach it used to include emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group (for example, the equity share or operational control method in the GHG Protocol Corporate Standard).

The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty. However, despite these challenges, the disclosure of GHG emissions, including Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint.

Entities in many industries face risks and opportunities related to activities that drive Scope 3 emissions both up and down the value chain. For example, they may need to address evolving and increasingly stringent energy efficiency standards through product design (a transition risk) or seek to capture growing demand for energy-efficient products or seek to enable or incentivise upstream emissions reduction (climate opportunities). In combination with industry metrics related to these specific drivers of risk and opportunity, Scope 3 data can help users evaluate the extent to which an entity is adapting to the transition to a lower-carbon economy. Thus, information about Scope 3 GHG emissions enables entities and their investors to identify the most significant GHG reduction opportunities across an entity's entire value chain, informing strategic and operational decisions regarding relevant inputs, activities and outputs.

For Scope 3 emissions, the Exposure Draft proposes that:

- an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
- an entity shall disclose an explanation of the activities included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
- if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement; and
- if the entity excludes those greenhouse gas emissions, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure.

Aside from the GHG emissions category, the other cross-industry metric categories are defined broadly in the Exposure Draft. However, the Exposure Draft includes non-mandatory Illustrative Guidance for each cross-industry metric category to guide entities.

Paragraphs BC105–BC118 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

09-AP. (a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

- Broadly Disagree

09-AR. Please explain your answer:

Our experience has found that the materiality of ESG-related risks and opportunities can vary based on an organization's business model, industry and geography. Careful consideration should be given to sector and geographical sustainability issues as standards are developed. It is important that the nuances and detail are addressed. We support the disclosure of industry-specific reporting requirements and a common global baseline; however, we are concerned with the volume and usefulness of SASB industry metrics within S2 and consider this could be prohibitive to adoption within jurisdictions, particularly as more domestic compliance standards are developed. Further, the choice of metrics for industries currently reflects the US market and are largely unchanged from the existing SASB standards, as a result they have minimal international relevance and consideration should be given to removing entirely or for industry metrics to be encouraged but not specified. Alternatively, the appendix B should link requirements to an established regime such as the GHG Protocol which has already been materially adopted domestically in many jurisdictions (as a result of country level reporting requirements under the Paris Agreement).

09-BP. (b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

- Other

09-BR. Please explain your answer:

Our experience has found that the materiality of ESG-related risks and opportunities can vary based on an organization's business model, industry and geography. Careful consideration should be given to sector and geographical sustainability issues as standards are developed. It is important that the nuances and detail are addressed. We support the disclosure of industry-specific reporting requirements and a common global baseline; however, we are concerned with the volume and usefulness of SASB industry metrics within S2 and consider this could be prohibitive to adoption within jurisdictions, particularly as more domestic compliance standards are developed. Further, the choice of metrics for industries currently reflects the US market and are largely unchanged from the existing SASB standards, as a result they have minimal international relevance and consideration should be given to removing entirely or for industry metrics to be encouraged but not specified. Alternatively, the appendix B should link requirements to an established regime such as the GHG Protocol which has already been materially adopted domestically in many jurisdictions (as a result of country level reporting requirements under the Paris Agreement).

09-CP. (c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

- Broadly Agree

09-CR. Please explain your answer:

N/A

09-DP. (d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

- Broadly Agree

09-DR. Please explain your answer:

agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO_2 equivalent;

09-EP. (e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for:

(i) the consolidated entity; and

(ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

- Broadly Agree

09-ER. Please explain your answer:

N/A

09-FP. (f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

- Broadly Disagree

09-FR. Please explain your answer:

Our experience has found that the materiality of ESG-related risks and opportunities can vary based on an organization's business model, industry and geography. Careful consideration should be given to sector and geographical sustainability issues as standards are developed. It is important that the nuances and detail are addressed. We support the disclosure of industry-specific reporting requirements and a common global baseline; however, we are concerned with the volume and usefulness of SASB industry metrics within S2 and consider this could be prohibitive to adoption within jurisdictions, particularly as more domestic compliance standards are developed. Further, the choice of metrics for industries currently reflects the US market and are largely unchanged from the existing SASB standards, as a result they have minimal international relevance and consideration should be given to removing entirely or for industry metrics to be encouraged but not specified. Alternatively, the appendix B should link requirements to an established regime such as the GHG Protocol which has already been materially adopted domestically in many jurisdictions (as a result of country level reporting requirements under the Paris Agreement).

Question 10—Targets
Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those prescribed in the latest international agreement on climate change.

The 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what degree its own targets compare to the targets in the Paris Agreement.

Paragraphs BC119–BC122 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

010-AP. (a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?
- Broadly Agree

010-AR. Please explain your answer:
N/A

010-BP. (b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?
- Broadly Agree

010-BR. Please explain your answer:
N/A

Question 11— Industry-based requirements
The Exposure Draft proposes industry-based disclosure requirements in Appendix B that address significant sustainability-related risks and opportunities related to climate change. Because the requirements are industry-based, only a subset will apply to a particular entity. The requirements have been derived from the SASB Standards. This is consistent with the responses to the Trustees' 2020 consultation on sustainability that recommended that the ISSB build upon existing sustainability standards and frameworks. This approach is also consistent with the TRWG's climate-related disclosure prototype.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. However, the requirements included in the Exposure Draft include some targeted amendments relative to the existing SASB Standards. The proposed enhancements have been developed since the publication of the TRWG's climate-related disclosure prototype.

The first set of proposed changes address the international applicability of a subset of metrics that cited jurisdiction-specific regulations or standards. In this case, the Exposure Draft proposes amendments (relative to the SASB Standards) to include references to international standards and definitions or, where appropriate, jurisdictional equivalents.

Paragraphs BC130–BC148 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals to improve the international applicability of the industry-based requirements.

011-AP. (a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?
- Broadly Disagree

011-AR. Please explain your answer:

The choice of metrics for industries currently reflects the US market and are largely unchanged from the existing SASB standards, as a result they have minimal international relevance and consideration should be given to removing entirely or for industry metrics to be encouraged but not specified. Alternatively, the appendix B should link requirements to an established regime such as the GHG Protocol which has already been materially adopted domestically in many jurisdictions (as a result of country level reporting requirements under the Paris Agreement).

011-B.
(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

Please select which industries you would like to comment on. If you would like to comment on all industries select 'All industries'.

- All industries

If you do not see comment boxes for all of the industries you selected, please move to the next page(s) to view.

011B-ALL1. All industries

We support the disclosure of industry-specific reporting requirements and a common global baseline; however, we are concerned with the volume and usefulness of SASB industry metrics within S2 and consider this could be prohibitive to adoption within jurisdictions, particularly as more domestic compliance standards are developed. Further, the choice of metrics for industries currently reflects the US market and are largely unchanged from the existing SASB standards, as a result they have minimal international relevance and consideration should be given to removing entirely or for industry metrics to be encouraged but not specified. Alternatively, the appendix B should link requirements to an established regime such as the GHG Protocol which has already been materially adopted domestically in many jurisdictions (as a result of country level reporting requirements under the Paris Agreement).

011B-ALL2. All industries (continued)

N/A

011-CP. (c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

- Other

011-CR. Please explain your answer:

SASB compliance in prior periods should be irrelevant.

The second set of proposed changes relative to existing SASB Standards address emerging consensus on the measurement and disclosure of financed or facilitated emissions in the financial sector. To address this, the Exposure Draft proposes adding disclosure topics and associated metrics in four industries: commercial banks, investment banks, insurance and asset management. The proposed requirements relate to the lending, underwriting and/or investment activities that finance or facilitate emissions. The proposal builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

Paragraphs BC149–BC172 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals for financed or facilitated emissions.

011-D.
(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

Please select which industries you would like to comment on. If you would like to comment on all industries select 'All industries'.

- All industries

011D-ALL. All industries
No comment

011-EP. (e) Do you agree with the industries classified as ‘carbon-related’ in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
- Broadly Disagree

011-ER. Please explain your answer:
This is evolving too quickly for it to be set into a solid-state Standard.

011-FP. (f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
- Other

011-FR. Please explain your answer:
No comment.

011-GP. (g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
- Broadly Agree

011-GR. Please explain your answer:
N/A

011-HP. (h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don’t agree, what methodology would you suggest and why?
- Broadly Agree

011-HR. Please explain your answer:
N/A

011-IP. (i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?
- Other

011-IR. Please explain your answer:
N/A

Overall, the proposed industry-based approach acknowledges that climate-related risks and opportunities tend to manifest differently in relation to an entity's business model, the underlying economic activities in which it is engaged and the natural resources upon which its business depends or which its activities affect. This affects the assessment of enterprise value. The Exposure Draft thus incorporates industry-based requirements derived from the SASB Standards.

The SASB Standards were developed by an independent standard-setting board through a rigorous and open due process over nearly 10 years with the aim of enabling entities to communicate sustainability information relevant to assessments of enterprise value to investors in a cost-effective manner. The outcomes of that process identify and define the sustainability-related risks and opportunities (disclosure topics) most likely to have a significant effect on the enterprise value of an entity in a given industry. Further, they set out standardised measures to help investors assess an entity's performance on the topic.

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

While the industry-based requirements in Appendix B are an integral part of the Exposure Draft, forming part of its requirements, it is noted that the requirements can also inform the fulfilment of other requirements in the Exposure Draft, such as the identification of significant climate-related risks and opportunities (see paragraphs BC49–BC52).

011-JP. (j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

- Broadly Disagree

011-IR. Please explain your answer:

N/A

011-KP. (k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

- Other

011-KR. Please explain your answer:

N/A

011-LP. (l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

- Other

011-LR. Please explain your answer:

N/A

Question 12—Costs, benefits and likely effects

Paragraphs BC46–BC48 of the Basis for Conclusions set out the commitment to ensure that implementing the Exposure Draft proposals appropriately balances costs and benefits.

012-AR. (a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

Recognising that it will take some time for the standards to be implemented and for reporting to mature, we encourage the ISSB to move forward with other ESG disclosure standards in the near future after the framework and principles are finalised, leveraging the volumes of ESG disclosure standards used on a voluntary basis today and working in close cooperation with other standard setters to achieve consistency and alignment.

012-BR. (b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

As above.

012-CP. (c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

- Other

012-CR. Please explain your answer:

As above and this is yet to be determined.

Question 13—Verifiability and enforceability

Paragraphs C21–24 of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* describes verifiability as one of the enhancing qualitative characteristics of sustainability-related financial information. Verifiability helps give investors and creditors confidence that information is complete, neutral and accurate. Verifiable information is more useful to investors and creditors than information that is not verifiable.

Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

013-AP. Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

- Yes

013-AR. Please explain your answer:

Investors and other stakeholders require disclosures to be comparable to allow informed decision making. Reporting entities require clear guidance to prepare such disclosures, particularly regarding applying consistent definitions, assessing enterprise value, using estimates and disclosing assumptions, while also avoiding the need for lengthy notes on data limitations. For example, of concern is the misalignment between the reporting entity concept (analogous to the Scope 1 and 2 “Operational Control test”) and the ESG reporting boundaries that extend to the full supply chain (eg. Scope 3).

Regulators proposing assurance requirements on sustainability disclosures require clear guidance that will facilitate assurance. As noted above, in the climate-related financial reporting area this standard is already defined by the TCFD and GHG Protocol, (in the Australian context also linking to the domestic compliance regime) and allows for immediate inclusion of assurance criteria as this reporting regime already meets the reasonable assurance level. This assurance criteria would link directly via the inclusion of these reporting regimes as Appendix B, instead of the SASB standards. Currently key terms are not well-defined and left open to interpretation, hence preparers and users may apply different judgments to the meaning of the disclosures, impacting comparability and usability. For example, the Exposure Drafts require an entity to disclose material information about all significant sustainability-related risks and opportunities. It would be beneficial to clarify whether the terms “material” and “significant” have different meanings, or whether instead they are used interchangeably. Other key terms requiring clearer definitions and guidance are “sustainability”, “enterprise value” and what information is considered useful or relevant to assess enterprise value (in particular, with regards to paragraph 6(c)).

We observe that there are several challenges to ensuring the comparability and verifiability of sustainability-related information including differences in the underlying methodologies applied, limited disclosures on estimates and assumptions, and preparers applying their own interpretation of the guidance. Also, we note that the Exposure Drafts do not prescribe specific methodologies, which could lead to a variety of methods and assumptions being adopted. While we appreciate the flexibility in approaches, ensuring consistency over time would be key as the standards are subsequently updated. A particular area of concern relates to Scope 3 emissions, which require assumptions, estimations, and proxies as well as input from a variety of internal and external sources.

Another area of concern is the set of provisions under paragraph 54 which refer to the possibility of using metrics associated with disclosure topics from other standard-setting bodies, in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity. This openness results in significant challenges in relation to adoption, comparability and verifiability of disclosures.

The ISSB should work closely with the IAASB, as the globally recognized assurance standard setter, to ensure that its standards constitute suitable criteria for assurance purposes.

Question 14—Effective date
Because the Exposure Draft is building upon sustainability-related and integrated reporting frameworks used by some entities, some may be able to apply a retrospective approach to provide comparative information in the first year of application. However, it is acknowledged that entities will vary in their ability to use a retrospective approach.

Acknowledging this situation and to facilitate timely application of the proposals in the Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires entities to disclose all material information about sustainability-related risks and opportunities. It is intended that [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* be applied in conjunction with the Exposure Draft. This could pose challenges for preparers, given that the Exposure Draft proposes disclosure requirements for climate-related risks and opportunities, which are a subset of those sustainability-related risks and opportunities. Therefore, the requirements included in [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* could take longer to implement.

Paragraphs BC190–BC194 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals.

014-AP. (a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?

- The same as

014-AR. Please explain your answer:
N/A

014-BR. (b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.
Two years minimum, would suggest three.

014-CP. (c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

- Broadly Agree

014-CR. Please explain your answer:
N/A

Question 15—Digital reporting
The ISSB plans to prioritise enabling digital consumption of sustainability-related financial information prepared in accordance with IFRS Sustainability Disclosure Standards from the outset of its work. The primary benefit of digital consumption of sustainability-related financial information, as compared to paper-based consumption, is improved accessibility, enabling easier extraction and comparison of information. To facilitate digital consumption of information provided in accordance with IFRS Sustainability Disclosure Standards, an IFRS Sustainability Disclosures Taxonomy is being developed by the IFRS Foundation. The Exposure Draft and [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* Standards are the sources for the Taxonomy.

It is intended that a staff draft of the Taxonomy will be published shortly after the release of the Exposure Draft, accompanied by a staff paper which will include an overview of the essential proposals for the Taxonomy. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation.

015-AR. Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?
N/A

Question 16—Global baseline
IFRS Sustainability Disclosure Standards are intended to meet the needs of the users of general purpose financial reporting to enable them to make assessments of enterprise value, providing a comprehensive global baseline for the assessment of enterprise value. Other stakeholders are also interested in the effects of climate change. Those needs may be met by requirements set by others including regulators and jurisdictions. The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards.

016-AP. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

- Yes

016-AR. Please explain your answer:

The broad scope of the Standards and that it effectively encompasses all other Standards and Frameworks realistically limits how effectively reporting entities can adopt and comply with these Standards, which may ultimately lead to alternative frameworks being adopted in favour of of IFRS / ISSB.

Investors and other stakeholders require disclosures to be comparable to allow informed decision making. Reporting entities require clear guidance to prepare such disclosures, particularly regarding applying consistent definitions, assessing enterprise value, using estimates and disclosing assumptions, while also avoiding the need for lengthy notes on data limitations. For example, of concern is the misalignment between the reporting entity concept (analogous to the Scope 1 and 2 “Operational Control test”) and the ESG reporting boundaries that extend to the full supply chain (eg. Scope 3).

Regulators proposing assurance requirements on sustainability disclosures require clear guidance that will facilitate assurance. As noted above, in the climate-related financial reporting area this standard is already defined by the TCFD and GHG Protocol, (in the Australian context also linking to the domestic compliance regime) and allows for immediate inclusion of assurance criteria as this reporting regime already meets the reasonable assurance level. This assurance criteria would link directly via the inclusion of these reporting regimes as Appendix B, instead of the SASB standards.

Currently key terms are not well-defined and left open to interpretation, hence preparers and users may apply different judgments to the meaning of the disclosures, impacting comparability and usability. For example, the Exposure Drafts require an entity to disclose material information about all significant sustainability-related risks and opportunities. It would be beneficial to clarify whether the terms “material” and “significant” have different meanings, or whether instead they are used interchangeably. Other key terms requiring clearer definitions and guidance are “sustainability”, “enterprise value” and what information is considered useful or relevant to assess enterprise value (in particular, with regards to paragraph 6(c)).

We observe that there are several challenges to ensuring the comparability and verifiability of sustainability-related information including differences in the underlying methodologies applied, limited disclosures on estimates and assumptions, and preparers applying their own interpretation of the guidance. Also, we note that the Exposure Drafts do not prescribe specific methodologies, which could lead to a variety of methods and assumptions being adopted. While we appreciate the flexibility in approaches, ensuring consistency over time would be key as the standards are subsequently updated. A particular area of concern relates to Scope 3 emissions, which require assumptions, estimations, and proxies as well as input from a variety of internal and external sources.

Another area of concern is the set of provisions under paragraph 54 which refer to the possibility of using metrics associated with disclosure topics from other standard-setting bodies, in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity. This openness results in significant challenges in relation to adoption, comparability and verifiability of disclosures.

The ISSB should work closely with the IAASB, as the globally recognized assurance standard setter, to ensure that its standards constitute suitable criteria for assurance purposes.

Question 17—Other comments

017-AR. Do you have any other comments on the proposals set out in the Exposure Draft?

The draft proposed IFRS sustainability disclosure standards represent an important step forward towards ensuring that investors and other organizations have the information needed to address significant ESG-related risks and opportunities. There will, however, likely still be regional variation in reporting requirements, as well as demands from investors and other stakeholders for additional disclosure, addressing an organization’s broader impact. Companies will also continue to receive reporting requests from the growing set of ESG ratings and indices. Agility and regular stakeholder engagement with a wide set of individuals and organizations will be key for the ISSB to ensure their standards deliver on user needs and remain relevant.

Thank you for the opportunity to respond to this consultation. We would be delighted to discuss any of our comments in more detail should further input be of assistance.