Peter Wells, Phd, M Com, FCA
36 Eton Rd
Lindfield NSW 2070
drpeterawells@gmail.com

29 April 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

AASB
Level 14
530 Collins Street
Melbourne VIC 3000
Australia

ED - IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information

I welcome this opportunity to make a submission and would like to comment both generally as well as for specific questions.

General Comment

The development of general purpose financial reporting has been guided for the last 60 years by what we now refer to as conceptual frameworks. This is currently provided by the Conceptual Framework for Financial Reporting, and the concepts underpinning this can be traced to Accounting Research Study No.1, The Basic Postulates of Accounting by Moonitz published in 1961, and Accounting Research Study No. 3, A Tentative Set of Broad Accounting Principles for Business Enterprises by Sprouse and Moonitz published in 1962 by the AICPA. These frameworks identify the objective(s) of financial reporting, the user(s) of financial reports and how the information in financial reports is used. Importantly, this provides fundamental guidance on the scope and content of financial reports. It also provides a discipling mechanism on standard setters and it has contributed to the quality of general purpose financial reports.

Unfortunately, it does not seem that this has been properly considered in the context of what I interpret as an attempt to develop a framework for sustainability reporting. Perhaps the most obvious evidence of this is the emphasis given to the determination of 'enterprise value' in the objective of sustainability reporting (para 1). I believe this is a legacy of strategies to legitimize sustainability reporting and identifying its significance (which we are beyond). Problematically it identifies one specific use of sustainability information, and scant consideration is given to whether this is appropriate for users of information more generally, or how it might be used more generally (i.e., too restrictive).

Furthermore when read in conjunction with S2 it suggests the adoption of a 'stakeholder view' of the firm, where the purpose of reporting is less well developed. This leads to an unfocused consideration of reporting on 'sustainability' generally / widely. Hence the reference to 'enterprise value'. The relevance of this to users generally is not well established. This contrasts with the Conceptual Framework for Financial Reporting which arguably

adopts are 'shareholder view' and identifies the provision of information for decision making as central to the objective of financial reporting.[1] Critically, this provides a broad understanding of the objective of financial reporting, and this could overflow into sustainability reporting. Most problematically, if financial and sustainability reports are prepared on different bases it makes it difficult to envisage how there can be articulation / connectivity.

There are other consequences arising from not understanding who the users of the information are and how the information is used, including:

1. What 'sustainability reporting' should include and the extent to which this can / should be addressed by Sustainability Standards. For example, financial reporting has generally emphasized outcomes from business operations (e.g., sales and earnings and information relevant to assessing future outcomes for earnings) that are (obviously) relevant for decision making. How governance mechanisms are relevant for decision making is less obvious and are not addressed in financial reporting standards. Furthermore, extending sustainability reporting to include governance mechanisms requires assumptions about whether they are necessary and sufficient. A concerning feature of the exposure draft is that it places considerable emphasis on inputs and controls (e.g., governance mechanisms) and there is little rigorous empirical evidence of a causal relation with sustainability outcomes. Most of the governance and management issues addressed in the exposure draft would be more appropriately addressed in domestic legislation, or bodies providing guidance to directors, which would recognize idiosyncrasies in domestic legal and economic environments.
2. How sustainability reporting should address the complication of corporations operating in multiple jurisdictions (industries) with differing legislative requirements (e.g., targets)?
3. How sustainability reporting should address the issue of comparability when corporations adopt different business structures (e.g., leading to differences in Scope 1/2/3 emissions). This might also contribute to corporations adopting different business structures to achieve reporting outcomes (i.e., regulatory arbitrage). There is also the challenge of firms being able to determine volumes of scope 1/2/3 emissions reliably and for this to be verifiable.
4. Finally, the approach seems more consistent with reporting to government, and facilitating aggregation across firms within an economy. This is inconsistent with users and uses more generally and is arguably beyond the scope of general purpose reporting as governments can legislate for the provision of this information. Furthermore, there will be different concerns across jurisdictions. These may be reflective of differences in economic factors but may also be opportunistic as countries endeavor to attracting business (in the same fashion as income tax determination differs and this creates benefits for tax haven).

For these reasons I would recommend that emphasis be given in the objective of sustainability reporting as the 'provision of information for decision making'. This will allow proper consideration of 'users' and 'uses', and allow co-existence of the financial and

[1] This might be argued, but when the Conceptual Framework is considered in conjunction with a range of accounting standards (including but not limited to IFRS 3 Business Combinations, IFRS 9 Financial Instruments, IFRS 11 Joint Arrangements and IFRS 16 Leases) this is more apparent.

sustainability reporting frameworks. It will also provide clearly defined limits on sustainability reporting (not management).

Specific Comments

1. As discussed above I think the focus on 'enterprise value' is problematic, and it would be more appropriate to focus on the 'provision of information for decision making'. This would still lead to consideration of the provision of information about the timing and uncertainty of future cash flows, and this would align well with financial report information. Para 6(b) is consistent with this. Whether this should extend as broadly as suggested other parts of para 6 is doubtful. For example, matters addressed in para 6(a), (c) and (d) most probably belong in the management discussion and analysis rather than the financial report. I am doubtful that this information can be standardized sufficiently for it to addressed with comparability in sustainability standards / reports. This identifies a major constraint in standard setting that seems to have been ignored. The outcome must be the provision of information that is consistent in nature and comparable across firms (not subject to interpretation and variable across firms).
2. The objective is clear, albeit problematic for the development of sustainability standards (as discussed above) and for this reason I would argue for the 'provision of information for decision making as the objective of financial reporting.
3. The issue of scope is highly problematic due to the broadness of the objective of sustainability reporting. Hence it is unlikely to guide standard setting in a meaningful manner.
4. The core content is too broad and unfocused and whether this can be addressed appropriately (i.e., standarized) is highly doubtful. Para 22 is appropriate and consistent with an objective of providing information for decision making.
5. If there is to be connectivity / articulation between financial reports and sustainability reports there must be consistency. Whether or how this extends to sustainability across the supply chain is not addressed. Nor are potential issues arising from firms operating in different jurisdictions.
6. Connectivity is critical. Whether this is possible with differing objectives is doubtful.
7. I am unsure how the determination of fair presentation can be outsourced (i.e., SASB), as this creates potential problems with inconsistency.
8. Materiality is important if reporting is restricted to physical / virtual reporting occurs. If digital financial reporting is prescribed this becomes irrelevant.
9. Agreed, if there is to be connectivity / articulation.
10. If sustainability reporting was to be addressed entirely in the general purpose financial report it would significantly increase complexity, and undermine readability. For this reason any development of sustainability reporting should be done in conjunction with development of digital financial reporting.
11. Agreed.
12. Agreed.
13. No comment
14. If jurisdictions go beyond the requirements of ISSB standards that is not an issue. In this regard it is worth remembering that standards should focus on matters where a consensus exists, and should not seek to be exhaustive which appears to be feature of both the current exposure drafts (i.e., S1and S2).

15. Sustainability reporting and digital financial reporting must be addressed concurrently to avoid complexity and ensure understandability of general purpose financial reports.

I would like to conclude by saying that I believe that it is appropriate that the boundaries of reporting be extended, and this is potentially disclosing information relevant for determining the future prospects of firms. However, if this is to be realized it must be developed on a solid foundation.

Yours faithfully

Peter Wells

Peter Wells, Phd, M Com, FCA
36 Eton Rd
Lindfield NSW 2070
drpeterawells@gmail.com

29 April 2022

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

AASB
Level 14
530 Collins Street
Melbourne VIC 3000
Australia

ED - IFRS S2 Climate-related disclosures

I welcome this opportunity to make a submission and would like to comment both generally as well as for specific questions.

General Comment

A feature of the reporting framework and financial reporting standards generally is that they have systematically addressed diverse issues, and this has been achieved through a broad range of standards. For example, in relation to assets there are standards including IAS 2 Inventories, IAS 16 Property Plant and Equipment, IAS 38 Intangible Assets and IAS 40 Investment Property. This has allowed a systematic and focused consideration of the issues arising in relation to each asset type.

This approach seems to have been ignored with the development of this exposure draft, that seeks to address the issue of climate change generally, with a standard that focuses specifically on carbon emissions. Consequences of this are that:

1. It dictates how carbon emission information should be used. If there are changes in our understanding of the impact of carbon emissions this will dictate changes to the standard (hence why standards should not dictate the use of information).
2. Notwithstanding the concern with climate disclosures generally, reference is only made to carbon emissions. No consideration is given to non carbon emissions that may have climate impacts. Alternatively, if emissions are standardized as carbon emissions is this the appropriate measurement mechanism (i.e., currency). Is this to be addressed by constant amendment of the standard to broaden its scope which will be challenging for users and preparers. Does this imply processes for recognition and measurement are beyond the scope of the standard and how will these be determined.
3. More generally, why should environmental impacts be limited to consideration of climate change. Maybe, pollution by heavy metals or other pollutants that contribute to 'acid rain' is a more immediate issue.
4. Perhaps most critically there is insufficient consideration of issues associated with the recognition and measurement carbon emissions and this is most obvious in relation to the consideration of scope 1/2/3 emissions. Does this imply processes for recognition

and measurement are beyond the scope of the standard, and if so how will these be determined.

A more appropriate strategy would have been to develop a standard limited to the 'reporting of carbon emissions'. This would be less subject to value judgements, and allow a clearer focus on what needs to be addressed if information is to be provided for decision making. Furthermore, this would eliminate the need for much of the content in S2 which is better addressed in S1 and contributes to S2 being highly repetitive and unnecessarily complex. Bearing in mind that there should be connectivity between financial and sustainability reporting the focus should be on para 14.

Specific Comments

1. As discussed in relation to the exposure draft for IFRS S1 I believe the focus on 'enterprise value' is problematic, and it would be more appropriate to focus on the 'provision of information for decision making'. This would still lead to consideration of the provision of information about the timing and uncertainty of future cash flows, and this would align well with financial report information. Whether this should extend as broadly as suggested in para 5 is doubtful. Most of the issues addressed in para 5 probably belong in the management discussion and analysis rather than the financial report. I am doubtful that this information can be standardized sufficiently for it to addressed with comparability in sustainability standards. This identifies a major constraint in standard setting that seems to have been ignored. The outcome of standards must be the provision of information that is consistent in nature and comparable across firms (not subject to interpretation and variable across firms) and is useful to users and does not pre-empt decisions.
2. Reporting, both financial and sustainability, should give prominence to reporting actions and outcomes. I struggle to understand how governance information is appropriately addressed in reporting standards and an implicit assumption is that the governance mechanisms are appropriate, necessary and suffucent.
3. By considering climate risks generally and then focusing on carbon emissions this is too open ended and vague.
4. Consideration of the value chain and emissions beyond Scope 1 is problematic. How can this be addressed in a reliable and verifiable means is not considered and I doubt that it can be addressed successfully. For example, it is not possible to determine standards for carbon emissions used in the construction of an aircraft for an airline as there may be significant differences across manufacturers both in products and processes. There may also be significant differences in the carbon emissions in the manufacturing process that are impacted by whether electricity used is from coal, nuclear, wind or solar sources. Put simply, firms can only report what they do.
5. It is not appropriate to address this is a reporting standard.
6. It is not appropriate to address this is a reporting standard.
7. It is not appropriate to address this is a reporting standard.
8. It is not appropriate to address this is a reporting standard.
9. Standards should be applied across firms equally, and be self sufficient. Furthermore, reporting elements should not be delegated. Many of these issues are already being addressed / considered in relation to digital financial reporting (i.e., extensions) and

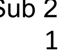
the critical question is whether they should be addressed in reporting standards or addressed by firm voluntary disclosures, for which there will be economic incentives.

10. It is not appropriate to address this is a reporting standard.
11. See 9 above.
12. Compliance costs with the requirements of IFRS S1 and S2 would be significant and there is no rigorous empirical evidence suggesting any benefits.
13. Extending reporting beyond the entity (i.e., value chain and Scope 2/3) means that verifiability in impossible.
14. No Comment
15. The best manner for providing information on sustainability which is diverse and not capable of aggregation is digitally.

I would like to conclude by saying that I believe that it is appropriate that the boundaries of reporting be extended, and this is potentially disclosing information relevant for determining the future prospects of firms. However, it should focus on outcomes (not inputs) of firm activities (not others) and address in detail issues associated with recognition and measurement. A standard which focuses more specifically on measuring and reporting carbon emissions while more modest in intent would have been more appropriate.

Yours faithfully

Peter Wells



To: Keith Kendal, Chair, Australian Accounting Standards Board
From: Professor Carol Adams, Professor of Accounting, Durham University Business School.

17th June 2022

AASB consultation on the ISSB's Draft IFRS S1 and S2

Thank you for the opportunity to respond to your consultation. I address your specific questions and attach my response to the ISSB on the IFRS S1 Exposure Draft for your information. To add to my background noted therein, I am an Australian citizen and Australian resident.

My responses to your questions in relation to the IFRS S1 exposure draft are below:

A1 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. Many of the financial disclosures included in Appendix B to the draft IFRS S2 (which are derived from SASB Standards) are not connected with enterprise value. The term 'enterprise value' is interpreted differently. While, it is increasingly considered from a multiple capitals perspective[1], it is primarily understood to be a financial number. Either interpretation will result in that being prioritised above sustainable development, particularly given that the relationship between sustainable development and enterprise value is little understood.

There is substantial research indicating that the ISSB's conceptual framing won't lead to its stated desired outcomes of: harmonisation of reporting practices; facilitating the achievement of sustainable development; and, reducing greenwash. Conceptual frameworks influence thinking (or lack of it) and (in)action (see Adams, 2017; Ahmed Haji and Anifowose 2016; Narayanan V and Adams 2017; Rodríguez-Gutiérrez, Correa and Larrinaga 2019).

Before an organisation can determine with confidence how sustainability issues will affect its financial statements and 'enterprise value' it must first identify its material impacts on economies, society, and the environment. Such impacts lead to risks and opportunities. Reporting on impacts, as most large Australian companies do using the GRI Standards (see KPMG, 2020a,b), is an important precursor to determining likely consequences for enterprise value. Corporate impacts are relevant to governments (and their agencies) and a broad range of stakeholders. Further, investors use this impact data to form their own judgements about implications for enterprise value[2]. Not being required to consider and report on material impacts on sustainable development will legitimate their non-disclosure – greenwashing.

Accounting academics researching sustainability reporting that responded to the IFRS Foundation Trustees' Consultation Paper on Sustainability Reporting were strongly opposed the proposed conceptual framing (see Adams and Mueller, 2022 for an analysis).

[1] See my response to the IASB's proposed revised Management Commentary re the development of the multiple capitals approach.

[2] See panel discussion here.

Durham University Business School
Mill Hill Lane Durham DH1 3LB United Kingdom

T: +44 (0)191 334 5200
durham.ac.uk/business

The proposed IFRS S1 ED requires a considerable amount of judgement on terms that stakeholders across geographic regions interpret differently, including 'enterprise value'. This will facilitate greenwash and hamper the ability to compare organisations.

My recommendation to national governments, their agencies and stock exchanges, is that they mandate, or at least encourage, the use of GRI Standards alongside ISSB Standards. My recommendation to the ISSB is that they assist with that process and focus on developing requirements for sustainability-related financial reporting and associated guidance for companies that follow GRI Standards (see Adams et al 2021 for a summary of research on issues regarding the materiality process).

Part B Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1 & B2. Scope 3 GHG emissions can be significant and have significant consequences for climate change. They should therefore be disclosed in a manner consistent with GRI 305 which is used by most large Australian companies. The implications for 'enterprise value', if any, with respect to some emissions is unclear.

B3. The starting point for emissions disclosures should be the indicators in the GRI Standards. Many of the indicators in Appendix B, which draws on SASB Standards, are not climate related financial disclosures. They have also been developed for a US market and need to be subject to a broader consultation.

B4. Following the GRI Standards should lead to Australian companies reporting on their material impacts from an Australian perspective. Such matters would have long term consequences for enterprise value.

Part C Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

The unanswered questions in this section have either been addressed in my response to the ISSB consultation (attached) or are somewhat redundant given those responses and further responses to this AASB consultation.

C4. No. Reporting on risks and opportunities is useful, but overall, the proposals would have limited use. Users of general-purpose financial statements would not know whether reported information using IFRS S1 and IFRS S2 was complete, particularly with respect to risk to the organisation arising from climate change and broader sustainable development issues. Reporting on such risks is currently at a low level including in high impact companies (see Abhayawansa and Adams, 2022).

C5. Yes, the proposals create assurance challenges. Research is clear that the scope of sustainability report assurance exercises is limited, often to providing assurance over numbers (see Farooq and de Villiers 2017). Narrative reporting on risks, opportunities, their consideration in strategy and governance oversight that is critical to assessing enterprise value. Reporting on these matters is low (Abhayawansa and Adams, 2022). Further, there is a huge amount of judgement required for disclosures concerning terms that are understood differently and under the umbrella of a conceptual framework that does not fit.

C9. There is a cost to achieving sustainable development as the standards will encourage focus on a limited range of issues and then only as they are perceived to affect enterprise value (which is typically thought of in financial terms and in the short term).

Part D

D1. Sustainability reporting standards should be separate from financial reporting standards. However, a broader focus incorporating the impacts of organisations on sustainable development (e.g. by adopting GRI Standards) is needed.

D2. No, in the absence of corporate impact reporting, the proposals are insufficient and too narrow in focus to serve the Australian economy. Biodiversity, water availability and energy sources are key issues.

References

Abhayawansa S and Adams (2022) CA Lessons from COVID-19: A conceptual framework for non-financial reporting inclusive of risk management. *Meditari Accountancy Research*. Vol. 30 No. 3, pp. 710-738. DOI 10.1108/MEDAR-11-2020-1097

Adams, CA, (2017) Conceptualising the contemporary corporate value creation process, *Accounting Auditing and Accountability Journal* 30 (4) 906-931 http://dx.doi.org/10.1108/AAAJ-04-2016-2529

Adams CA, Alhamood A, He X, Tian J, Wang L. and Wang Y (2021) *The Double-Materiality Concept: Application and Issues*, Global Reporting Initiative. Pro bono contribution.

Adams, C.A., and Mueller, M (2022) Academics and policymakers at odds: the case of the IFRS Foundation Trustees' consultation paper on sustainability reporting, *Sustainability Accounting Management and Policy Journal.* Available at https://www.emerald.com/insight/content/doi/10.1108/SAMPJ-10-2021-0436/full/html

Ahmed Haji, A. and Anifowose, M. (2016), The trend of integrated reporting practice in South Africa: ceremonial or substantive?, *Sustainability Accounting, Management and Policy Journal*, Vol. 7 No. 2, pp. 190-224. https://doi.org/10.1108/SAMPJ-11-2015-0106

Farooq, M.B. and de Villiers, C. (2017), "The market for sustainability assurance services: A comprehensive literature review and future avenues for research", *Pacific Accounting Review*, Vol. 29 No. 1, pp. 79-106. https://doi.org/10.1108/PAR-10-2016-0093

KPMG (2020a) *Australian supplement to the Global Sustainability Reporting Survey*

KPMG (2020b) *The KPMG Survey of Sustainability Reporting* [link]

Narayanan V and Adams CA, (2017) Transformative change towards sustainability: the interaction between organisational discourses and organisational practices. *Accounting and Business Research* 47(3): 344-368 http://dx.doi.org/10.1080/00014788.2016.1257930.

Rodríguez-Gutiérrez, P., Correa, C. and Larrinaga, C. (2019), Is integrated reporting transformative? An exploratory study of non-financial reporting archetypes, *Sustainability Accounting, Management and Policy Journal*, Vol. 10 No. 3, pp. 617-644. https://doi.org/10.1108/SAMPJ-12-2017-0156

Durham University Business School
Mill Hill Lane Durham DH1 3LB United Kingdom

T: +44 (0)191 334 5200
durham.ac.uk/business

Professor Carol Adams BA MSc PhD CA FAICD
Professor of Accounting
Durham University Business School
Durham University
United Kingdom

Chair and Vice-Chair
ISSB

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[3].

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.

[3] 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.

According to the ED the decision regarding whether to disclose requires consideration of a range of matters that involve considerable judgement:

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.)

References

Abela, M (2022) "A new direction? The "mainstreaming" of sustainability reporting", *Sustainability Accounting Management and Policy Journal.* Available at https://www.emerald.com/insight/content/doi/10.1108/SAMPJ-06-2021-0201/full/html

Adams, CA (2020) Sustainable Development Goal Disclosure (SDGD) Recommendations: Feedback on the consultation responses, published by ACCA, IIRC and WBA. ISBN-978-1-898291-33-6

Adams CA and Abhayawansa S (2022), Connecting the COVID-19 pandemic, environmental, social and governance (ESG) investing and calls for 'harmonisation' of sustainability reporting, *Critical Perspectives on Accounting*. Vol. 82. https://doi.org/10.1016/j.cpa.2021.102309

Adams, C A, with Druckman, P B, Picot, R C, (2020) Sustainable Development Goal Disclosure (SDGD) Recommendations, published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. ISBN: 978-1-909883-62-8

Adams, C.A., and Mueller, M (2022) Academics and policymakers at odds: the case of the IFRS Foundation Trustees' consultation paper on sustainability reporting, *Sustainability Accounting Management and Policy Journal.* Available at https://www.emerald.com/insight/content/doi/10.1108/SAMPJ-10-2021-0436/full/html

Adams, C.A., Alhamood, A., He, X., Tian, J. Wang, L. & Wang, Y. (2021). *The Double-Materiality Concept: Application and Issues*. Global Reporting Initiative. Available at https://www.globalreporting.org/media/jrbntbyv/griwhitepaper-publications.pdf

Giñer B and Luque Vílchez M (2022) A commentary on the "new" institutional actors in sustainability reporting standard-setting: a European perspective, *Sustainability Accounting Management and Policy Journal.* Available at https://www.emerald.com/insight/content/doi/10.1108/SAMPJ-06-2021-0222/full/html

Institute of Chartered Accountants of Scotland (2022a) *Sustainability: The necessary conditions for the reporting of high-quality information*, March. Available at https://www.icas.com/insight/finance-plus-sustainability/the-conditions-necessary-for-the-reporting-of-high-quality-sustainability-information

Institute of Chartered Accountants of Scotland (2022b) *Sustainability assurance: factors to consider*, May. Available at https://www.icas.com/news/finance-plus-sustainability-icas-report-explores-the-key-factors-to-be-considered-in-relation-of-assurance-on-sustainability-related-information

Jo Cain
Executive Director
Materiality Counts
Melbourne
Australia

Erkki Liikanen
Chair
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

27 June 2022

Dear Erkki,

Comment Letter on
IFRS S1 Sustainability-related Financial Information Prototype
IFRS S2 Climate Related Disclosures Prototype

Context

I commend the work of the IFRS Foundation and the establishment of the ISSB and provide these comments based on 30+ years' experience in sustainability reporting. As Executive Director of Materiality Counts, I am a recognised expert in materiality, stakeholder engagement, strategy, sustainability and integrated reporting. Working across many sectors in Australia, New Zealand and further afield, I have produced multiple award-winning Reports. My sustainability reporting expertise has been recognised via appointment to many expert advisory panels:

- International Audit and Assurance Standards Board (IAASB) Sustainability Reporting Reference Group.
- Australian Accounting Standards Board (AASB)/Auditing and Assurance Standards Board (AUASB) Sustainability Reporting Project Advisory Panel.
- IAASB Extended External Reporting (EER) Assurance Project Advisory Panel.
- International Integrated Reporting Council (IIRC) Technical Advisory Group.

My comments are strategic in nature. I provide more detailed contribution through my membership of the above panels.

Question 1 – Overall approach & Question 3 - Scope

Application: To existing types of non-financial reporting

There is widespread confusion amongst reporting entities regarding the broad implications of these new reporting standards. Many assume that a new type of reporting will be required, expressing concerns that they are only now becoming mature in their non-financial reporting through Sustainability Reports, Integrated Reports, Strategic Reports in the UK and more. Hence, a statement of purpose is needed to make it clear to reporters that these new standards are intended to be applied to any form of non-financial reporting, not specifically to "Sustainability Reports" and certainly not requiring entities to produce Sustainability Reports where that is not currently their strategic approach to reporting.

Question 2 – Objective

<u>Connectivity: Between sustainability reporting and financial reporting</u>

The title of IFRS S1 is problematic. Sustainability disclosures are not all financial. Many are, but sustainability is multi-faceted across the six capitals, not just financial capital. A standard on sustainability disclosures needs to be grounded in materiality and encompass human, intellectual, social and relationship, manufactured and natural capital, as well as traditional financial capital. Whilst it is widely accepted that value relating to social licence to operate ultimately influences reputation and share price for listed entities, i.e. financial, sustainability-related information is much broader than financial. Hence, reconsideration of the title and therefore scope of this standard is encouraged.

Question 4 – Core content & Question 6 – Connected information

<u>SDGs: Integration with the SDGs</u>

One of the barriers to achieving a groundswell of consistent sustainability reporting in recent decades has been indicator fatigue. The sheer volume of sustainability indicators spread across geographies has been overwhelming. Investors cannot compare the performance of one entity to another with such a wide range of different indicators used to report sustainability performance. Capital markets cannot compare “apples with apples” when sustainability reporting from one Report to another vary with such magnitude. Two things hold the key to addressing this. One is materiality determination such that the reporting entity reports on the issues of most importance to key stakeholders and the organisation itself, alongside the most relevant performance indicators.

The second is the United Nations Sustainable Development Goals (UN SDGs) and the targets beneath the goals. The SDGs presents a real and present opportunity for global consistency and their integration with IFRS S1 and S2 is encouraged. Naturally, the Global Reporting Initiative (GRI) provides a well-established source of potential indicators across sustainability. Specific climate change and greenhouse gas (GHG) emission protocols also exist on a global and jurisdictional scale. These sources of indicators will prove useful and hopefully reduce some “reinventing of the wheel”. However, it is the UN SDGs that provide a globally aligned and universally acknowledged foundation for this work on sustainability and climate-related disclosures.

Question 5 – Reporting entity

<u>Value chain: Consistent understanding and boundaries</u>

Financial value versus enterprise value would benefit from explanation, alongside clarity on what makes up the value chain, what needs to be included and the boundaries.

Question 7 – Fair presentation

<u>Assurance: Reporting and assurance must go hand-in-hand</u>

Capital market confidence in reporting depends on the credibility of these Reports. Investors look to Report assurance for independent credibility and strength of governance and internal controls for organisational credibility. When developing reporting standards, it goes without saying that assurance standards must align and be fit-for-purpose. This is raised not because there is a gap or effort has not commenced in this space, rather to highlight it as a top agenda item as these reporting standards are progressed.

Question 8 - Materiality

Materiality: Definition and guidance

Materiality is the foundation for strategy and reporting. Ultimately, those issues that are most important to a reporting entity's key stakeholders and to the organisation itself should form the basis of its strategy and reporting. "Most important" relates to the value the organisation creates (preserves or erodes) across the six capitals and minimising any negative impact. Materiality includes financial and non-financial issues. Materiality needs to be demystified to allow all reporters and Report users to use it as a foundation to ensure that Reports cover the most important information. Use of terms such as "double materiality" and "significant" make it less accessible. Clarity of connectivity to risk and establishing wider understanding that risk informs materiality will also help to remove some of the "smoke and mirrors" that have taken root in this space. It doesn't need to be complex, on the contrary, it needs to be clear and consistent. Integration of financial and non-financial materiality is needed. I have significant expertise and experience in materiality and I would be pleased to assist further.

Question 17 – Other comments

Director concerns: Future looking statements

In some jurisdictions, such as Australia, Directors express concerns regarding the inclusion of future-looking statements in Annual Reports. This has come to the fore with respect to non-financial reporting, such as Integrated Reports. The driver is a lack of "safe harbour" legislation to protect Directors from liability relating to such statements. This concern is raised for consideration with respect to forward oriented sustainability reporting.

I trust that these comments are useful at a strategic level and reiterate my offer to assist specifically on materiality, in which I have substantial expertise and experience to share.

Thank you for the opportunity to comment on these important, and long overdue, reporting standards and thank you to IFRS for taking a lead in such a critical area.

Yours sincerely,

Jo Cain
Executive Director
Materiality Counts
Melbourne, Australia
Email: jo.cain@materialitycounts.com

Governance Roles:
Banksia Foundation Audit and Risk Committee (Chair)
International Auditing and Assurance Standards Board (IAASB) Sustainability Reporting Reference Group
Australian Accounting Standards Board (AASB)/Auditing and Assurance Standards Board (AUASB) Sustainability Reporting Project Advisory Panel

15 July 2022

Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne, VIC 3000
Australia

Submitted via comment letter: https://aasb.gov.au/current-projects/open-for-comment/

Dear Australian Accounting Standards Board (AASB),

Comment Letter: [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate Related Disclosures (Exposure Draft 321)

The Insurance Council of Australia (ICA) is the representative body for the general insurance industry of Australia. The ICA represents approximately 95% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of $59.2 billion per annum and on average pays out $148.7 million in claims each working day ($38.8 billion per year).

We commend the AASB on the publication of its Exposure Draft 321 to develop a separate suite of sustainability reporting standards. We recognise that the standards are an important next step for consolidating financial-related sustainability disclosures and welcome the opportunity to comment. We note that any standards developed will operate alongside existing Australian Accounting Standards, using the International Sustainability Standards Board (ISSB) Exposure Drafts on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([Draft] IFRS S1) and IFRS S2 Climate-related Disclosure ([Draft] IFRS S2) as a starting point.

Our submission draws on the consolidated feedback of the Insurance Council's members and focuses on issues and implementation concerns about the ISSB Exposure Drafts to inform any possible future development of separate AASB sustainability standards in Australia. These are set out below, with specific responses to the consultation questions raised by the AASB included within **Attachment A**. Responses to the questions posed by the ISSB for [Draft] IFRS S1 and [Draft] IFRS S2 are included in **Attachment B and C** respectively. Some members will also provide their own separate submission.

We also endorse the Australian Voice submission that collectively represents the voice of peak professional, industry and investor bodies in Australia representing leading business and finance professionals who have come together to prepare a joint submission to the AASB.

Globally consistent, consolidated framework

We welcome the consolidation of existing standards such as the Climate Disclosure Standards Board (CDSB) and Value Reporting Foundation (VRF) into one overarching ISSB framework and recommend that the ISSB provide guidance on how emerging standards such as the Taskforce for Nature-Related Financial Disclosures will be accommodated over time as practices continue to evolve. While a memorandum of understanding exists between the Global Reporting Framework (GRI) and ISSB, further clarity is required regarding the scope of materiality assessment under ISSB and its relationship to GRI requirements, as discussed below.

ISSB could also form agreements with key independent data and indices organisations such as the Carbon Disclosure Project (CDP), Dow Jones Sustainability Index (DJSI), Sustainalytics and MSCI, for

example, to streamline citation and digital tagging of disclosures, reducing the reporting burden while delivering better disclosures and sustainability outcomes.

Interoperability of the ISSB Exposure Drafts with local laws and regulations will be important to ensure that organisations such as the AASB can leverage the disclosure requirements and apply them within a national context. Notably, New Zealand requires mandatory reporting in accordance with the Taskforce on Climate-related Financial Disclosures (TCFD), aligned to [Draft] IFRS S2 requirements and the AASB should aim to harmonise approaches across jurisdictions where possible, noting many members have operations across both Australia and New Zealand.

Reporting boundaries

There are significant challenges disclosing all significant sustainability-related risks and opportunities across the insurance value chain due to a current lack of measurement methodologies and data collection processes. Despite this, sustainability risks and opportunities in an insurer's value chain are likely to be significant (i.e., investment and underwriting) and disclosing this information will be important to manage issues and avoid greenwashing claims.

We recommend that a phased approach to reporting in accordance with [Draft] IFRS S2 be used to allow time for entities to develop measurement methodologies and data collection processes. A materiality threshold should also apply, for example omitting subsidiaries and joint ventures if they do not comprise a material part of activities within the reporting entity's financial or operational control. There are particular complexities regarding joint ventures and the degree of operational control parent companies have to enable emissions reduction. AASB guidance would be welcomed to assist in the standardisation of approach to joint ventures, noting the application of a materiality threshold.

Materiality

We do not agree with the inclusion of sustainability-related financial disclosures in an entity's general purpose financial reporting as the scope of disclosures required is unclear. We note that paragraph 1 of the [Draft] IFRS S1 requires disclosure of sustainability-related financial information relevant only to enterprise value. However, paragraph 2 of the [Draft] IFRS S1 also requires disclosure of "all significant related risks and opportunities". This suggests that broader non-financial disclosures are also required, consistent with the approach taken under the GRI. Clarity should be provided on the scope of disclosures required, and alignment with GRI requirements including aligning to upcoming refreshed guidance from GRI on undertaking materiality assessments.

Any AASB sustainability standards should clarify the scope of materiality assessment required. If both financial and non-financial materiality assessment is required, sustainability standards should be located in the management disclosure section of the annual report, rather than the general-purpose financial report.

Emissions reporting

There are methodology and data gaps which prevent the accurate measurement and reporting of some Scope 3 greenhouse gas (GHG) emissions across underwriting portfolios, supply chains and some investment asset classes (i.e. sovereign bonds, exchange traded funds, derivatives etc.). Some of these gaps are set to be addressed over the next few years through the Partnership for Carbon Accounting Financials (PCAF) and the Net-Zero Insurance Alliance (NZIA). Requiring the disclosure of Scope 3 GHG emissions in the near-term could impose significant costs, particularly on smaller entities that do not have the requisite resources or capabilities. Therefore, we recommend a phased approach for these disclosures to support entities in improving disclosures whilst accounting for initial data unavailability.

Any AASB sustainability standards should also require the disclosure of Scope 3 GHG emissions as required under [Draft] IFRS S2. This is consistent with the requirements of the GHG Corporate Standard and an important disclosure for insurers given that significant sustainability risks and opportunities are likely to occur in investment and underwriting portfolios (i.e. Scope 3 value chain emissions).

Metrics and data

We welcome the opportunity to internationalise the Sustainability Accounting Standards Board (SASB) metrics and note that some adjustments to [Draft] IFRS S2 metrics may be required to accommodate Australian jurisdictional requirements. We also recommend conducting field testing on industry specific metrics across regions to understand their applicability and usefulness to users of the general-purpose financial statements. We note the following concerns about proposed metrics for insurers (Appendix B, Volume B17 – Insurance):

- Policies Designed to Incentivise Responsible Behaviour: Product features that incentivise health, safety and environmentally responsible actions and/or behaviours will be difficult to analyse as they cannot easily be measured. We also recommend that policies include wider ESG factors such as governance, code of conduct and privacy training.
- Physical Risk Exposure: Further clarity is needed on measuring monetary losses attributable to insurance payouts from modelled natural catastrophes. The metric overlaps with business-as-usual capital management, reinsurance requirements and pricing and further direction should be provided to ensure that disclosures provide useful additional information on the financial effects of climate change
- Transitional Risk Exposure:
    - Disclosing gross-exposure to carbon related industries should be accompanied by a transition plan to communicate the actions that an entity is taking to transition to a lower carbon economy, despite existing exposures
    - It is unclear why there is a requirement to disclose Scope 1 and 2 financed emissions as the definition of financed emissions is limited to Scope 3 emissions only (i.e., loans, underwriting, investments, and any other forms of financial services

Supply chain emissions are a large portion of insurer's overall emissions. Cross-industry metrics for the measurement of the emissions across an insurer's supply chain and building the literacy of suppliers to take action to decarbonise their operations should also be included as a valuable addition to supporting the insurance sector to decarbonise.

Effective date

Any effective date should be reasonable in allowing time for companies to develop measurement methodologies, data collection processes and adequate resourcing. Feedback from members indicated that an effective date should be a minimum of two years from the release of the final ISSB standards, depending on the size and capability of the entity disclosing.

Early adoption of the standards should however be encouraged noting urgent action is required to transition to a sustainable economy and limit the impacts of global warming. The ISSB and AASB also have important roles to play in educating organisations on disclosing in accordance with the proposed standards. We note that the TCFD provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Alix Pearce, Senior Advisor Climate Action: apearce@insurancecouncil.com.au.

Yours sincerely

Andrew Hall
Executive Director and CEO

ATTACHMENT A: RESPONSE TO AASB EXPOSURE DRAFT 321 QUESTIONS

Question	ICA Response
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?	Focusing on enterprise value is an important approach when considering sustainability-related financial reporting, and will likely create both costs and opportunities for essential industries that are more exposed to short-term climate impacts (i.e. insurance, agriculture). It is unclear however whether the definition of 'materiality' in [Draft] IFRS S1 also requires disclosure of broader non-financial information. We note that [para 1] of the [Draft] IFRS S1 requires disclosure of sustainability-related financial information relevant only to enterprise value. However, [para 2] of the [Draft] IFRS S1 also requires disclosure of "all significant related risks and opportunities". This suggests that broader non-financial disclosures are also required, consistent with the approach taken under the GRI. Clarity should be provided on the scope of disclosures required, and alignment with GRI requirements. See also response at C8 below.
Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2	
B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?	Yes, subject to a materiality threshold and the effective date should allow time for methodologies to be developed and data collected. This is particularly relevant for smaller entities that do not yet have the requisite resourcing. Specific guidance should also be developed to support a common methodology for the measurement of the emissions across an insurer's supply chain and to build the literacy of suppliers to take action to decarbonise their operations. Supply chain emissions are a large portion of insurer's overall emissions, and this guidance (with supporting metrics) would be very valuable in supporting the insurance sector to decarbonise.

Question	Response
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)?	Agree. The GHGC Standard is the leading international standard for GHG emissions disclosures and supports harmonisation across jurisdictions. Existing GHG emissions legislation in Australia applies to entities that exceed energy and greenhouse gas thresholds so smaller industries have not historically been required to report emissions and are not familiar with legislative requirements.

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?	While SASB metrics are a good source of industry metrics, some adjustments may be required to accommodate Australian jurisdictional requirements. We also recommend conducting field testing on industry specific metrics across regions to understand their applicability and usefulness to users of the general-purpose financial statements, and the availability of data to disclose. We note the following concerns about proposed metrics for insurers (Appendix B, Volume B17 – Insurance):
	• Policies Designed to Incentivise Responsible Behaviour: Product features that incentivise health, safety and environmentally responsible actions and/or behaviours will be difficult to analyse as they cannot easily be measured. We also recommend that policies include wider ESG factors such as governance, code of conduct and privacy training.
	• Physical Risk Exposure: Further clarity is needed on measuring monetary losses attributable to insurance payouts from modelled natural catastrophes. The metric overlaps with business-as-usual capital management, reinsurance requirements and pricing and further direction should be provided to ensure that disclosures provide useful additional information on the financial effects of climate change.
	• Transitional Risk Exposure:
	    ○ Disclosing gross-exposure to carbon related industries should be accompanied by a transition plan to communicate the actions that an entity is taking to transition to a lower carbon economy, despite existing exposures
	    ○ It is unclear why there is a requirement to disclose Scope 1 and 2 financed emissions as the definition of financed emissions is limited to Scope 3 emissions only (i.e., loans, underwriting, investments, and any other forms of financial services)
	See also response to B1 regarding supply chain guidance.

Question	Response
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?	No. [Draft] IFRS S2 proposes a comprehensive approach to reporting on climate-related measures in Australia.
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?	The Exposure Drafts could apply to only large listed for-profit Australian entities initially, however we recommend that a phased approach be used to allow time for smaller entities to develop measurement methodologies and data collection processes, as per our response to B1 above. A materiality threshold should also apply, for example omitting subsidiaries and joint ventures if they do not comprise a material part of activities within the reporting entity's financial or operational control. Subsidiaries should also be allowed to leverage on the sustainability disclosures at parent company consolidated level. As an indication of appropriate materiality thresholds, we note: • The ASFI Roadmap recommended the ASX 300 and financial institutions with more than $100 million in consolidated annual revenue to report in line with the TCFD recommendations. • In New Zealand, financial institutions with assets of more than $1 billion and listed issuers with a market price or quoted debt in excess of $60 million are required to produce climate-related disclosures.
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?	Forward-looking statements as envisaged by the Exposure Drafts may give rise to liability for misleading and deceptive disclosures. Standard wording for a disclaimer should also be included for uncertainty in information disclosed to avoid legal risks associated with material misstatement, noting there is an increasing duty for companies to disclose sustainability risks and opportunities. For example, potential liability exists for misleading and

	deceptive disclosure under s1041H of the Corporations Act 2001 and s18 of the Australian Consumer Law.
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?	Yes, the Exposure Drafts broadly align with existing or anticipated requirements, guidance or practice in Australia. We recommend that the AASB align with the Exposure Drafts and not exceed international requirements. Sustainability disclosure is voluntary in Australia. Despite this, the Australian Securities Exchange (ASX) Corporate Governance Principles provide guidance on practices for ASX listed entities. Principle 7.4 of the ASX Corporate Governance Principles recommends that listed entities disclose any material exposures to environmental or social risks and how it manages or intends to manage those risks. The Australian Securities and Investments Commission's (ASIC) Regulatory Guide 247: Effective disclosure in an operating and financial review (RG 247) recommends disclosure in accordance with integrated reporting or sustainability reporting. The Australian Prudential and Regulatory Authority (APRA) and ASIC have provided guidance on the expectations for financial institutions to identify, manage and respond to climate-related risks. APRA's Prudential Practice Guide CPG 229 Climate Change Financial Risks (CPG229) requires climate scenario and vulnerability assessments, aligned to the approach taken in [draft] IFRS S2. ASIC's RG 247 also recommends disclosure in accordance with the TCFD, These requirements are broadly aligned with the requirements of the Exposure Drafts, however the Exposure Drafts are likely to increase expectations on companies in Australia to disclosure sustainability risks and opportunities relating to the assessment of enterprise value in greater detail than has occurred previously. The key difference in applying the Exposure Draft requirements in Australia, is that it will require disclosure of information on scope 3 GHG emissions. See response to B1 above.

Question	Response
	Notably, New Zealand requires mandatory reporting in accordance with the TCFD, aligned to [draft] IFRS S2 requirements. We note this given that many of our members operate in both New Zealand and Australia. No changes to the Exposure Drafts are proposed on the basis of the above, subject to allowances referred to in C2 above.
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?	Yes
C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?	Yes, clearer definitions of “sustainability-related financial information” and “materiality” would support assessment of compliance. See responses to C8 below.
C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?	Any effective date should provide reasonable time for entities to prepare and disclose, and align to any jurisdictional specific requirements (i.e., the publication of any AASB sustainability reporting standards). Feedback from members indicated that an effective date should be a minimum of two years from the release of the final ISSB standards, depending on the size and capability of the entity disclosing. Early adoption of the standards should however be encouraged noting urgent action is required to transition to a sustainable economy and limit the impacts of global warming. The ISSB and AASB also have important roles to play in educating organisations on disclosing in accordance with the proposed standards. We note that the TCFD provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub. See also response to C1 above.
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?	Both standards should be effective from the same date.

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?	Yes, there is some uncertainty in terminology and scope of information required to be disclosed to assess enterprise value. A clearer definition of "sustainability" and perhaps a non-exhaustive list of sustainability matters would be a useful guide to entities. For example, the Sustainability Accounting Standards Board (SASB) refers to the definition of sustainability as follows: *"The SASB's use of the term "sustainability" refers to corporate activities that maintain or enhance the ability of the company to create value over the long term. Sustainability accounting reflects the governance and management of a company's environmental and social impacts arising from production of goods and services, as well as its governance and management of the environmental and social capitals necessary to create long-term value. The SASB also refers to sustainability as "ESG" (environmental, social, and governance), though traditional corporate governance issues such as board composition are not included within the scope of the SASB's standards-setting activities."* Clarity should be provided on whether the above definition applies to [Draft] IFRS S1 given that SASB is now part of the VRF and ISSB. The requirement to disclose "material" information about all of the "significant" sustainability-related risks and opportunities suggests that a "double-materiality" approach is required whereby disclosures must be financial and non-financial. Greater clarity on the scope of materiality, and its alignment to the double-materiality approach is required. See also response to A1 above in relation to the definition of materiality. Guidance is required on whether transition plans should support the transition to a low-carbon economy more broadly (aligned to Nationally Determined Contributions and implied decarbonisation pathways) or company specific targets with clear transparency on assumed decarbonisation trajectories. We recommend that transition plans align to broader jurisdictional requirements and the Paris Agreement, but that early

	achievement of targets and increased ambition be encouraged, noting that urgent action is required to facilitate an orderly transition to a low carbon economy.
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?	There is a need for harmonisation across jurisdictions so we welcome these standards, with the opinion they will benefit greater transparency of the potential financial impacts to an organisation's ESG risks and opportunities, as well as accelerating the adoption of consistent, comprehensive sustainability-related disclosures. There will be significant financial costs of implementation for some organisations in terms of the collection and disclosure of robust, consistent, and reliable industry-specific information. A phased approach is therefore required.
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.	Yes, we are supportive of the separate suite of standards.
D2. Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?	Yes, the Exposure Drafts will result in greater transparency in related risks and opportunities and will benefit investors and the future economy. However, implementation should be a phased approach to allow effective transition to greater disclosure.

ATTACHMENT B: RESPONSE TO [DRAFT] IFRS S1

Question	Insurance Council Response
Question 1 – Overall approach	
A2. 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?	Yes.
A3. Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?	Yes, there is some uncertainty in terminology and scope of information required to be disclosed to assess enterprise value and decide whether to provide resources to the entity. In particular, the requirement to disclose "material" information about all of the "significant" sustainability-related risks and opportunities creates uncertainty around the materiality test to be applied to disclosures. The relationship between disclosures under the Exposure Draft and GRI also requires clarification, particularly with respect to the scope of materiality. See responses to Q2b and Q8a below for further information.
A4. 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?	Yes, the Exposure Draft is clear that general requirements must be complied with through providing more specific information under each IFRS Sustainability Disclosure Standard, or other standards if no IFRS Sustainability Disclosure Standard exists for the relevant material sustainability risk or opportunity.
A5. 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, clearer definitions of "sustainability-related financial information" and "materiality" would support assessment of compliance. See responses to Q2b and Q8a below for further information.

Question 2 – Objective (paragraphs 1-7)	
B5. Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?	Yes, the objective of disclosing sustainability-related financial information is clearly set out at [paragraph 2] namely providing information that is, *"useful to the primary users of general-purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity."*
B6. 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, clarity on the definition of "sustainability" and perhaps a non-exhaustive list of sustainability matters would be a useful guide to entities. For example, the Sustainability Accounting Standards Board (SASB) refers to the definition of sustainability as follows: *"The SASB's use of the term "sustainability" refers to corporate activities that maintain or enhance the ability of the company to create value over the long term. Sustainability accounting reflects the governance and management of a company's environmental and social impacts arising from production of goods and services, as well as its governance and management of the environmental and social capitals necessary to create long-term value. The SASB also refers to sustainability as "ESG" (environmental, social, and governance), though traditional corporate governance issues such as board composition are not included within the scope of the SASB's standards-setting activities."* Clarity should be provided on whether the above definition applies to [Draft] IFRS S1 given that SASB is now part of the VRF and ISSB.
Question 3 – Scope (paragraphs 8-10)	
C10. 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, however each jurisdiction will need to provide guidance that proposals in the Exposure Draft could be used in accordance with its GAAP requirements. We note that Australia already adopts the IFRS Accounting standards, so we see no issue from an Australian perspective.

Question 4 – Core content (paragraphs 11-35)	
D3. Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?	Yes, the disclosure objectives are clearly and appropriately defined, aligned to the recommendations of the TCFD. The Insurance Council agrees with using the TCFD recommendations framework as a basis for the disclosure objectives.
D4. Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?	Yes, however some disclosure requirements include commercially sensitive information, which may inhibit disclosure unless certain uncertainty and protection measures are included.
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, we agree.
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?	Yes, however a phased approach is required to allow time for companies to develop measurement methodologies, data collection processes and adequate resourcing. A materiality threshold should also apply, for example omitting subsidiaries and joint ventures if they do not comprise a material part of activities within the reporting entity's financial or operational control. There are particular complexities regarding joint ventures and the degree of operational control parent companies have to then enable emissions reduction. Additional guidance would be welcomed to assist in the standardisation of approach to joint ventures, noting the application of a materiality threshold. Examples of how sustainability-related risks and opportunities effect value chains by key industry (manufacturing, extracting, financial services etc.) would also be useful.
c. Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?	Yes, we agree with [para 38]: *"An entity shall disclose the financial statements to which the sustainability-related financial disclosures relate",* because it will make it easier for investors and other users of general-purpose financial reporting to navigate the reporting landscape of entities.

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?	Yes, the requirement for connectivity is clear. Although [para 44] provides some examples, it would be beneficial to have more guidance on how this connectivity is to be achieved. Additionally, the ISSB could agree with other sustainability reporting standards (such as the GRI, United Nations (UN) Principles for Responsible Banking and UN Principles for Responsible Investing) that where elements are reported under the ISSB framework, they don't need to be duplicated in other reports (e.g., the GRI report). ISSB could also form agreements with key independent data and indices organisations such as the CDP, DJSI, Sustainalytics and MSCI, for example, to streamline citation and digital tagging of disclosures. This digital capability will reduce the reporting burden and ensure organisations remain focused on delivering better sustainability outcomes.
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?	No, we do not agree with the inclusion of sustainability-related financial disclosures in an entity's general purpose financial reporting as the scope of disclosures required is unclear (see Q10a). However, if sustainability-related reporting is to be included in financial reporting it is important for these connections to be highlighted so investors can clearly identify areas of risk and opportunity for the entity, as well as increasing transparency of reporting.
Question 7 – Fair representation (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?	The proposal to present fairly is clear, including the requirements for aggregation. We agree with the statements around aggregation as it allows more transparency into the data, hence allowing more appropriate decision making relevant to the risks and opportunities a company faces. (As we understand it, a company with high climate risk in one location and low climate risk in another location would not comply with the standards if they stated an overall climate risk of moderate) Disclosure requirements in the proposal be should standalone and not rely on other external frameworks such as the CDSB, creating issues for

	compliance and assurance. The wording 'entity shall consider' should be amended to reflect that consideration of the frameworks is optional (i.e., 'entity may consider') and only for the purposes of providing additional guidance on identifying sustainability risks and opportunities.
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 entirely agree with the section on 'Identifying sustainability-related risks and opportunities and disclosures'. As per [para 50], *"This [draft] Standard requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed (see paragraph 2)."* The wording indicates that both financial and non-financial disclosures are required, i.e. broader than enterprise value. This needs to be clarified. In [para 51] and [para 52], S1 points to the IFRS Sustainability Disclosure Standards as the source of disclosure topics. However, the standard also refers to other frameworks for identifying relevant disclosure topics. In particular, [para 51] states *"In addition to IFRS Sustainability Disclosure Standards, an entity shall consider … "*. This does not appear to be a consolidation of sustainability standards, as the ISSB claims to be targeting, but rather a re-direction. The standards require entities to consider all sources of guidance, thus not making sustainability reporting any easier. We would prefer the standards to provide their own guiding lists on disclosure topics (which may draw from SASB etc), or to provide the sources of guidance as a recommendation rather than a requirement.
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?	No, the definition of materiality is not clear. [Para 1] requires disclosure of sustainability-related financial information relevant only to enterprise value. However, [para 2] requires disclosure of "all significant related risks and opportunities". This suggests that broader non-financial disclosures are also required, consistent with the approach taken under the GRI. Clarity should be provided on the scope of disclosures required, and alignment with GRI requirements. This includes aligning to upcoming refreshed guidance from GRI on how to undertake materiality assessments.

Question	Response
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, as per [para 60], an entity need not provide a specific disclosure if the information resulting from that disclosure is not material. We consider disclosure of material information is appropriate, rather than the entire breadth of sustainability-related risks 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?	Yes, it is useful, however more guidance on identifying material sustainability-related financial topics would be welcomed. This could include a non-exhaustive list of sustainability matters, with recognition that sustainability materiality is much more qualitative than financial materiality.
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. It is necessary to allow companies to report in a manner that is not inconsistent with local laws and entities should *“identify the type of information not disclosed and explain the source of the restriction”* [para 62] to enable assurance over non-disclosure. Additionally, market forces are likely to encourage increased transparency of disclosures, and this will (slowly) drive changes in local legislation.
Question 9 – Frequency of reporting (paragraphs 66-71)	
a. 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, we agree that *“An entity shall 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”* [para 66]. This is important in giving the standards the credibility. Initially there does, however, need to be an allowance for variation dependent upon data availability (see Q13).
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?	No, we do not agree with the inclusion of sustainability-related financial disclosures in an entity’s *“general purpose financial reporting”* [para 72] as the scope of information to be disclosed is unclear. See response at Q8a.
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.

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?	See Q10a above.
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?	Yes, [para 78] is clear and the included example aids understanding.
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?	Yes, regarding [para 63], clarity on the provision of 'uncertainty' is required to encourage entities to disclose despite the fact that calculation methodologies are not yet standardised and data quality/completeness remains low, for example some Scope 3 greenhouse gas (GHG) emissions (e.g. finance/underwriting and value chain). Clarity on disclosing levels and ranges of uncertainty, will support uptake, consistent and the establishment of best practice.
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?	See Q11a above.
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?	N/A
Question 12 – Statement of compliance (paragraphs 91-92)	
a. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?	Yes, we agree with the inclusion of *"an explicit and unqualified statement of compliance"* [para 91]. This is standard practice, with other sustainability frameworks, such as GRI, allowing companies to claim their

	reports have been prepared in accordance with these frameworks. Such a statement would also provide a high-level indication of the comprehensiveness of an organisations' sustainability reporting. However, allowances and a phased approach should be used for uncertainty in information disclosed to avoid legal risks associated with material misstatement. However, standardised wording for a disclaimer should be included in the statement of compliance to allow for the inherent uncertainties and assumptions that are used by companies when reporting on forward looking measures, such as climate risk and financial performance. This is also to limit exposure of disclosing organisations in Australia to potential liability for misleading and deceptive disclosure under Australian Law (for example s1041H of the Corporations Act 2001 and s18 of the Australian Consumer Law).
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.	The Insurance Council proposes that both standards should be effective from the same date. However, the effective date should be a minimum of two years from the release of the final ISSB standards to allow companies time to develop measurement methodologies, data collection processes and adequate resourcing, particularly where smaller companies have limited capabilities. Early adoption of the standards should be encouraged, noting urgent action is required to facilitate the orderly transition of the financial system to a sustainable economy. The ISSB also has an important role to play in educating organisations on disclosing in accordance with the proposed standards. We note that the TCFD provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub.
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.
Question 14 – Global baseline	

a. 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?	While SASB metrics are a good source of industry metrics, some adjustments may be required to meet the needs of multiple jurisdictions. See our submission in response to [Draft] IFRS S2 Climate-related Disclosures Standards (**[Draft] IFRS S2**) for further details.

Question 15 – Digital reporting

a. 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 are supportive of digital reporting and would further suggest linkage with external ESG assessments. For example, there is an opportunity to harmonise ISSB-aligned reports with CDP, DJSI, Sustainalytics and MSCI (etc.) questionnaires by using digital tagging. This would reduce the volume of sustainability reporting and improve consistency across various reporting frameworks.

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?	There is a need for harmonisation across jurisdictions so we welcome these standards, with the opinion they will benefit greater transparency of the potential financial impacts to an organisation's sustainability risks and opportunities, as well as accelerating the adoption of consistent, comprehensive sustainability-related disclosures. There will be significant financial costs of implementation for some organisations in terms of the collection and disclosure of robust, consistent, and reliable industry-specific information, as well as costs more specific to the [Draft] IFRS S2 like obtaining climate related scenario analysis. A phased approach is therefore required (see Q13 above).
b. Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	See Q16a above.

Question 17 – Other comments

a. Do you have any other comments on the proposals set out in the Exposure Draft?	There is a risk that compliance with the ISSB standards, when combined with financial reporting, will lead to long reports that have limited value for

preparers, investors and assurers. As such, consideration should be given to the expected length and depth of an ISSB Standard-aligned report, ensuring concise and efficient transfer of sustainability information.

ATTACHMENT C: RESPONSE TO [DRAFT] IFRS S2

Question	Insurance Council Response
Question 1 – Objective of the Exposure Draft (paragraph 1)	
A6. Do you agree with the objective that has been established for the Exposure Draft? Why or why not?	Yes, we agree with the objective to require entities to disclose information about their exposure to significant climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting.
A7. 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.
A8. 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, subject to any adjustments of SASB metrics that may be required to meet the requirements of multiple jurisdictions (Appendix B, Volume B17 - Insurance).
Question 2 – Governance (paragraphs 4-5)	
B7. 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 agree. The disclosure requirements on governance build upon the TCFD recommendations which we agree with using as a basis for the disclosures.
Question 3 – Identification of climate-related risks and opportunities (paragraph 9)	
C11. 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. However, further clarity is required regarding the following wording, *"an entity shall disclose…. the effects of significant climate-related risks and opportunities on its financial position, financial performance, and cash flows"* (para 8). In particular, whether disclosures should include all 'climate-related' impacts that have occurred (i.e. all weather events) or

	just those that can be attributed to climate change itself, noting the latter will be challenging to calculate. Additionally, the requirements may not be capable of consistent application as financial information may be commercially sensitive and not feasible to disclose without certain uncertainty and protection measures.
C12. 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?	Yes, noting our response at Q1c above.
Question 4 – Concentrations of climate-related risks and opportunities in an entity's value chain (paragraph 12)	
D5. 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, however there are practical challenges associated with a lack of data and methodologies for assessing climate-related risks and opportunities across an insurance entity's business model and value chain, including measuring emissions and conducting scenario analysis over investment and underwriting portfolios and supply chains. Compliance will also be more difficult for smaller entities who do not yet have the requisite resourcing. We recommend a phased approach to implementation to allow time for entities to develop measurement methodologies and data collection processes.
D6. 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, but only if it is unable to provide quantitative information [para 14].
Question 5 – Transition plans and carbon offsets (paragraph 13)	
d. Do you agree with the proposed disclosure requirements for transition plans? Why or why not?	Yes, however many companies already have transition plans in place (e.g. net zero roadmaps, portfolio decarbonisation strategies etc.), and a

	phased approach could be used to allow companies time to amend plans to meet the disclosure requirements of [Draft] IFRS S2. Guidance is required on whether transition plans should support the transition to a low-carbon economy more broadly (aligned to Nationally Determined Contributions and implied decarbonisation pathways) or company specific targets with clear transparency on assumed decarbonisation trajectories. We recommend that transition plans align to broader jurisdictional requirements and the Paris Agreement, but that early achievement of targets and increased ambition be encouraged, noting that urgent action is required to facilitate an orderly transition to a low carbon economy.
e. 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.
f. 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?	Yes, the proposed carbon offset disclosures will support comprehensive and transparent disclosure of how entities carbon offsets will add credibility to carbon market practices, avoiding risks associated with greenwashing.
g. 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, we note that in accordance with the mitigation hierarchy for the insurance sector, emissions should be avoided or reduced before they are offset. The costs associated with disclosure are therefore likely to be minimised.
Question 6 – Current and anticipated effects (paragraph 14)	
c. 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.

d. 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, where information is available. We also recommend that an allowance be made for ranges of uncertainty in disclosure, to support uptake, consistent and the establishment of best practice.
e. 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?	No, subject to further guidance on how such information could be reliably measured. Standardised wording for a disclaimer should also be included to allow for inherent uncertainty in information disclosed to avoid legal risks associated with material misstatement.
Question 7 – Climate resilience (paragraph 15)	
c. 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?	No, further clarity is needed on whether climate scenario outcomes are expected to be linked to the financial statements. For example, climate scenario outcomes may result in contingency planning and reserving that would impact the balance sheet.
d. 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?	Yes, however a phased approach should be included to allow entities time to prepare for the detailed scenario analysis requirements. Guidance should also be provided on preferred climate scenarios aligned to the TCFD and embedded in [Draft] IFRS S2, noting that the proposed standard builds upon the recommendations of the TCFD.
e. Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?	Yes, as per Q7b above.
f. Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis	Yes.

	and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?	
g.	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, as per Q7b above.
Question 8 – Risk management (paragraphs 16-18)		
e.	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?	Yes.
Question 9 – Cross-industry metric categories and greenhouse gas emissions (paragraphs 19-22)		
b.	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, cross-industry metric categories are useful to encourage harmonisation across different sectors globally. However, a materiality threshold should be applied to disclosure in accordance with metrics and flexibility should be afforded where metrics and data are not yet available, for example financed emissions across all investment asset classes (i.e. sovereign debt) and underwriting portfolios, which are currently under development by PCAF. Specific guidance should also be developed to support a common methodology for the measurement of the emissions across an insurer's supply chain and to build the literacy of suppliers to take action to decarbonise their operations. Supply chain emissions are a large portion of insurer's overall emissions, and this guidance (with supporting metrics) would be very valuable in supporting the insurance sector to decarbonise.
c.	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	See response to Q9a above regarding supply chain guidance and metrics.

	Question	Response
	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.	
d.	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?	Yes, the GHG Protocol is the leading international standard for GHG emissions measurement and supports harmonisation across jurisdictions.
e.	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))?	Yes, aggregation of GHGs into CO_2 equivalent makes reporting and comparing more straightforward.
f.	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?	Only for the consolidated entity. Disclosing Scope 1 and 2 emissions information on associates, joint ventures, unconsolidated subsidiaries and affiliates requires reporting on a financial control / equity share basis. This is a significant departure from the current practice and the reporting options available under the GHG Protocol. We recommend this information be disclosed as part of Scope 3 emissions for the entity, consistent with existing GHG Protocol requirements. There are complexities regarding joint ventures and the degree of operational control parent companies have to direct emissions reduction. Additional guidance would be welcomed to assist in the standardisation of approach to joint ventures.
g.	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, subject to a materiality threshold and the effective date should allow time for methodologies to be developed and data collected. This is particularly relevant for smaller entities who do not yet have the requisite resourcing.
Question 10 – Targets (Paragraph 23)		
e.	Do you agree with the proposed disclosure about climate-related targets? Why or why not?	Yes.

f. 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 (Appendix B, Volume B17)	
d. 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, however some adjustments to metrics included in [Draft] IFRS S2 may be required to accommodate the needs of multiple jurisdictions. We also recommend conducting field testing on industry specific metrics across regions to understand their applicability and usefulness to users of the general-purpose financial statements, and whether disclosers have sufficient data to report, similar to the approach taken with PCAF standards. We note the following concerns about proposed metrics for insurers (Appendix B, Volume B17 – Insurance): • Policies Designed to Incentivise Responsible Behaviour: Product features that incentivise health, safety and environmentally responsible actions and/or behaviours will be difficult to analyse as they cannot easily be measured. We also recommend that policies include wider ESG factors such as governance, code of conduct and privacy training. • Physical Risk Exposure: Further clarity is needed on measuring monetary losses attributable to insurance payouts from modelled natural catastrophes. There is currently no differentiation between the future climate change component and existing natural catastrophes. The metric overlaps significantly with business-as-usual capital management, reinsurance requirements and pricing and will be challenging to implement in a manner that provides useful additional information on the financial effects of climate change. • Transitional Risk Exposure: ○ Disclosing gross-exposure to carbon related industries should be accompanied by a transition plan to demonstrate the full picture of an entity's transition journey to a lower carbon economy

		○ The requirement to disclose Scope 1 and 2 financed emissions is unclear as financed emissions are defined as indirect, Scope 3 emissions that can be related to loans, underwriting, investments, and any other forms of financial services (i.e. excluding Scope 1 and 2 emissions)
e.	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?	See response to Q11a above.
f.	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?	Yes, however see response to Q11a above.
g.	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?	Yes, the requirements will improve transparency and, in time, consistency of approach. However, methodologies are still under development and compliance should be optional until the relevant methodologies are established.
h.	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?	Yes, we agree with the list of carbon-related industries in Appendix B, Volume B17 – Insurance. However, there are other industries such as agriculture and animal farming that are carbon-related and should be included in the list.
i.	Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?	Yes, we agree. This is standard practice.
j.	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?	See response to Q11d above.
k.	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	See response to Q11d above.

	Question	Response
	Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?	
l.	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?	See response to Q11d above.
m.	Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?	Yes, subject to response to Q9a and Q11a above.
n.	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.	Yes, see response to Q9a above.
o.	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?	The Insurance industry description should be rephrased to better reflect the insurance business model and specificities, i.e. to include re-insurance and the development of new insurance products (Appendix B, Volume B17 - Insurance).
Question 12 – Costs, benefits and likely effects (Paragraphs BC46–BC48 of the Basis for Conclusions)		
b.	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?	There is a need for harmonisation across jurisdictions so we welcome these standards, with the opinion they will benefit greater transparency of the potential financial impacts to an organisation's ESG risks and opportunities, as well as accelerating the adoption of consistent, comprehensive sustainability-related disclosures. There will be significant financial costs of implementation for some entities in terms of the collection and disclosure of robust, consistent and reliable industry-specific information. Any effective date should therefore provide reasonable time for entities to prepare and disclose.

Question	Response
c. Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	See Q12a above.
d. 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?	For many entities, Scope 3 financed emissions methodologies are not fully developed. Thus, enforcing the disclosure of Scope 3 emissions in the near-term could impose significant costs, particularly on smaller entities that do not have the requisite resources. Recognising that there is investor demand for greater transparency, we recommend a phased approach to support entities in improving disclosures whilst accounting for initial data unavailability (see Q14).
Question 13 – Verifiability and enforceability (Paragraphs C21–24, S1)	
c. 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 significant challenges associated with assurance of scenario models and Scope 3 emissions, given the quantum of inputs, level of estimation and variability in assumptions.
Question 14 – Effective date (BC190–BC194 of the Basis for Conclusions)	
b. 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?	Both Exposure Drafts should be effective from the same date.
c. 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.	Any effective date should provide reasonable time for entities to prepare and disclose. Feedback from members indicated that an effective date should be a minimum of two years from the release of the final ISSB standards, depending on the size and capability of the entity disclosing. See also response to Q9f above. Early adoption of the standards should however be encouraged noting urgent action is required to transition to a sustainable economy and limit the impacts of global warming. The ISSB also has an important role to play in educating organisations on disclosing in accordance with the proposed standards. We note that the TCFD provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub.

d. 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?	Governance and strategy could potentially be disclosed earlier than the other requirements, but the primary reason for implementing this would be to allow companies time to develop methodologies for reporting and data collection. Our members have expressed concern for meeting the metrics and targets requirements (particularly with respect to Scope 3 emissions), so a phased disclosure approach for these may assist in increasing compliance with [Draft] IFRS S2.
Question 15 – Digital reporting	
b. 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 are supportive of digital reporting and would further suggest linkage with external climate assessments. For example, there is an opportunity to harmonise ISSB-aligned reports with Carbon Disclosure Project (CDP) questionnaires by using digital tagging. This would reduce the volume of climate reporting and improve consistency across various reporting frameworks.
Question 16 – Global baseline	
c. 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?	While SASB metrics are a good source of industry metrics, some adjustments may be required to meet the needs of multiple jurisdictions. See responses to Q1c and Q11a above.
Question 17 – Other comments	
b. Do you have any other comments on the proposals set out in the Exposure Draft?	There is a risk that compliance with the ISSB standards, when combined with financial reporting, will lead to long reports that have limited value for preparers, investors and assurers. As such, consideration should be given to the expected length and depth of an ISSB Standard-aligned report, ensuring concise and efficient transfer of sustainability information.

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

15 July 2022

PwC Australia draft response to AASB ED 321: Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures.

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

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

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

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

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

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

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

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

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

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

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

We support a principles-based approach to standard setting

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

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

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

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

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

Yours sincerely,

K. Stubbins

Kristin Stubbins
Managing Partner, Assurance
PwC Australia
kristin.stubbins@pwc.com
+61 (0)401 999 879

Attachment 1: AASB Specific Matters for Comment

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

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

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

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

14/07/2022

By email: standard@aasb.gov.au

Australian Accounting Standards Board

Re: Request for Comment on proposed ISSB IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 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 and the implementation of the standards in Australia will support decision making relating to ESG risks and opportunities.

Our feedback is focused on the support of adoption in Australia as well as implementation comments. We also recommend further consultation relating to this adoption.

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.

T 03 8648 3900
Level 30, 130 Lonsdale Street
Melbourne VIC 3000 Australia
australiansuper.com

This information may be general financial advice which doesn't take into account your personal objectives, financial situation or needs. Before making a decision about AustralianSuper, you should think about your financial requirements and refer to the relevant Product Disclosure Statement available at **australiansuper.com/pds** or by calling **1300 300 273**. A Target Market Determination (TMD) is a document that outlines the target market a product has been designed for. Find the TMDs at **australiansuper.com/tmd**. AustralianSuper Pty Ltd, ABN 94 006 457 987, AFSL 233788, Trustee of AustralianSuper ABN 65 714 394 898.

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. Support for developing a separate suite of standards

We support the current proposed AASB “approach 2” of a separate suite of standards addressing sustainability related reporting.

4. 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 recommend consideration be given to a phased in approach such as initial adoption by ASX 200 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.

5. 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.

6. 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 would welcome consultation and discussions regarding their implementation, including the expectations and ability of entities to make these disclosures in the current Australian legal environment, and development of the related scope of assurance.

We support collaboration between standard setters and such entities as APRA, ASIC, AUASB and ASX and relevant international entities to ensure alignment with regards to implementation.

7. 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 to application of the exception to consolidation applicable to investment entities contained in AASB 10 Consolidated Financial Statements.

8. 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.

9. 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.

10. Additional feedback

We would be pleased to provide additional information or to discuss our feedback in further detail. We also welcome further consultation on the Australian implementation of the exposure drafts and the ISSB project plan. If that would be of assistance, please contact Andrew Gray, Director, ESG & Stewardship (AGray@australiansuper.com). Yours Sincerely,

Andrew Gray
Director, ESG & Stewardship – AustralianSuper

M C Harrington

Matthew Harrington
Chief Financial Officer – AustralianSuper

Level 36, Tower Two
Collins Square
727 Collins Street
Melbourne Vic 3008

GPO Box 2291U
Melbourne Vic 3000
Australia

ABN: 51 194 660 183
Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

Dr Keith Kendall
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Our ref Submission – ED 321

Contact Adrian King +61 3 9288 5738

14 July 2022

Dear Keith

ED 321 – Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures (ED 321)

We are pleased to have the opportunity to comment on ED 321. KPMG will also be providing a submission to the International Sustainability Standards Board (ISSB) in relation to the proposed international standards. As a result, this submission focuses on the Australian specific requirements and implementation questions outlined in ED 321.

Global baseline disclosures

We strongly support the adoption of globally consistent disclosure of sustainability-related financial information.

We believe that globally consistent sustainability disclosure standards is an imperative. Alignment of Australian sustainability disclosure standards with those issued by the ISSB, in a timely manner and with due process will strengthen the ability of Australian entities to participate on the international stage.

Growing investor and stakeholder demand for consistent and comparable disclosures of sustainability-related financial information means that any standards issued in Australia must align with those issued globally. Given the success of the alignment of Australian Accounting Standards with IFRS® Accounting Standards and the resulting ability for Australian entities to engage on global capital markets, we strongly support the same level of alignment in sustainability-related financial information. With this perspective, we believe that the ISSB sustainability standards should be the Australian baseline for sustainability standards and accordingly that there must be a compelling reason to depart from this international baseline at a minimum.

Given the speed of development and global demand for connected sustainability-related financial information, and developments in other major jurisdictions (United States of America and European Union), we support starting with the proposals contained in [Draft] IFRS S1 and [Draft] IFRS S2 and being open to improving them on a continuous basis going forwards.

©2022 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
Liability limited by a scheme approved under Professional Standards Legislation.
The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Timing of implementation

The proposals represent a new phase in corporate reporting for most entities, and it will take time to both develop and implement processes and controls over all of the proposed disclosure requirements. This time to implement should, however, be balanced with the demand for such disclosures – both locally and globally – from investors and other stakeholders, as well as the practical experience already gained from the adoption of the predecessor voluntary disclosure frameworks such as the Task Force on Climate-related Financial Disclosures recommendations. As a result, on balance, we believe final implementation dates should be closely aligned with those of other major international capital markets to ensure that Australian businesses are not disadvantaged in terms of value, trust, rigour or reputation when accessing these markets.

Indigenous Voice in Australia

There is currently no specific consideration of Indigenous Australians in the proposed international or Australian standards. Given the direct relevance of many sustainability topics, including climate change, to Indigenous Australians, and the specific challenges in Australia in relation to reconciliation, inclusion, the National Apology and the Uluru Statement from the Heart, we believe that the views, needs and impacts of Indigenous Australians should be specifically sought and considered during the finalisation of these initial Australian reporting standards. For example, the past international approach for sustainability reporting would likely lead to a specific future standard addressing the rights and needs of Indigenous Peoples (e.g. GRI 411 *Rights of Indigenous Peoples 2016*) however, we believe that the integration of the views and needs into all standards would likely lead to more inclusive and relevant outcomes. We would be happy to help facilitate this if you do not believe that the existing outreach and consultation process for ED321 has not already achieved this.

We have set out our detailed comments on the specific questions in the ED in the Appendix to this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (03) 9288 5738.

Yours sincerely

Adrian V. King

Adrian King
Partner

Appendix

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1

Question 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?

As noted in our cover letter, as a guiding principle we strongly support alignment with the ISSB proposals. We therefore support the focus on an entity's enterprise value as an approach when considering sustainability-related financial reporting. Any further comment on this issue will be addressed in our global submission to the ISSB Exposure Drafts.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

Question B1: To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

Should the final ISSB IFRS S2 require Scope 3 GHG emissions to be disclosed, we believe that Australian entities should be required to disclose these emissions to maintain global alignment. Given the significant proportion of an entity's total GHG footprint that Scope 3 GHG emissions typically comprise, disclosing Scope 3 GHG emissions is important to the understanding of the entity's business model, risks, opportunities and enterprise value.

We do acknowledge that the determination of Scope 3 GHG emissions can be challenging for certain entities, especially initially. With this in mind, refer to our comments on Question C6 relating to the effective date in Australia and a possible phased adoption approach to certain requirements, depending on entity size.

Question 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)?

We believe that Australian entities should be required to comply with the GHGC Standard. The main principles and calculation methodologies of NGERs legislation are

already aligned with the GHGC and, in our view, largely provide additional local specific inputs such as local emissions factors.

There are some differences in approach between the GHGC and NGERs legislation such as, the population of entities being reported on, given for example, NGERs legislation only applies to Australian operations whereas financial reporting groups will include overseas operations and equity investments. We also note that year ends may also be different between sustainability reporting and NGERs legislation which mandates a 30 June reporting period. These differences, however, represent the varied reporting needs of the users rather than underlying differences in calculation methodologies.

Question 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?

Internationally consistent metrics is key to enabling Australian entities to be benchmarked and assessed so as to access global capital on the same basis as their international peers. We recommend that additional metrics, if any, for Australian entitles are kept to a minimum to maximize international consistency and alignment.

Question 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 that there are existing reporting requirements and frameworks in Australia including NGERs legislation, Climate Active (Carbon Neutral) and the Clean Energy Renewable Target (CERT) reporting. These frameworks have users with different reporting needs.

Whilst we are supportive of the additional reporting above, we caution against adding to reporting in annual reports to the extent that it creates divergence from international standards. For example, we would not advocate changing calculation methodologies away from the recommended global principles, such as the GHG Corporate Standard, where there are differences when compared with these existing local frameworks.

We do not support incorporating additional Australian-specific climate-related matters – and thereby adding to mandatory disclosures for Australian entities. We are, however, supportive of entities voluntarily reporting additional relevant entity-specific metrics.

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

Question 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?*

In our view, in Australia, the proposals should be required by all listed entities at a minimum. We would also support extending this to those entities that have public accountability as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*. This extension would capture entities such as registered managed investment schemes and large superannuation funds – both of which would have high levels of interest from investors and members. Refer also to our comments at Question C6 relating to the effective date in Australia and a possible phased adoption approach to certain requirements, depending on entity size.

We do not believe that relief from specific aspects should be considered as disclosure is only required where that information is material. If a disclosure is material, it should be disclosed.

Question C2: Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals. We acknowledge that introduction of these standards will require entities to implement systems, processes and controls over the proposed disclosure requirements to capture additional data that may not have been captured previously.

We believe this should be balanced with the demand for such disclosures – both locally and globally – by investors and other stakeholders, and the existing take-up of voluntary disclosure frameworks such as the Task Force on Climate-related Financial Disclosures recommendations. Refer also to our comments at Question C9 relating to "Safe Harbour" provisions.

Question 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?*

We note that most sustainability reporting by large listed companies in Australia (for example, 80% of the ASX100), follow the Global Reporting Initiative (GRI) which utilises a broader definition of materiality. We do not, however, consider this to be a significant concern as the GRI requirements and the ISSB sustainability standards can

be aligned if an entity wishes to report under both frameworks. For example, the "nested" concept of sustainability information[1] demonstrates how this can be done.

We further note that the requirements set out in ASIC's Regulatory Guide 247 *Effective disclosure in an operating and financial review*[2] and the ASX *Corporate Governance Principles and Recommendations*[3] already require material risks of this nature to be disclosed. We do not see any actual differences between these requirements and those contained in the ISSB proposals although the language used is currently different. In the event that a perceived difference emerges, in the interests of achieving international comparability, we would support adjusting these Australian frameworks and guidance rather than the ISSB proposals.

Question C4: Would the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 result in useful information for primary users of general purpose financial reports?

We believe the proposals would result in useful information for primary users of general purpose financial reports.

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

We have existing assurance frameworks suitable for auditing the proposed sustainability-related financial information – ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information,* and the guidance issued by the International Auditing and Assurance Standards Board – *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting Assurance Engagements*. We expect that further developments and refinement of this framework will produce iterative improvements to address any deficiencies that emerge.

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

The proposals represent a new phase in corporate reporting for most entities, and it will take time to both develop and implement processes and controls over all of the proposed disclosure requirements. This time to implement should, however, be balanced with the demand for such disclosures – both locally and globally – from investors and other stakeholders, as well as the practical experience already gained from the adoption of the predecessor voluntary disclosure frameworks such as the Task Force on Climate-related Financial Disclosures recommendations. As a result, on balance, we believe final implementation dates should be closely aligned with those of other major international capital markets to ensure that Australian businesses are not

---

[1] Statement of Intent to Work Together Towards Comprehensive Corporate Reporting – Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC ad SASB (September 2020)

[2] RG 247.66

[3] Recommendations 7.2 and 7.4

disadvantaged in terms of value, trust, rigour or reputation when accessing these markets.

Based on evidence of current readiness of ASX listed entities (S&P/ASX 200: 83%, ASX 201-500: 41% and ASX 500+: 12% reporting under at least one environmental or social framework in 2021[4]), there may be merit in adopting a phased implementation of some disclosures depending on entity size, for example, Scope 3 GHG emissions disclosures. This approach would provide the smaller entities with more time to ensure their resources, data, technical know how and capabilities are in place to enable reliable reporting on some of these more complex areas.

Question 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?

We are of the view that the effective dates of [Draft] IFRS S1 and [Draft] IFRS S2 should be concurrent. Given [Draft] IFRS S1 is the general disclosure standard setting out the over-arching structure and principles for sustainability-related financial information covering all sustainability sub-topics, and [Draft] IFRS S2 leverages and is consistent with the core elements of [Draft] IFRS S1, we see no net benefit in making the effective dates inconsistent.

Question 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?

This issue will be addressed in our global submission to the ISSB Exposure Drafts.

Question 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?

Given the perceived increased risks of disclosing forward-looking statements in Australia by directors, it would be useful to introduce or provide clarity on any protections for preparers, specifically in relation to the disclosures arising from these new standards. This would improve Australian disclosures and align with disclosures in other jurisdictions that do have "Safe Harbour" protections. We recommend appropriate consideration of this legal concern to facilitate the smooth and best implementation of these new standards.

---

[4] KPMG and ASX Council: ASX Corporate Governance Principles and Recommendations 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 (June 2022)

Notwithstanding this perceived increased risk, our view is that the risk of not disclosing material forward-looking assumptions and disclosures on these material matters impacting on future enterprise value is of equal or even greater risk to directors.

Part D: Matters for comment relating to the AASB's proposed approach

Question 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 AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards.

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

As noted in our cover letter, at a minimum, Australia must have sustainability standards that are consistent with global minimum standards. This will ensure Australian entities are on a level playing field with international peers, affording equal access to global capital and business opportunities. In our view, this is in the best interests of the Australian economy.

15 July 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Dr Kendall

ED 321: Request for Comment on ISSB [Draft] IFRS S1 *General Requirements for disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*

Thank you for the opportunity to comment on ED 321.

IPA supports the objectives and overall proposals in [Draft] IFRS S1 and [Draft] IFRS S2 as the foundation standards to achieving a baseline for international sustainability-related financial information (SR-FI) and climate-related disclosures.

However we have concerns regarding the implementation of the draft Standards. Our key concerns and suggestions for addressing them are as follows:

1. The broad nature, length and complexity of the proposed SR-FI will increase the difficulty for entities in applying the requirements and thereby diminishing the overall objectives of the ISSB setting a global baseline for SR-FI that is consistent, comparable and auditable. For examples:
   - [Draft] IFRS S1 uses 'enterprise value' as the focus for disclosing SR-FI, and the yet the definition (in Appendix A) and guidance (paragraph 5) are broad in scope and potentially onerous for entities to identify and capture the necessary information for their disclosures. Similarly, the list of guidance and pronouncements in paragraph 51 (with some stemming from other jurisdictions) that an entity needs to consider for disclosure in addition to the IFRS Sustainability Disclosure Standards is burdensome for many entities, particularly small-to-medium enterprises (SMEs).
   - [Draft] IFRS S2 Appendix B disclosures are complex and lengthy and difficult to apply.

2. The challenges posed by the pace of SR-FI development, the limited pool of practitioners with SR-FI expertise, and an entity's resources to invest in staff to acquire the necessary skills and systems to capture, measure and prepare SR-FI that comply with the requirements, and auditors having the necessary skills and assurance frameworks to ensure that SR-FI are consistent, comparable and verifiable across entities and over time.

3. Entities and practitioners in SME sectors will have difficulties in implementing the proposed requirements, as this sector would not currently be disclosing or assuring SR-FI. This contrasts with large entities that are already reporting some form of SR-FI and would have staff, systems and resources that can be adapted to implement the requirements of the draft Standards. Similarly, large audit firms that are already providing some form of assurance on the disclosed information can adapt to future assurance frameworks.

4. Whilst international alignment of SR-FI is important, the Standards need to incorporate other Australian requirements (such as the National Greenhouse Energy Reporting legislation for greenhouse gas emissions) to reduce the burden of reporting.

5. To address the concerns, IPA suggests the following:
   - Provide guidance where possible to reduce the scope and breadth of reporting with simplifications for SMEs and
   - Phased approach in implementing the Standards for different tiers of reporting by:
     - Initially requiring large for-profit entities to apply the effective date in the Standards and permitting other for-profit entities to elect to apply the Standards by the same date and
     - Delay the application date for other for-profit entities, until after the AASB's consideration of developing SR-FI for different types of entities within the FP sector with the view of simplifying the requirements for SMEs.

Our response to the specific questions in the Exposure Draft are in Attachment 1.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942 733.

Yours sincerely

Vicki Sylianou
Group Executive, Advocacy & Policy
Institute of Public Accountants

About the IPA

The IPA is one of the professional accounting bodies in Australia with over 47,000 members and students across 80 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. Since merging with the Institute of Financial Accountants UK, the IPA Group has become the largest SME and SMP focused accounting body in the world.

ATTACHMENT 1: IPA's response to ED 321 – AASB specific matters for comment

Part A: Matters for comment relating to 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?

IPA agrees that the focus on an entity's enterprise value (EV) is an appropriate approach when considering sustainability-related financial information (SR-FI). Enterprise value a concept that is currently used in many of the international frameworks for sustainability reporting and is therefore, a sound basis for developing the parameter for SR-FI. However, we note that the definition of enterprise value in Appendix A relates the total value of an entity being the sum of the value of the entity capital equity and net debt. Whilst the guidance[1] in paragraph 5 of [Draft] IFRS S1 for enterprise value is broad in scope and potentially onerous for entities to identify and capture the necessary information for their disclosures. Additional guidance where possible would reduce this burden of reporting.

Part B: Matters for comment relating to IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

IPA understands that disclosing Scope 3 GHG emissions will be challenging but a necessity, as Scope 3 GHG emissions is likely to make up the majority of emissions in most sectors and therefore should be disclosed. Accordingly, IPA supports the proposal requiring an entity to disclose its Scope 3 GHG emissions in addition to its Scope 1 and 2 GHG emissions. To assist entities, particularly those in the SME sectors, comply with the requirements, we recommend the AASB adopt a phased approach and simplified disclosures as outlined in our covering letter.

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)?

IPA is of the view that the disclosure of GHG emissions should disclose information that is internationally consistent and comparable (as per [Draft] IFRS S2), as well as complying with domestic requirements (such as the NGER Act, NGER (Measurement) Determination 2008 and

---

[1] Paragraph 5 of [Draft] IFRS S1 states:

> "Enterprise value reflects expectations of the amount, timing and certainty 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 that is provided by the entity in its financial statements and sustainability-related financial information."

related guidance). This is an area where the AASB will need to modify the international requirements for Australian specific requirements/guidance, taking into account the differences between the proposals in [Draft] IFRS S2 and the NGER Act, such as the different:

- Objectives of the NGER scheme and its obligations and the objective of [Draft] IFRS S2 disclosures
- Thresholds for determining the type of obligations under the NGER Act and disclosures under [Draft] IFRS S2 and
- Disclosures, in that the NGER Act only deals with Scope 1 and Scope 2 emissions.

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?

IPA has concerns regarding the prescriptive and authoritative nature of Appendix B, which is "an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard", (page 49 of [Draft] IFRS S2). Appendix B disclosures are complex and lengthy and our members in the SME sector would have difficulty applying the requirements. IPA therefore do not support the disclosures in Appendix B. Where the content of Appendix B is retained, IPA recommends the following amendments to the Appendix:

- Assess the metrics that are relevant for the Australian environment for disclosure
- Considerable simplification of disclosures for SMEs and
- Permit the disclosure of Appendix B information on a voluntary basis.

Part C: Matters for comment relating to both Exposure Drafts

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?

The success of disclosing SR-FI in Australia and internationally is dependent on the ability of entities to apply the requirements in the ISSB Standards, currently [Draft] IFRS S1 and [Draft] IFRS S2, auditors in assuring the disclosed information and users of the SR-FI to assess the entity's enterprise value and climate related risks and opportunities for making decisions about the entity.

IPA is of the view that, in Australia, entities that are already reporting sustainability-related information are large entities that have the resources to invest in staff to obtain the skills to identify the necessary reporting requirements and systems in capturing, measuring and preparing the information for disclosure. These entities are also likely to engage the larger audit firms in providing some form of assurance on the disclosed information. Consequently, these entities will likely have the resources to implement the proposals in [Draft] IFRS S1 and [Draft] IFRS S2.

Entities that are not currently disclosing SR-FI would need to allocate resources to acquiring the skills and systems for their reporting over the short and medium term. Given the limited availability of practitioners who currently have SR-FI expertise, this is likely to drive competition for their expertise resulting in only entities with resources able to secure the expertise for SR-FI. This is an issue that affects all jurisdiction, including Australia.

Most if not all of IPA members who operate in the SME sector would not currently be involved in sustainability-related financial reporting. Additionally, SMEs will have less resources to acquire the expertise in comparison to the larger entities. To assist SMEs implement the Standards, IPA recommends a tiered and staged approach in the application of the Standards in the following manner:

- Provide guidance where possible to reduce the scope and breadth of reporting with simplifications for SMEs and
- Phased approach in implementing the Standards for different tiers of reporting by:
  - Initially requiring large for-profit entities to apply the effective date in the Standards and permitting other for-profit entities to elect to apply the Standards by the same date and
  - Delaying the application date for other for-profit entities, until after the AASB's consideration of developing SR-FR for different types of entities within the FP sector with the view of simplifying the requirements for SMEs.

  The staged approach would allow the SME sector to learn from the experiences of the larger entities and spread the demand of practitioner with SR-FI experience.

(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?

IPA agrees with providing relief from specific aspects of the proposals to be permitted for some entities where the proposals are deemed onerous, including Scope 3 GHG emissions and scientific and scenario analyses. The relief can be for SME using the suggested phased in approach in our comments to Matter C1 above.

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?

Some of the proposals in the draft Standards are predictive in nature and can be commercially sensitive, and may expose the entity to litigation. However, IPA is of the view that these matters are not unique to Australia, and would already be encountered by entities that are currently disclosing sustainability-related type information. We are therefore of the view that these matters can be managed.

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?

The proposals in the draft Standards set a global framework for disclosing sustainability-related financial information and requirements for climate disclosures that are broader than information than those disclosed in financial statements. The proposals permit users to assess an entity's significant risks and opportunities relating to sustainability matters, and how the entity's governance, strategies and risk management adapt in response over time. The value of an entity is increasingly linked with how it addresses sustainability matters. IPA is therefore, of the view that the proposed disclosures would result in useful information for users of general purpose financial reports, however, this is only if the proposals are applied accurately, consistently and timely, and the information are verifiable and regulated.

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

The disclosures proposed in the draft Standards relate to predictive information that are broad and complex and are subject matters that are outside general purpose financial statements. Consequently, accountants would need to draw on non-accounting experts to provide the information for their disclosures. The assurance on the disclosed information would also require the use of such experts and the development of revised and/or new auditing frameworks to verify the disclosed information. Auditors will need time to learn and apply the revised and/or new auditing frameworks. Given the pace of the development of sustainability Standards and the IAASB's July 2022 announcement of its initiative to develop a sustainability assurance standard, the draft Standards would pose auditing and assurance challenges.

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

Given that Australian constituents have also 'demanded' a globally consistent and comparative reporting on sustainability-related financial information, the proposals in the draft Standards should be made effective in Australia. However, this is subject to the concerns in the draft Standards are addressed by the ISSB and/or the AASB for application in Australia.

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?

[Draft] IFRS S1 provides the overarching framework for SR-FI and [Draft] IFRS S2 specifically for climate-related disclosures. The effective date of both draft Standard should therefore be the same date. However, the effective date should be phased in based on the size of the entity as detailed in our comments to Matter C1 above.

Part D: Matters for comment relating to the AASB's 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.

IPA supports the AASB's proposed approach to developing SR-FI requirements as a separate suite of standards on the basis that this approach is consistent with the ISSB's approach and avoids the difficulties of the alternative approach. The consistency in standard-setting approach with other international standard-setters, including Australia, and the ISSB would better facilitate setting standards with requirements that are internationally aligned. This in turn ensures that SR-FI disclosures are internationally consistent and comparable and meet the international demand for SR-FI in the first place.

We are of the view that the alternative model of developing SR-FI requirements as part of existing Australian Accounting Standards would create difficulties including the need to resolve the:

- Differing objectives of SR-FI compared with general purpose financial statement (GPFS), ie the objective of SR-FI disclosures is for users to assess specifically an entity's enterprise value, which is a narrower objective than that of GPFS and
- Potential audit implications, as SR-FI disclosures that are included as part of GPFS would likely be subject to audit. This could be problematic for auditors, given audits of GPFS is well established, whilst the nature and form of SR-FI disclosure audits are yet to be developed. This is compounded by the predictive nature and significant estimations required in quantifying the disclosures proposed in the draft ISSB standards.

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

IPA is of the view that the proposals in the draft Standards are in the best interests of the Australian economy with the exceptions of the concerns outlined in our submission.

Contact: Peter Gibson
peter.gibson@finance.gov.au
Our Reference: fA994367

Dr Keith Kendall
Chair, Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST, VIC 8007

15 July 2022

Dear Keith

AASB ED 321 Request for Comment on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ED 321 on the draft IFRS Sustainability Standards S1 and S2.

HoTARAC is aware that the AASB has decided that it does not intend to apply these standards to the not-for-profit public sector at this time.

Implementation of sustainability reporting by any or all public sector entities is a government policy decision to be taken by each government jurisdiction. Policy decisions about sustainability reporting have been taken to different extents by individual jurisdictions, and HoTARAC is making no comment on jurisdictional policy decisions.

HOTARAC's view is that the experience of its members in reporting matters allows us to make a contribution to the deliberations of the AASB and the International Sustainability Standards Board (ISSB) on S1 and S2. Our view is that S1 and S2 seek to expand on and more formally incorporate into public reporting systems the existing aspirational reporting models used in current voluntary reporting, which is becoming increasingly widespread among private sector entities internationally.

We note that S2 focusses on climate-related reporting, with a heavy emphasis on emissions. We regard sustainability as being broader in scope than this, and we note that the ISSB will consider further standards after S1 and S2 are completed.

The public sector

We support exclusion of the not-for-profit public sector at present because we consider more thought is warranted before application. The public sector (and some other not-for-profits) may genuinely have different objectives to be achieved from sustainability reporting, to those presented in the Exposure Drafts:

- Central to the proposal in the Exposure Drafts is the concept of impacts on 'enterprise value'. This concept is defined as an entity's total value, being the sum of market

values of an entity's equity, and its net debt. The concept of a market value for equity in not-for-profit-entities is not relevant.

- A significant factor for public sector entities, particularly at Commonwealth and State/Territory level, is achievement of government policy, rather than maximising 'enterprise value'. For example, this is recognised in the report of the World Bank[1] which, while proposing a similar model to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), nevertheless proposes a nuanced alternative reporting solution to address sovereign sustainability risks and opportunities.
- The previous two points indicate that the specific disclosures required under S1 and S2 will need to be modified for public sector use.
- The Exposure Drafts raise issues that are unique to the public sector, or have a proportionately greater impact on the public sector. HoTARAC has identified the most significant of these in the attachment to this submission.

You will be aware of the sustainability-reporting-related activities of the International Public Sector Accounting Standards Board (IPSASB), including its discussion paper on accounting for natural resources, and its consultation paper *Advancing Public Sector Sustainability Reporting*. These acknowledge that there is a public-sector-specific lens to sustainability issues, and they should inform sustainability reporting proposals for the public sector.

Broader considerations

For application beyond the public sector, we note the expressed urgency to introduce consistent global standards for sustainability applicable to for profit entities and for use in capital markets. This has received widespread support from expected user groups. The proposals in the Exposure Drafts are primarily drawn from the recommendations of the TCFD, but have some differing reporting requirements.

We understand that reporting under underlying models such as TCFD and the Global Reporting Initiative is currently well established among some private sector entities. However, it will be new to many preparers and assurance providers, so will require considerable work for widespread implementation across sectors. We expect that if these Exposure Drafts are issued as standards, revisions will be necessary to address emerging issues and to ensure appropriate links with any additional sustainability standards that may be issued.

Our view is that implementation and ongoing compliance should balance the costs of preparation with the benefits to users. We accept that, similar to accounting standards, many of the benefits will be intangible or difficult to measure, but are nevertheless present. Our members have expressed concern about implementation and ongoing costs, and we think opportunities should be taken to further develop generic models, tools and guidance to simplify application and reduce costs through minimising the need for external assistance.

Consequently, while immediate implementation may be a priority for some stakeholders, we consider these two standards to be work in progress. In addition to the current consultation and regular monitoring there should be both a formal post implementation review, and support for further study - such as academic study - to provide supporting and clarifying evidence about the usefulness of the current or any future revised model.

[1] *(Sovereign Climate and Nature Reporting – Proposal for a Risks and Opportunities Disclosure Framework, Washington, 2022)*

Assurance

We appreciate that the current consultation is about proposed sustainability reporting standards. However, as preparers we also have an interest in assurance requirements over reports we prepare, and we view assurance as a critical issue:

- In principle we agree with the view that providing assurance over sustainability reports would enhance the trust of users in the report contents.
- Mandatory requirements for assurance will be determined by regulators who manage the reporting framework in each jurisdiction. HoTARAC does not currently express a view on this matter.
- Assurance requirements for a sustainability report fully compliant with S1 and S2 may be difficult to apply in the early years because preparers will need time to fully implement up to the evidential standard required. This will be even more so if a level of audit ('reasonable assurance') is required.
- Further, some of our members have noticed comments from stakeholders identifying the need for a sufficiently knowledgeable and skilled base among assurance providers.
- We note the work undertaken by the IAASB (and AuASB) to address assurance issues but we do not view this work as yet completed, so we support both ongoing work in this field and further liaison between sustainability standard-setters and assurance standard-setters.

Our view is that there will be issues in applying assurance standards, rather than deficiencies in the standards/guidance themselves. Assurance guidance[2] identifies the high degree to which judgement is required in collecting and assessing evidence, primarily due to the inherently uncertain nature of the information being assured. Until there is more experience with the subject matter, there may be inconsistent assurance judgements between assurance practitioners, and frequent judgement differences between preparers and assurance practitioners.

Format of this submission

Our submission identifies in the attachment some of the issues that will be relevant to public sector application of S1 and S2. It is not an exhaustive list, and there are other issues of less significance that we have identified. While many of the issues are common to private sector application, we have focussed on the impact for the public sector and have not comprehensively analysed private sector issues. Accordingly we have not directly answered the questions included in the exposure drafts, since they are asked primarily in a private sector context.

As the issues are summarised in "dot point" form, HoTARAC members will welcome separate meetings, to expand on or clarify the issues raised.

If you require any further information or explanations, please in the first instance contact Peter Gibson of the Australian Government Department of Finance on peter.gibson@finance.gov.au.

[2] *International Audit and Assurance Standards Board, Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements, and related AuASB guidance.*

Yours sincerely

Stewart Walters
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee

ATTACHMENT

Issues in application of Proposed IFRS Sustainability Standards S1 and S2

Our assumption when identifying these issues is that sustainability reports will be subject to assurance. If assurance is not required, some issues may be less significant.

a) **Issues specific to the (not for profit) Public Sector**

- The concept of enterprise value is less relevant.
- There are additional issues of aggregation about the scope of a public sector reporting entity, over and above general reporting entity issues.
- Ability to report future monetary impacts is potentially more problematic in the public sector than in other sectors.
- It may be necessary to undertake extensive analysis of the underlying sources of taxation and grant revenue, and certain types of expenses such as grants, subsidies and social benefits, to be able to comply with GHG Scope 3 reporting requirements, unless these items are scoped out.
- The relationship between sustainability reporting and other non-financial reporting such as service performance reporting needs to be determined. HoTARAC's view is that this should not delay further work on either sustainability reporting or performance reporting in the AASB work program.
- S2 does not presently include industry-specific requirements for core governments a.k.a. the 'public administration' industry. This does not prevent reporting, but if there are not common national and international protocols, there would be inconsistency if different government jurisdictions arrive at different judgements about what industry-specific information and measures are relevant.
- The language used in S1 refers to contracts and transactions, terminology that does not always apply to the activities of public sector entities.
- Government policy-setting may not encompass the setting of whole-of-government targets across all time periods (short/medium/long). Similarly, whole-of-government policy-setting may not include actions such as setting of sufficiently-specific transition plans. This would make compliant sustainability reporting for government more difficult or complex.
- Compliance with (or modification to) the *AASB Not-for-Profit Entity Standard-Setting Framework*.
- Governments currently have existing sustainability reporting requirements, some set jurisdiction-by-jurisdiction. If these are not to be adopted or integrated into a public sector reporting model under S2, they will need time to be "unpicked", affecting implementation time and complexity. Alternatively they may be continued, resulting in duplicated reporting.

b) Issues that apply to the Public Sector that may apply to other sectors

- Issues of definition and measurement of GHG Scope 3 emissions unless there are models and tools to simplify this aspect.
- Quantitative 'value chain' reporting more generally, for the same reasons.
- Reporting GHG Scope 1 and 2 emissions for those associates, joint ventures and unconsolidated subsidiaries that cannot be compelled to supply relevant information.
- Difficulty in accurately determining climate-related financial (i.e. monetary) impacts, both in the current period and forward-looking.
- Cost of implementation and ongoing compliance. Matters of specific concern include scenario analysis; expert reports that need to be obtained; data collection systems for large corporate groups; costs of negotiating differences in judgement between stakeholders; costs of preparing financial statements and sustainability reports to the same reporting deadline; and the costs of complying and the volume of reporting where an entity or group is engaged in multiple industries or sub-industries. While we expect tools and models will become

available over time to mitigate cost issues, cost should be taken into account in considering the implementation plan.

- Scope of reporting, particularly options for differential reporting.
- Issues in meeting the qualitative characteristics of understandability and verifiability.
- Materiality judgements will differ between stakeholders, such as between management and assurers. Application of the accounting concept of materiality will be difficult in practice. e.g. assessing cumulative materiality for the entity as a whole based on aggregating different non-financial measures.
- Overlaps in the reporting requirements, across the three contextual pillars of governance, strategy and risk management. We expect this will be effectively mitigated through removing duplication of information as discussed in the Exposure Drafts and the bases of conclusions. However, this concession may be partially offset by an increase in complexity for some uses.
- S1 contains a requirement that sustainability reports should include information on all material sustainability-related risks and opportunities, not solely those covered in issued topic-specific standards. This may be impractical since the term 'sustainability' is neither defined, nor subject to a boundary.
- S1 proposes that the reporting entity be the same as that for financial reporting purposes. We expect this will be workable for those entities currently targeted such as publicly listed entities, but may work less well for other entities.
- Disclosure of complex connections between items may be difficult to do in a clear and concise way.
- Reporting information by one entity across multiple industries, multiple geographic regions and multiple time horizons may be difficult to do concisely.
- Industry definitions are based on the Sustainable Industry Classification System. We recommend that there be further discussions with international statistical bodies internationally about classification. Having an industry classification system for sustainability-reporting that is consistent with the classification system for other statistical reporting purposes will enhance the ability to collect global level statistics, which in turn could provide publicly-available information that will simplify management and measurement of sustainability risks and opportunities.
- Any mandatory effective date needs to be set to allow sufficient implementation time for relevant stakeholders. Implementation will require capacity building and systems development, as well as understanding of the reporting requirements.
- Phased implementation and/or transitional provisions will make compliance easier.
- The illustrative guidance provided with the proposed standards is brief. While we have not assessed what additional matters, if any, should be included in illustrative guidance, we would expect more guidance material is justified given the high level of judgement required in applying the standards.
- There would be benefits if the ISSB supported development of, or references to, illustrative examples.[3]
- The term "sustainability-related financial information" may be confusing to some stakeholders, since sustainability is not defined (as noted above) and most of the required information is not monetary but qualitative and text-based. The term "significant" is used, without further clarification or reconciling with the term "material".
- Reporting implications for risks and opportunities that are unique to, or more pronounced for, Australia.
- While S1 purports to be the framework, in reality it is a mixture of framework matters and specific disclosures.
- Practical matters, such as gaming exemptions from reporting because it is legally prohibited.
- There are mixed views on the costs and benefits of scenario analysis.

[3] *Note the TCFD provides examples of how entities have reported under its framework.*

15 July 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007
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.

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

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.

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.

- 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.

QBE Insurance Group Limited 28 008 485 014
Level 18, 388 George St, Sydney NSW 2000 Australia
GPO Box 82, Sydney NSW 2001 Australia
Tel: +61 2 9375 4444
www.qbe.com

15 July 2022

Keith Kendall
Chair
Australian Accounting Standards Board
Level 20
500 Collins Street
Melbourne, Victoria, 3000
Australia

Dear Dr Kendall

QBE Submission: ED 321 Request for Comment on ISSB [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*

QBE Insurance Group Limited (QBE) is an Australian-based public company listed on the Australian Securities Exchange. QBE is Australia's largest international insurance and reinsurance company with operations in 27 countries and territories. We are also one of the top 25 global general insurers and reinsurers as measured by net earned premium.

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 – *enabling a more resilient future*.

QBE currently applies the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in preparing climate-related disclosures in the Annual Report and prepares a Sustainability Report annually in accordance with the Global Reporting Initiative Standards.

In a complex and evolving area of external reporting, we support the establishment of the ISSB and its leadership in the development of a comprehensive global baseline of sustainability disclosures to enable consistent and comparable information for the capital markets. We also support the strategy of building on existing sustainability reporting frameworks such as the TCFD in the development of standards. It would be beneficial for there to be one sustainability reporting regime that applies internationally to enable comparability between entities.

We welcome the opportunity to comment on ED 321 as the AASB considers the appropriateness, and support for its approach to sustainability-related financial reporting in Australia.

Overall comments

We recommend that the ISSB and AASB adopt a phased approach for the inclusion of new disclosures, including requiring qualitative information in the short term with a view to introducing more quantitative information over time. This would allow industries and governments to develop methodologies that support consistent and comparable disclosures (for instance, consistent climate scenarios), and for Australian entities to develop data and reporting systems that generate robust, reliable, and assurable information (including access to reliable and timely Scope 3 emissions data from third parties).

We support disclosure of industry-based information as it will be crucial in achieving consistent and comparable reporting. However, in our view, the disclosures proposed in Appendix B of [Draft] IFRS S2 require review and extensive additional consultation with a broader group of stakeholders (e.g. via field testing). Further consideration is required around the extent to which the requirements provide useful information that meet the disclosure objectives, and the appropriateness of the requirements considering commercial sensitivities. In the meantime, we recommend the ISSB include industry-based information as non-mandatory guidance.

The period between the issue of the final standards and their mandatory application date should be at least three years to enable preparers to develop and test data and information systems, as well as obtain the relevant assurance needed to facilitate making the relevant disclosures.

Other comments

- The AASB should not impose sustainability-related disclosure requirements on Australian entities that go beyond the ISSB's requirements as this may place Australian entities at a competitive disadvantage. Matching and not exceeding the international requirements would also be consistent with the AASB's strategy on IFRS Standards.
- If the AASB is to issue sustainability-related standards, we support the view that they should be a separate suite of standards from Australian Accounting Standards. We also support sustainability-related disclosures being presented separately from the general purpose financial statements as the materiality and audit considerations are different.
- While there is demand for sustainability-related disclosures from all entities, in balancing the costs and benefits of disclosure, the requirements should initially only be applicable to the consolidated financial statements of publicly-listed Australian entities.
- The requirements should be clear and practical to implement – for example there needs to be an acknowledgement that, in reporting on the impacts on sustainable behaviours, insurance contracts can have incentives that impact on behaviour in disparate ways (as noted in our response to [Draft] IFRS S2, Q11 on industry-based requirements). Product features that incentivise health, safety and environmentally responsible actions and/or behaviours will be difficult to analyse as they cannot easily be measured.
- The requirements should have greater regard for potential commercial sensitivities, particularly in respect of quantitative disclosures related to climate resilience and forward-looking metrics. Guidance and support from Australian regulators is needed to enable entities to make available forward-looking information without exposing themselves to potential legal liability risks for misleading and deceptive disclosure under Australian Law. Without these barriers being removed, Australian entities are likely to be constrained in their ability to fully comply with ISSB standards.
- It is important to maintain a focus on materiality and an appropriate balance between the value of disclosures relative to the costs of preparing them. The drivers of value across different organisations, industries etc., are very different and broad requirements may not reflect value drivers in all cases, could become onerous and may not be relevant for users of general purpose financial statements.
- We note there are significant challenges in monitoring and measuring matters such as 'incurred emissions' and information on the 'value chain' and that these areas are evolving. While we agree with the aim of driving consistency of reporting around a broader range of sustainability risks, more experience will need to be gained by entities in monitoring and measuring these risks.

The Attachments to this letter outline QBE's feedback on the AASB's specific questions in its Request for Comment [ED 321], as well as our responses to the ISSB on their draft standards.

Should the AASB have any questions or would like to meet to discuss these comments further, please contact Rachel Poo, Head of Group Statutory Reporting & Accounting Policy at rachel.poo@qbe.com.

Yours sincerely

Inder Singh
Group Chief Financial Officer

Attachment – QBE's feedback on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Question 1 – overall approach

ISSB: 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?

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

(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?

(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?

'Sustainability' definition

1.1 QBE notes 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]. However, QBE recommends that the ISSB consider:

(a) including a definition of 'sustainability' in the Standard itself for the sake of clarity and, in this regard, 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.

Materiality

1.2 The overall approach, and other parts of the proposals, refer to requiring an entity to "disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed".

1.3 Financial statement materiality is the subject of an IASB Practice Statement and customary practices have developed for determining materiality in general purpose financial reporting.

1.4 In the event that the ISSB proceeds on the basis of an investor (primary user) focus for materiality, QBE considers this would not preclude entities from disclosing information that may only be material to a broader group of stakeholders (double materiality). [Draft] IFRS S1.BC77 alludes to this, but we consider that it would be helpful for the ISSB to make this clear in the body of the standard.

1.5 The Illustrative Guidance on [Draft] IFRS S1 relating to implementing materiality judgements largely mirrors [Draft] IFRS S1.40. However, the Basis for Conclusions to [Draft] IFRS S1 appears to take a broad perspective, as noted in [Draft] IFRS S1.BC69 [emphasis added] "The proposals in the Exposure Draft would require that a complete depiction of sustainability-related financial information include material information about **all significant sustainability-related risks and opportunities."**

1.6 QBE considers that the ISSB needs to clarify whether materiality has a financial focus or is intended to be much broader and to reflect that message consistently across the Standards, the Basis for Conclusions and the Illustrative Examples. We appreciate that materiality has both quantitative and qualitative aspects in financial reporting, but the emphasis is generally on the quantitative aspect. It seems likely that more emphasis would need to be placed on the qualitative aspect for sustainability reporting.

1.7 The proposals also refer to an entity disclosing: "material information about all of the significant sustainability-related risks and opportunities to which it is exposed" ([Draft] IFRS S1.2 and 50). We suggest removing 'all of' because there are many aspects that affect enterprise value in financial and non-financial terms and these words might imply that they override the use of 'materiality' and 'significance'.

Industry standards as part of the overall approach

1.8 In March 2022,[1] the ISSB noted that it plans to build upon the SASB Standards and to embed SASB's industry-based standards development approach into the ISSB's standards development process.

1.9 It would be useful for the ISSB to clarify whether SASB industry-based standards are expected to be incorporated into ISSB standards for the long term or whether the ISSB will eventually produce its own industry-based standards using SASB's approach and possibly using SASB standards as a starting point. In the event that applying the ISSB's standards highlights a need for revisions to the existing SASB industry-based standards, it would be helpful to know the planned avenues for addressing stakeholders' concerns – whether the SASB is expected to update its standards or the ISSB will take on that role.

1.10 QBE recommends that, prior to 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. The ISSB should consider phasing them in and possibly issuing them initially as guidance, rather than requirements, at least until practice is sufficiently developed. Avoiding commercial sensitivities can, for example, help prevent entities being penalised for being innovative.

Auditors and regulators

1.11 QBE notes that, compared to historical financial information, sustainability disclosures would generally involve the application of a greater level of judgement. QBE considers the form of the proposed requirements would provide a suitable basis for auditors and regulators to determine compliance, but that auditors and regulators would probably need to develop new and modified methodologies that are designed to accommodate the level of judgement that will need to be applied by preparers.

[1] IFRS - ISSB communicates plans to build on SASB's industry-based Standards and leverage SASB's industry-based approach to standards development

Question 2 – objective

> **ISSB:** 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.
>
> 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?*
>
> *(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?*

2.1 QBE considers that the definition provided for 'sustainability-related financial information' is relatively clear, but that it could be further strengthened by providing examples.

2.2 Knowledge-based assets are referred to in the objective and paragraph 6; however, the term is not defined. It would be useful to understand whether it relates to risk-solutions and/or public-facing resources supported by the entity.

2.3 QBE assumes that the ISSB's intention for its standards to help bring about comparability of sustainability reporting over time and across different entities. However, the language in paragraph 7 ["is comparable with … the sustainability-related financial information from other entities"] is unclear – it might [wrongly] imply that comparability is achieved by following what other entities are doing, rather than applying the Standards.

Question 3 – scope

> **ISSB:** 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?*

3.1. QBE agrees that the proposals could be used by entities that prepare their general purpose financial statements in accordance with IFRS or a GAAP other than IFRS. Risks and opportunities would often not be expressed in monetary terms; however, to the extent that the disclosures might be represented in monetary amounts, there may be differences in the timing and amounts of measures used [for example, measures of intangible assets that are more restrictive than IAS 38]. For the sake of comparability, it might be relevant to seek to have any such differences disclosed.

3.2 QBE notes there is, in theory, an overlap between standards issued within particular jurisdictions, such as the European Sustainability Standards and the ISSB standards. We would presume that, under the current regulatory framework, jurisdictions' standards would likely take priority such that, for example, the European Sustainability Standards would take precedence over the ISSB standards in European jurisdictions. QBE supports having international consistency and, to the extent feasible,

supports the ISSB working towards convergence of sustainability standards and jurisdictional requirements.

3.3 QBE welcomes the formation of the Working Group to enhance compatibility between global baseline and jurisdictional initiatives and that it is planned to establish a Sustainability Standards Advisory Forum. In that context, we note that many major jurisdictions are represented.

3.4 QBE considers that 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

ISSB: 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?

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

General comments

4.1 In general, QBE considers the section is well expressed, particularly in relation to the metrics, targets and risk management processes. QBE supports the ISSB building upon the work of the TCFD.

Time horizons

4.2 Reference is made [paragraph 16] to short-, medium- and long-term time horizons, which are not defined and are, therefore, subject to judgement by the reporting entity. In general, QBE considers this is appropriate because it would provide each entity with the flexibility to determine relevant timelines to apply for its businesses. However, we are interested in knowing whether it is envisaged that, at some stage, industry-specific ISSB standards would be issued that might address in more detail the timeframes that could be relevant for particular types of businesses.

Resilience

4.3 QBE appreciates that paragraph 23 is effectively a high-level requirement regarding disclosures that demonstrate an entity's capacity to adjust to the uncertainties arising from significant sustainability-related risks and paragraph 24 explains that other IFRS Sustainability Disclosure Standards will specify the type of information an entity is required to disclose.

4.4 In our view, that means, while individual entities might be able to identify the relevant risks to its own business(es), it would be difficult to achieve comparability across entities by applying paragraph 23 of S1 on sustainability resilience . Accordingly, QBE considers there should be an explicit acknowledgement in the draft Standard that achieving comparability across entities by complying with paragraph 23 is only likely to be feasible once other specific ISSB Standards have been finalised.

Risk management

4.5 QBE considers the level of detail of information sought in paragraph 26(b) in IFRS S1 about data sources, parameters and assumptions is excessive. While a materiality assessment might reduce the need for disclosure, in many cases, there would be agreements in place with vendors and other third parties that prohibit disclosures of this nature as it pertains to intellectual property – or such disclosures might be seen as inappropriate endorsements of particular sources.

Metrics and targets

4.6 In paragraph 13(c), we consider that further guidance is needed to achieve comparability across entities for disclosures about how the body ensures appropriate skills and competencies are available to oversee strategies designed to respond to sustainability-related risks and opportunities. It would be helpful for the ISSB to provide further information about the types of skills and competencies that might be expected to be required in assessing a broad range of sustainability related risks and opportunities, perhaps by industry. To fully assess sustainability related risks and opportunities, an entity may need a broad set of knowledge/skills from environmentalists, scientists, actuaries, insurance underwriting and assessment, etc.

4.7 In the context of paragraphs 15(b), 17 and 20(b), it is not clear the extent to which QBE would need to disclose how sustainability-related risks affect the full value chain or whether the disclosures are a step back from this level of disclosure. It would be feasible to provide descriptions of how sustainability-related risks affect value chains for key lines of business. However, this may reduce competition across the sector. QBE considers that it may not be relevant or necessary to provide a concentration breakdown by geographical area, facilities, types of assets, inputs, outputs or distribution channels in the context of insurance and assumes the granularity of disclosure would be a matter for judgement, based on materiality. QBE notes that it may be potentially misleading to provide such a breakdown because it would typically be impracticable to provide a fair presentation of information about concentrations of risks.

4.8 If the proposed requirements for a concentration breakdown were to be retained, we recommend adding words to the effect of ", where it is practicable to provide a fair presentation of that information and where the process of reporting avoids unnecessary adverse legal and economic implications."

4.9 In paragraph 26(b)(i), reference is made to quantitative thresholds for sustainability-related risks. QBE suggests that it be made clear this is simply an example of how the requirements might be met because quantitative thresholds would often be employed in identifying multiple risks in an insurance context and it could be difficult to isolate a quantitative threshold relating to sustainability-related risks. Specified scenarios may improve comparability.

4.10 QBE suggests that the requirements in paragraph 26(b)(iii) could be made non-mandatory or entities could be permitted to not disclose specific parameters provided they present reasons for non-disclosure, such as commercial sensitivity. Alternatively, entities could be permitted to not disclose specific parameters provided they disclose a 'confidence score' for their risk management.

4.11 In paragraph 34, for the sake of clarity and for consistency with paragraph 27, QBE suggests that the references to 'changes' be to 'significant changes' – otherwise, the explanations are likely to become overly complex. Similar to 'materiality', the term 'significant' should be defined.

Question 5 – reporting entity

ISSB: 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.

(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?

(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?

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

Alignment of subject entity

5.1 QBE agrees that sustainability-related financial information should be required to be provided for the same reporting entity as the related general purpose financial statements. This will facilitate linkages between the sustainability-related financial information and other financial and supporting information provided in compliance with IFRS Standards. It would also ordinarily be consistent with an entity's annual report provided to stakeholders.

5.2 While there is demand for sustainability-related disclosures from all entities, in balancing the costs and benefits of disclosure, the requirements should only be applicable to the consolidated financial statements.

Value chain

5.3 We note that there are significant challenges in monitoring the 'value chain'. Accordingly, in disclosing information about all significant sustainability-related risks and opportunities to which QBE is exposed, it may not be feasible to provide the information identified in paragraph 40 along the whole value chain. QBE suggests that this disclosure should be subject to a 'practicability' override and the reference to 'all' should be deleted in the context of identifying the relevant significant sustainability-related risks and opportunities. It is important to maintain a focus on materiality and an appropriate balance between the value of disclosures relative to the costs of preparing them. The drivers of value across different organisations, industries etc., are very different and broad requirements may not reflect value drivers in all cases, could become onerous and may not be relevant to users of general purpose financial statements.

5.4 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, probably by major industry sector.

Question 6 – connected information

ISSB: 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) 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?

(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?

6.1 Based on the proposals in paragraphs 42 to 44, the intention is that entities disclose information that helps explain to users the ways in which various sustainability-related risks and opportunities and financial statement disclosures are connected. QBE agrees with the proposed requirements and considers them to be sufficiently clear.

Question 7 – fair presentation

ISSB: 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 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?*
>
> *(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.*

Conceptual context for faithful representation

7.1 QBE is concerned that there is insufficient flexibility within the notion of 'faithful representation', particularly the reference to 'complete', as expressed in the proposals and the requirement is to report on 'significant' sustainability-related risks. We note that paragraph 45 refers only to 'sustainability-related' risks, and fair presentation refers to 'relevant' information and not 'significant' information.

7.2 We note that the IASB's *Conceptual Framework for Financial Reporting* explains at paragraph 2.13: "*To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible*". Paragraph 2.14 goes on to say: "*A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, …*".

7.3 Accordingly, in a general purpose financial reporting context, it is acknowledged that, in practical terms, an imperfect level of 'faithful representation' is typically the best that can be achieved. QBE considers it would be helpful to 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.

Inter-action with other bodies' standards

7.4 QBE notes that paragraph 54 could be interpreted in a number of different ways:

- entities have the flexibility to continue disclosing (at least) what they currently disclose in complying with GRI and other standards (QBE follows GRI standards for sustainability reporting); or
- entities may have to comply with GRI and also other standards such as SASB, European sustainability standards etc.; or
- entities should refer to all other available sustainability standards when considering the disclosures being proposed by the ISSB.

7.5 Based on paragraph 53, other bodies' standards sustainability standards can be applied provided they are "are relevant to the decision-making needs of users" and "faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity". QBE notes that, ideally, all entities would be applying the same standards internationally and, as noted in our covering letter, we urge the ISSB to aim for international convergence to enable comparability across reporting entities. In the meantime, QBE suggests that it would be clearer if paragraph 54 were amended to explicitly permit entities to follow other recognised bodies' (e.g. GRI) standards provided that they do not conflict with the IFRS Sustainability disclosure standards.

Question 8 – materiality

ISSB: 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?*

(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?*

(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?*

(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?*

Guidance

8.1 The principle-based guidance provided on materiality is reasonable at this stage of the project; however, it is quite brief relative to the TCFD guidance. There is a suitable acknowledgement that entity-specific and industry-specific factors will affect the manner in which materiality is applied. At a later stage, once entities have gained more experience with the requirements, more specific guidance on applying materiality may be useful to help facilitate comparability.

8.2 In the event that the ISSB proceeds on the basis of an investor (primary user) focus for materiality, QBE considers this would not preclude entities from disclosing information that may only be material to a broader group of stakeholders (double materiality) and considers that it would be helpful for the ISSB to make that clear.

Local prohibitions

8.3 QBE agrees that relief should be provided when there are local prohibitions on reporting information. We note that this could reduce comparability and recommend that, if the absence of the information is material because it relates to a significant risk or opportunity, disclosure should be made that information has been omitted due to local regulation.

Comparative information

8.4 The impact of the paragraph 64 requirements relating to comparative information on the application of materiality and emphasis on disclosure of significant matters is not clear – for example, whether current period information that is not material/significant would need to be disclosed if the comparative information is material/significant. QBE considers that current assessments of materiality and significance should override the comparative information requirements. Accordingly, information that is not material to the current period should not be the subject of disclosure for the comparative period.

Question 9 – frequency of reporting

> **ISSB:** 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?*

Timing of reporting

9.1 QBE notes that timelines for conventional general purpose financial reporting are typically the same for QBE's current sustainability reporting. However, it would be challenging to make the breadth of sustainability-related information proposed by the ISSB available at the same time as general purpose financial reports, particularly with respect to quantitative information and the information more generally about Scope 3 emissions, which would be heavily reliant on third party data and would often not be available within a reasonable timeframe. Accordingly, QBE considers that the ISSB should acknowledge that it may not be realistic to require an entity to report its sustainability related financial disclosures at the same time as its related financial statements.

Periods for which information is reported

9.2 QBE supports aligning the periods for which conventional financial and sustainability-related financial disclosures are reported.

9.3 QBE's current practice is to report each calendar year on sustainability-related disclosures in our Group Sustainability Report and the TCFD disclosures within our Group annual report, consistent with our financial reporting under IFRS Standards. QBE also reports half-year information applying IFRS Standards and, consistent with IAS 34 *Interim Financial Reporting*, the interim information is a condensed version of the information reported annually. QBE does not publish these sustainability-related disclosures for the half-year.

9.4 QBE notes that IAS 34 does not require interim financial reports, and QBE's obligations arise from being listed on the Australian Securities Exchange. Instead, IAS 34 provides minimum reporting requirements that need to be met in order for an entity to claim that its interim financial statements are prepared in accordance with IFRS Standards.

9.5 QBE supports the general discussion of frequency of reporting in [Draft] IFRS S1 and considers that sustainability-related disclosures should not be required to be reported more frequently than once a year, based on cost/benefit considerations. The information can be burdensome to source, collate and analyse, while the appetite for more than annual sustainability-related disclosures is unclear. Typically, there are worthwhile changes and progress to report in respect of sustainability-related information based on an annual cycle.

Question 10 – location of information

ISSB: 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.

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.

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?*

(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?*

(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?*

(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?*

10.1 QBE supports the proposals to provide flexibility around the location of sustainability disclosures, including the use of cross-referencing, which would help avoid duplication.

(a) We note by way of analogy that 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.

(b) We also note that permitting material to be included via cross-reference would allow for a stand-alone document to contain detailed scenario analysis information which might apply across multiple years and, therefore, need not be repeated annually.

10.2 QBE notes that, consistent with our comment above on 'Timing of reporting', in terms of cross-referencing, it would be challenging to make the breadth of sustainability-related information proposed by the ISSB available at the same time as general purpose financial reports – please refer to paragraph 9.1 above. Consideration should be given to a phased implementation of the standards to support achieving concurrent timing of financial and sustainability reporting to allow entities the ability to develop systems that enable this objective.

10.3 QBE agrees it is clear entities are not required to make separate disclosures on individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures.

Question 11 – Comparative information, sources of estimation and outcome uncertainty, and errors

ISSB: 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?

(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?

11.1 QBE agrees with departing from the accounting notion of adjusting for changes in estimates in the current period to restating comparative changes in estimates for sustainability information, except where it is impracticable. If an entity improves its methodology and/or metrics in the current period, comparative periods should be restated to allow for a more meaningful comparison. The entity's accountability for changing estimates for sustainability information should be the subject of disclosures, akin to those applying to changes in accounting policies, and informing users about why the changes provide more meaningful information.

11.2 QBE considers the paragraph 80 requirement that, when sustainability-related financial disclosures include financial data and assumptions they should be consistent with the corresponding financial data and assumptions in the entity's financial statements should be to the extent 'practicable' [rather than 'possible']. We consider the 'possible' hurdle might impose unnecessary restrictions on an entity.

11.3 QBE notes there are some sustainability-related risks and opportunities that can be deemed significant to stakeholders that may not have immediate material financial impacts because the assumptions used in determining the financial impacts would be different from those used for the financial statements. The financial impact may be long-term. For example, this may apply to Culture, Employee Retention, Human Rights and Modern Slavery, Diversity and Inclusion, Affordability and Accessibility etc.

Question 12 – Statement of compliance

ISSB: 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?*

12.1 QBE agrees with the proposed approach and notes it is consistent with the application and compliance regime for IFRS Standards in Australia and other IFRS jurisdictions.

12.2 QBE considers that the ISSB should also acknowledge that some entities will seek to phase in their application of the ISSB's standards and that there should be some recognition of their efforts in the statement of compliance. For example, entities not in full compliance could be encouraged to explain their level of compliance, including identifying those areas in which they remain non-compliant.

12.3 Please also note our comments in respect of [Draft] ISSB S2, Q13 in respect of verifiability and assurance, which is related to achieving compliance assurance.

12.4 If the ISSB's focus is only on full compliance, it could be difficult to obtain any form of 'sign off' from senior management in the short to medium term when measures, methodologies and disclosures are evolving. The same would be true for obtaining any form of external assurance.

Question 13 – Effective date

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

13.1 QBE considers that developing and issuing the [Draft] standards should be completed as soon as feasible. The earlier the standards are released, the sooner that work can commence to achieve greater consistency in this area of reporting. QBE notes that, as entities apply the standards, we will inevitably become aware of possible gaps and amendments that will need to be addressed, but that it is important to have the standards available to drive this process.

13.2 QBE supports the application of the proposals with **at least** a three-year gap between the final Standards and the commencement date, subject to:

- our comments on other matters raised in the Exposures Drafts that would involve making some proposed requirements non-mandatory and removing others;
- staging the requirements such that more time is provided to implement the more difficult disclosure requirements;
- in some cases, deferring requirements that would only be able to be implemented reliably once practice develops, which could include information on climate resilience and scenario analysis.

13.3 QBE considers that its support for a minimum three-year gap between the issue of the ISSB standards and their application would balance the need for urgent action with the need to help ensure that entities have time to produce quality information. In particular, QBE considers that three years or more is appropriate for the following reasons.

- Achieving compliance is expected to involve developing, changing and testing information systems needed to facilitate making the relevant disclosures. This would be similar to the implementation of a complex new or revised IFRS, which normally have a reasonably long period between issue date and application date. For example, IFRS 17 was originally issued in 2017 with an operative date of January 2021, which was subsequently changed to January 2023 on the release of a revised IFRS 17 in 2020. The potential data and system needs that would be required by IFRS S1 and IFRS S2 would be at least as complex and time-consuming to implement for many entities as IFRS 17 has been for insurers.
- Ample time is needed to accumulate the relevant data and gain experience in its use and analysis in order to produce publishable disclosures. Trying to truncate this process could lead to unreliable information, which in some cases might expose entities to litigation.
- Positions on scenario analysis by the industry are only in their early stages of development and are expected to need considerable time to take shape and achieve comparability. While the issue of the standards might give impetus to these developments, the process would need to be subject to wide-ranging consultation.
- While some businesses will have experience with sustainability-related disclosures, others will not and the level of maturity of an entity's business could impact on the time needed to implement the disclosures.
- Ensuring that the information systems and output can be subject to a relevant level of assurance is also expected to extend the time needed to implement the disclosures.
- The skills and resources needed to implement the changes are in short supply and that situation is not expected to improve in the medium term. The longer the gap between final Standards and commencement, the more effectively the relevant resources can be allocated across the market.
- The ISSB could specifically encourage early adoption for those entities that are best-placed to implement the requirements. QBE considers that there are multiple market incentives that are likely to encourage entities to early adopt. These include published benchmarking and scoring of entities, for example, by the CPD in respect of TCFD disclosures, which can influence the decisions of investors.

13.4 In theory, the commencement dates of IFRS S1 and IFRS S2 would ideally be the same. However, the need for disclosures around climate-related risks and opportunities is more urgent. Accordingly, consideration could be given to using staged application dates, which would provide entities with the opportunity to implement the Standards in a phased approach.

13.5 In the event that the requirements are more stringent than QBE has recommended, and/or that staging is not implemented, the time gap between the final Standards and the effective date would need to be longer to enable entities to design and implement data and reporting solutions to comply with the requirements in a robust and reliable manner.

13.6 QBE agrees with not mandating comparative information in the first year of application.

Question 14 – Global baseline

ISSB: 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?*

14.1 QBE notes that for the ISSB's standards to be a global baseline they will need to accommodate industry guidance from other sources, at least until the ISSB builds upon the SASB Standards and embeds SASB's industry based standards development approach into the ISSB's standards development process. Several industry bodies, for example, in the extractives industry, have existing guidelines and others are in development in the financial sector.

Question 15 – Digital reporting

> **ISSB:** 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)?*

15.1 In principle, QBE supports initiatives to enable digital reporting. However, we note that cost-benefit considerations have meant digital reporting of general purpose financial statements has not gained traction in Australia. This seems largely due to the disconnect between the information used to manage lines of business versus the information that needs to be reported to comply with IFRS Standards. It may also be due to a lack of comprehensive industry-based extensions to the IFRS taxonomy.

15.2 QBE considers that the ISSB's focus should be on setting high-quality and consistent standards and working to have them widely accepted. This should help underpin the demand for digital reporting.

Question 16 – Costs, benefits and likely effects

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

16.1 The costs associated with establishing reliable data and information systems required to implement the proposals are expected to be substantial. Accordingly, 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

> **ISSB:** *Do you have any other comments on the proposals set out in the Exposure Draft?*

17.1 QBE considers that many of the defined terms could be clarified through the use of examples that would help illustrate their intended meaning. This would not include 'materiality', which is highly entity-specific and not conducive to being explained via examples.

17.2 The definition of 'Enterprise value' refers to the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt. We consider it would be helpful to provide some explanation for the definition in the context of the primary users of sustainability information, including why the ISSB regards the definition as capturing the relevant value for those users. We note for example, that some measures of enterprise value specifically identify cash.

Conceptual Framework

17.3 QBE notes that [Draft] IFRS S1 includes proposals for definitions and requirements that are consistent with the IASB's *Conceptual Framework for Financial Reporting*. However, we note that there would be merit in considering whether there should be a separate, but still consistent, conceptual framework for sustainability reporting. Such a framework would be the natural home for additional guidance that might be needed to explain concepts that have been primarily developed for use in financial reporting that are now to be applied in a sustainability context. For example, as we note in responding to Q7 above, it would be helpful to provide background on 'faithful representation' in the Sustainability Standards similar to that in the IASB's *Conceptual Framework for Financial Reporting*.

Attachment – QBE's feedback on [Draft] IFRS S2 *Climate-related Disclosures*

Question 1 – Objective

ISSB: 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.

(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?

1.1 QBE supports the proposed objective. There is a global demand for an international reporting standard with standardised disclosure of climate-related risks and opportunities that would allow the entity's stakeholders make an informed assessment of the impact of these risks and opportunities on the entity's enterprise value.

1.2 QBE considers that the objective has a suitable focus on information that would highlight the effects of climate-related risks and opportunities on 'enterprise value' and how the entity manages the risks and opportunities through its planning, business model and operations.

1.3 Please refer to the comments below in respect of whether the proposed requirements meet the objectives of the Exposure Draft.

Question 2 – Governance

ISSB: 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?

2.1 We particularly note the proposed 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 level of detail expected is not clear.

However, QBE suggests that the information should be relatively high level to avoid having administrative details obscuring more useful information.

Existing governance structures

2.2 In respect of disclosing information about the governance body or bodies with oversight of climate-related risks and opportunities, and a description of management's role regarding climate-related risks and opportunities, we note that the ISSB should be cognisant of the various national structures that might be in place.

2.3 QBE notes, for example, that Australian regulated entities, including insurers, are expected to be subject to the requirements of the Financial Accountability Regime [FAR]. Among other things, the FAR provides the foundation for the overall approach to governance at a whole-of-entity level. Once an effective sustainability governance structure has been laid out, and reaches a stable state, QBE considers that entities should use that overall approach to drive accountability, including in respect of climate-related risks and opportunities.

2.4 QBE considers that paragraph 5(e) which refers to disclosing: "how the body 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" would not be practical to apply. Few, if any, decisions are made solely as a result of climate risk and it would be difficult to isolate the climate-related deliberations from the deliberations on, for example, market risks and opportunities, strategic direction, and profitability. In addition, those deliberations are typically commercially sensitive. We also doubt that this level of detail is warranted to provide users with insights in assessing whether an organisation is identifying and managing its response to climate risks and opportunities.

2.5 QBE agrees that some sustainability performance metrics can be included in renumeration policies such as short term emissions reduction targets. However, QBE also notes it would be challenging to incorporate other long-term climate related risks and opportunities in renumeration policies due to their uncertainty and the fact they often involve 20-30-year targets, which are longer than the tenor of existing board members and senior management.

Question 3 – Identification of climate-related risks and opportunities

ISSB: 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?

3.1 QBE considers that paragraph 8(d) which refers to an entity disclosing: “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” would not be practical to apply. Few, if any, financial statement impacts can be attributed solely to climate risks and opportunities and it would be difficult to isolate them from financial impacts of other factors, for example, changes in general market conditions, and changes in strategic direction. In addition, such information would generally be commercially sensitive. We also doubt that this level of detail could be reliably determined so as to provide users with insights in assessing the likely future impacts of climate risks and opportunities on an entity’s financial position, financial performance and cash flows.

3.2 QBE considers the disclosure proposed in paragraph 9 of the Exposure draft is clear and the industry specific disclosure guidance is a useful guide in identifying significant climate related risks and opportunities both for physical and transition risks. We note that the insurance industry guidance [B17] should remain ‘guidance’ and not be mandatory as there is a need to accommodate the various circumstances of insurers. However, it would be useful for the ISSB to specifically provide principle-based guidance that describes/defines short, medium and long term timeframes in the Standard, that entities could use as a starting point to overlay their own contexts in different industries, to help ensure comparability across entities/industries.

3.3 To assist implementation, it would be useful to provide practical guidance on the relevant timeframes, for example, to identify whether they are intended to relate to:

- the entity’s planning cycle;
- the entity’s product lifecycle; and/or
- the effects of estimated climate impacts on the entity/industry.

3.4 For the insurance industry, QBE considers that the requirements for disclosure around particular metrics in IFRS S2 B17 Insurance industry-based disclosure requirements could be commercially sensitive and greater emphasis should be placed on qualitative information to help overcome this concern.

3.5 In the event that the commercial sensitivities around quantitative metrics can be overcome, there is a need for further clarifications, including the following:

- The amount of monetary losses attributable to insurance payouts from modelled and non-modelled natural catastrophe should be limited in some manner, for example, to the catastrophes estimated to pose the top 10 monetary losses.
- The gross exposure to carbon-related industry needs clarification, including whether it is intended that gross exposure is measured in terms of premium written, premium revenue for a period, some measure of exposure to claims or a combination of factors.

3.6 A number of the disclosures are both gross and net of reinsurance. We note that, for example, in respect of weather-related natural catastrophes, an entity would report the probable maximum loss amount on gross and net of ‘catastrophe reinsurance’. QBE considers it should be clarified whether this relates to both excess of loss reinsurance and risks mitigated through quota share arrangements.

Transition risk exposure

3.7 QBE has concerns about the proposed disclosure in IFRS S2 B17 Insurance industry for *each industry by asset class of: absolute gross emissions and intensity emissions split by Scope 1, 2 and 3*.

- The ISSB should specify that this disclosure relates to attributed ‘financed emissions’ only.

- The benefits of splitting the financed emissions by Scope 1, 2 and 3 is not clear. In practice, entities typically disclose financed emissions as a single emissions figure by asset class.
- Methodologies for measuring Scope 3 emissions are evolving and the current methodology on financed emissions includes Scope 1 and 2 emissions only. The ISSB should explicitly permit an entity to provide explanatory disclosure in respect of Scope 3 financed emissions. We would therefore recommend a 'phased-in' approach is adopted, commencing with voluntary disclosure, in respect of Scope 3 emissions when:
    - they are significant in respect of entities in which QBE might invest;
    - the data allows for a fair presentation of financed emissions over time; and
    - the process of reporting avoids unnecessary adverse legal and economic implications.

3.8 QBE considers it would be helpful for the ISSB to identify acceptable emission intensity denominators, such as enterprise value including cash and/or revenues.

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

ISSB: 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]

(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?

(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?

Most significant risks/opportunities

4.1 QBE supports qualitative disclosure of significant climate related risks and opportunities on the entity's business model and value chain. However, we are concerned about the possible extent of quantitative disclosures since climate related risks and opportunities can have long term unknown impacts for a large and complex entity and analysing a full value chain is a major task. The extent to which this is feasible would depend on obtaining reliable information from third party suppliers many of which do not publish their emissions profile, particularly unlisted entities and smaller entities. QBE considers that the ISSB should:

- explicitly permit an entity to report on a phased approach;
- consider noting that, in applying materiality, an entity may disclose information about significant climate related risks and opportunities on an entity's value chain for only the most significant risks/opportunities – for example the top three risks/opportunities.

Concentration of risks/opportunities

4.2 QBE supports requiring disclosure around where in an entity's value chain significant climate-related risks and opportunities are concentrated and notes that the proposals refer to examples, such as geographical areas, facilities or types of assets, inputs, outputs or distribution channels. While not ruling out the disclosure of quantitative information in the short term, at this stage, QBE considers that the ISSB should explicitly permit solely qualitative disclosure of an entity's concentration of climate related risks and opportunities. QBE appreciates that the aim is to have both quantitative and qualitative disclosures, but considers that practice needs to evolve. The ISSB can flag that quantitative disclosures might be mandated in the medium to long term, which would encourage entities to develop quantitative metrics.

4.3 Practice may develop around quantitative disclosures on the concentration of risks/opportunities in the longer term but, until that time, QBE considers that mandating them would be onerous and of limited value to users because they are likely to lack consistency across and within most industries.

Question 5—Transition plans and carbon offsets

ISSB: 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.

(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?*

Planned basis for meeting targets

5.1 Paragraph 20(d) would require disclosure of targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities. Paragraph 13(b)(ii) would require disclosure of the amount of the entity's emission target to be achieved through emission reduction within the entity's value chain. It may be clearer to locate the requirements relating to targets in the one section of the final standard for ease of reference.

Planned use of carbon offsets

5.2 Paragraph 13(b)(iii) would require disclosure of the intended use of carbon offsets in achieving emissions targets. QBE recommends that the ISSB consider separately identifying carbon offsets disclosure based on whether they are:

- carbon offsets already purchased; or
- carbon offsets/removal/avoided emissions.

5.3 For purchased carbon offsets, the entity could, for example, disclose details related to third-party offset verification or certification schemes. For emissions reduction targets in which the target year could be in 2030 or 2050, an entity could disclose how it plans to use carbon offsets/removal to achieve its targets (such as a net zero emissions target).

5.4 However, QBE notes that it would not ordinarily be possible for an entity to disclose in its current plan for 2030/2050 its planned use of nature based or technological carbon removals due to the under-developed nature of those markets. The wording in paragraph 13(b) implies quantitative measures and QBE considers it should be acknowledged by the ISSB that this might not be feasible in the context of the proposed requirements of paragraph 13(b)(iii)(3).

Definitions

5.5 QBE recommends that the ISSB seek to harmonise the relevant definitions (carbon credits, carbon offsets, removals, emission avoided, avoided emissions and negative emissions) and its requirements with the Science Based Targets Initiative [SBTi] guidance. Avoided emissions has been proposed as a metric for tracking progress on climate solution financing but is still not widely viewed as a credible option for science-based net-zero targets. QBE therefore questions the relevance of disclosures about avoided emissions.

Question 6 – Current and anticipated effects

> **ISSB:** 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.

(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?

(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?

Effects of climate-related risks and opportunities – quantitative/qualitative

6.1 QBE is supportive of permitting an entity to provide qualitative disclosure if it is unable to provide quantitative information [including scenario analysis] on the anticipated effects of climate-related risks and opportunities.

6.2 In terms of quantitative disclosures, QBE also supports being able to present a range instead of a single value on the basis that there is often uncertainty around the future effects of climate related risks and opportunities.

6.3 It would generally be very difficult, and often not feasible, to specifically identify the impacts of climate on the various components of the business, including for an insurer, the impacts on claims, investments, and new product development given the long term nature of climate impacts.

Anticipated financial effects on reporting – short, medium and long term

6.4 QBE considers that, while entities will be anticipating the financial effects of climate-related risks and opportunities on their business plans, it is unlikely to be feasible to report quantitatively on the anticipated financial effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term. Accordingly, we support the

proposal to allow entities to report qualitatively if they are unable to report quantitatively. Projecting financial effects quantitatively more generally is subject to significant judgement and would not ordinarily be reported in general purpose financial statements.

6.5 Materials made public via analyst briefings often include various limited-scope financial projections that are typically subject to substantial qualifications. Projecting particular components of financial effects that are attributable to climate-related factors would necessarily involve a high level of judgement and mean that reliable quantitative information is difficult to achieve. This would particularly be the case beyond the short term.

6.6 We note that the ISSB should consider the context in which entities might usefully make quantitative disclosures, such as with substantial qualifications about the assumptions that needed to be made to underpin estimates and methodologies. Local jurisdictional requirements may also affect the adoption of the ISSB standards. For instance, the Australian Corporations Act requires that the representation with respect to a future matter must be based on reasonable grounds, or else would be deemed to be misleading. This presents liability risk as disclosures about future events are inherently uncertain.

6.6 Even ranges of quantitative information would be difficult to provide in a relevant form. The ranges may need to be so wide as to not be useful.

6.7 QBE expects it would generally be feasible to provide qualitative information on the anticipated financial effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term. We appreciate that, as models progress and entities gain more experience in applying the requirements, competitive market pressures from investors will encourage greater use of quantitative measures.

Question 7 – Climate resilience

ISSB: Paragraph 15 of the Exposure Draft 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.

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.

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 discloses 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.

(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?*

(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?*

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

(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?*

(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?*

Climate resilience

7.1 QBE considers that it should made explicit that the requirements in paragraph 15(a) would be subject to there being no breach of commercial sensitivities as they have the potential to go above and beyond the relevant recommendations of the TCFD. These 'additional' disclosures in any detailed form are potentially commercially sensitive and not always quantifiable. In particular, the paragraph 15(a)(iii) disclosure regarding an entity's capacity to adjust or adapt its strategy and business to climate would be challenging to project, and would typically be something that organisations are reluctant to communicate publicly. This reluctance could be particularly acute in respect of forward-looking information that can be the subject scrutiny under consumer and other laws in some jurisdictions, such as Australia.

Scenario analysis

7.2 Positions on scenario analysis by industry are only in their early stages of development and are expected to need considerable time to take shape. While the issue of the standards might give impetus to these developments, the process would need to be subject to wide-ranging consultation with the affected industries. QBE considers that the standards will need to accommodate situations in which the techniques are being continually developed and refined.

7.3 QBE would support the use of alternative assessments if scenario analysis is not available or not applicable for an entity. Undertaking detailed scenario analysis is not applicable or achievable for all entities and should not be mandated.

7.4 QBE notes that scenario analysis is often conducted but not annually. Accordingly, guidance from the ISSB on the way(s) in which a standing analysis would be disclosed/referenced would be of use, particularly all the additional information in relation to the parameters.

Question 8 – Risk management

ISSB: 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?

8.1 While appreciating that the disclosures are subject to an overall materiality assessment, QBE considers that disclosures about risk management should focus only on the most significant risks/opportunities – for example the top three material risks/opportunities. This would be consistent with the approach adopted by the CDP.

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

ISSB: The Exposure Draft thus proposes seven cross-industry metric categories that all entities would be required to disclose:

(i) greenhouse gas (GHG) emissions on an absolute basis and on an intensity basis;

(ii) transition risks;

(iii) physical risks;

(iv) climate-related opportunities;

(v) capital deployment towards climate-related risks and opportunities;

(vi) internal carbon prices; and

(vii) 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.

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).

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 nonmandatory Illustrative Guidance for each cross-industry metric category to guide entities. [S2 – para 19-21]

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 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?

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

GHG Protocol

9.1 QBE agrees with using the GHG Protocol be applied to measure GHG emissions, including the seven proposed cross-industry metric categories. This is on the basis that the GHG Protocol is currently the most widely used basis.

9.2 We would also support consideration being given to other industry-specific methodologies for Category 15 emissions, which is applicable to investors and companies that provide financial services.

9.3 QBE also suggests that, for an insurer, emissions associated with insurance should be disclosed separately from Financed Emissions. If they are aggregated, the emissions would be double counted. We noted that Insurance-Associated Emissions are only disclosed as a sub-category to Scope 3 Category 15 as there is no other logical place to locate them under the GHG Protocol.

Aggregation/disaggregation

9.4 QBE agrees that emissions should be aggregated and be expressed in CO^2 equivalents.

9.5 QBE considers that Scope 1, 2 and 3 emissions should only need to be disaggregated by constituent greenhouse gas when these relevant constituent emissions sources are material.

Group versus entities associated with the Group

9.6 QBE considers it would be reasonable to require separate disclosure of Scope 1 and 2 emissions for the consolidated entity versus associates, joint ventures, unconsolidated subsidiaries and affiliates, which is aligned with the GHG Protocol and regulatory requirements in various jurisdictions. However, QBE also considers that separate disclosure for associates, joint ventures, unconsolidated subsidiaries and affiliates should only be needed when they are material to the Group based on a measure such as Group net assets. Under the GHG Protocol, which focuses on operational control as opposed to financial control, QBE does not separately disclose information for associates and joint ventures as they are not material to the Group.

9.7 QBE also notes the potential need for relief from separate disclosure of information for associates and joint ventures when the investee does not have access to relevant information about Scope 1 and 2 emissions.

Absolute gross Scope 3 emissions

9.8 QBE considers that the net disclosure of Scope 3 emissions should be permitted. While entities should endeavour to collect information on a gross basis, allowing net disclosure is particularly important because Scope 3 emissions reflect the emissions within the value chain, and suppliers within that chain may be able to offset their emissions and provide customers with net information.

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?

(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?

10.1 QBE agrees with the proposed disclosure about climate-related targets on the basis that setting and disclosing performance towards science-based climate-related targets is a core element of a climate transition plan and supports the assessment of an entity's alignment to the goals of the Paris Agreement.

10.2 QBE considers the proposed definition of 'latest international agreement on climate change' is sufficiently clear. We also note that, in the event there is a change to the latest agreement, the ISSB should undertake to provide a relevant transition period, which would depend on the significance of the changes, to allow entities to adapt to any impacts of the changes on the disclosures that would need to be provided under ISSB standards.

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.

The proposed industry-based disclosure requirements are largely unchanged from the equivalent requirements in the SASB Standards. 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?

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?*

Paragraphs BC123–BC129 of the Basis for Conclusions describe the reasoning behind the Exposure Draft's proposals related to the industry-based disclosure requirements.

(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 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?*

Control of standards

11.1 In general terms, QBE concurs with the ISSB's proposed approach of leveraging third-party content, such as the SASB industry-based standards for the reasons outlined in the Basis for Conclusions to [Draft] IFRS S2, while also flagging that there may be a need for further review and consultation around applying specific industry-based standards. However, the Basis for Conclusions does not fully explain the planned way forward for the ISSB on using these standards. In particular, QBE is concerned that, since the ISSB does not control the third-party content, committing to the ISSB standards would, by default, also mean committing to other content that may change without necessarily being the subject of an appropriate due process.

11.2 It would not generally be regarded as acceptable for accounting standards setters to require entities to comply with materials over which the standard setter does not have control.

QBE focus on B17 – Insurance

11.3 The focus for QBE is [Draft] IFRS S2 Climate-related Disclosures *Appendix B Industry-based disclosure requirements Volume B17—Insurance*.

Low carbon technology

11.4 QBE considers that Appendix B should include a definition for 'low carbon technology'. Otherwise, there is likely to be high level of inconsistency in the manner in which disaggregated premium disclosures are made.

Unit of account

11.5 The units of account used by insurers would generally involve the aggregation of individual contracts into groups and/or portfolios or higher levels of aggregation. QBE considers that the levels of disclosure required should match the aggregations used in the relevant circumstances. For example, reinsurance might be purchased to manage risks for a whole portfolio of contracts or multiple portfolios.

11.6 QBE notes that a single portfolio of contracts might, for example, contain a mix of contracts with customers still operating high emission energy networks and energy companies that are investing in low carbon technologies. It would currently be impracticable to make separate disclosures by policy in these circumstances. The ISSB should acknowledge that it may only be feasible to develop more disaggregated disclosures once management information systems are more geared towards

producing climate-related information, which would often be beyond the disaggregations required for general purpose financial reporting.

Policies designed to incentivise behaviour

11.7 The 'Industry description' notes that "Insurance companies, through their products, can also create a form of moral hazard, lowering incentives to improve underlying behaviour and performance, and thus contributing to sustainability impacts." QBE considers that this touches on a broader dilemma for setting sustainability disclosure standards for insurers without properly acknowledging that dilemma.

11.8 Insurers are naturally attempting to design contracts that incentivise low-risk behaviours as a strategy for reducing claims. In some cases, this would coincide with attempting to incentivise more sustainable behaviours and in others it would not.

11.9 In the case of contract incentives designed to encourage low-risk behaviours that also have the effect of encouraging more sustainable behaviours – it is not clear whether these should be claimed as being policies designed to incentivise more sustainable behaviours. For example, 'fire mitigation endorsements' seek to reduce the risk of wildfire spreading – the aim is to require the insured to maintain property to avoid a build-up of ignitable material, but the impetus behind the clause is risk management and not 'environmental'. Another example would be climate change exclusions that seek to clarify coverage, as opposed to encouraging environmentally-responsible behaviour.

11.10 The same issue arises in respect of the contrasting cases of risk-mitigation clauses that might encourage less sustainable behaviours. For example, it might be logical for insurers to price insurance for electric vehicles at a higher rate than for conventional vehicles, again on the basis that, while they might have fewer breakdowns, they require more specialist repair when they do break down. Similarly, 'green' buildings might attract a higher insurance risk premium due to increased fire risks from solar panels and electric vehicle charging stations.

11.11 QBE considers that entities should use their best endeavours to isolate information about encouraging low-risk behaviours and more sustainable behaviours. However, we note that, until sufficient research has been conducted into the impacts of the relationship between encouraging low-risk behaviours and encouraging more sustainable behaviours in an insurance context, there needs to be an acknowledgement that sustainability disclosures relating to incentivising behaviours is problematic for the industry.

Commentary/discussion versus analysis

11.12 A number of the disclosures relate to the manner in which contracts might incentivise health, safety, and/or environmentally responsible actions or behaviours. QBE notes that it may be difficult to measure incentivisation of responsible behaviour and the long-term consideration of this behaviour – for example, whether behaviours are intended to be modified only in the short term [say, for the duration of a contract/portfolio] or the long-term. In an insurance industry context, this type of information would need to be built into the underwriting process, which is not generally the case at present. Enhancing the underwriting process to enable the relevant information to be prepared would be a long-term exercise.

11.13 QBE considers that, while commentary/discussion would be appropriate, analysis could be very challenging. It would, for example, be impracticable measure/track behaviour based on offering customer a discount to insure a 'green home' to incentivise energy-saving behaviours. Accordingly, QBE recommends removing the proposed requirement for analysis.

11.14 QBE considers that paragraphs 1 and 2 under 'Metrics' should not be mandated in the absence of a much clearer and narrower framework. Paragraph 1 refers to 'pricing structures' in policies to incentivise health, safety, and/or environmentally responsible actions or behaviours. This would

appear to potentially involve a very broad range of matters. The implications would vary across the range of commercial insurance lines. 'Green' products (relating to renewables) may have associated technology risk and therefore would be priced accordingly – that is, there would typically be an upwards price implication, not downwards. Similarly, 'safety' on an employer liability product would be a more significant factor than on a financial lines policy.

11.15 For the near term, QBE suggests that this proposed disclosure be encouraged and not mandated. As practice and underwriting and management systems develop and the users become more knowledgeable, the content and mandatory status of the disclosures could be reviewed.

Quantitative disclosure

11.16 QBE supports the non-mandatory status of the paragraph 3 quantitative disclosures on the basis that there are practical and commercial issues with disclosing this granular detail of numbers of policies containing specific clauses, and/or disclosing premiums derived from policies incentivising healthy/safe/environmentally friendly actions absent a much clearer definition of what is included in scope. The level of detail being sought appears disproportionate to the value or understanding it would add for users. For example, the number of policies in force, by segment [(1) property and casualty, (2) life, (3) assumed reinsurance] would not give a user an understanding of the size of the contracts or the exposures that would be associated with them.

11.17 QBE considers the qualitative disclosures would need to explain the context because, it would be very difficult for insurers to measure influence (paragraph 3.3) as they do not have holistic oversight of policyholder behaviours. For example, at face value, it might seem appropriate to offer lower premiums for insuring an electric vehicle than a conventional internal combustion engine vehicle. However, it would be impractical for the insurer to know whether the electricity used in the electric vehicle has been generated from renewable or fossil fuels. The qualitative disclosures provided would need to avoid implying that incentives have been provided for more sustainable behaviours when, in reality, that is not the case.

11.18 Insurers would also face barriers to obtaining relevant information on policyholder behaviours. For example, data protection/privacy laws could mean the relevant information is not available for reporting information on insurance contracts designed to reward weight-loss behaviours related to health insurance policies.

Physical risk exposure

11.19 Paragraph 5 would require disclosure of probable maximum loss by 'relevant geographic regions'. This raises a number of concerns for QBE, including the following;

(a) Probable maximum loss by geographic regions is unlikely to be useful information without substantial context regarding how those risks are managed. Consideration could be given to alternative disclosures, for example, qualitative information about concentrations of risk by particular climate-affected regions.

(b) QBE considers it would only be feasible to provide information about probable maximum loss by geographic regions when the relevant regions coincide with portfolio level disclosure. QBE notes there would be commercial sensitivities around disclosing probable maximum loss at a lower level of aggregation.

11.20 In disclosing monetary losses attributable to insurance payouts, QBE has strong preference for presenting that information using the top 5 modelled and non-modelled events, based on management's view of material events. QBE considers this provides more useful information than classifying disclosures by 'modelled' and 'non-modelled' events.

11.21 The impacts of non-modelled risks are much less likely to be readily available disaggregated by geographic segment/region. QBE recommends that this level of disaggregation should not be required.

11.22 Paragraph 6 would require reporting of the policy losses and benefits expenses on a gross and net of catastrophe reinsurance basis. QBE considers that, in some relatively common circumstances, it could be impracticable to report on a net basis because reinsurance can be at an aggregate level – for example, Group-wide excess of loss reinsurance. It may be particularly difficult to identify reinsurance recoveries that would relate to particular risks or events because, for example, multiple events across multiple portfolios interact in affecting the levels of claims recoveries.

11.23 QBE considers it is relevant and practical to provide a description of its approach to incorporating environmental risks into the underwriting process and the management of firm-level risks and capital adequacy. However, it may not be practicable to provide an analysis of that process and QBE recommends removing this proposed requirement.

11.24 It is proposed that "benefits and claims incurred shall be **disclosed** in accordance with IFRS 17 *Insurance Contracts*". Since the disclosure requirements of IFRS 17 are very different from those proposed in the Appendix, QBE considers that it should be made clear that this is intended to mean that claims incurred are '**measured**' using IFRS 17. If that is not the ISSB's intention, the ISSB would need to be clear in identifying the relevant basis for measurement.

Premiums written

11.25 Appendix B requires a number of disclosures in respect of 'premiums written' or 'net premiums written'. QBE notes that these terms are widely understood in the general insurance industry. However, written premium is not a notion or metric that appears in IFRS 17 *Insurance Contracts*.

11.26 Given that aspects of IFRS 17 will change the notion of premium revenue for general purpose financial reporting purposes [such as treating loss portfolio transfers as revenue-producing transactions], to avoid any confusion with the requirements of IFRS 17, it may be helpful for the ISSB to acknowledge the role of conventional industry practice in determining written premium.

Outputs of catastrophe models

11.27 QBE considers the proposed requirement in paragraph 6 that an entity describe how outputs of catastrophe models inform its underwriting decisions may be commercially sensitive to some insurers because it would underpin pricing of insurance contracts issued and reinsurance contracts held. It would put some entities disclosing this information at a competitive disadvantage to other entities that are either not making the disclosures or are able to make them at a level of aggregation that is less commercially sensitive.

11.28 QBE strongly recommends the removal of paragraph 6.1 and its replacement with a principle-based requirement about disclosing the manner in which outputs of catastrophe modelling inform an insurer's underwriting decisions and risk management via reinsurance contracts held. We also note that the ISSB could consider disclosure of 'data scoring' that would allow users to assess the data quality from the scenario/catastrophe modelling for ease of comparison across entities.

Other requirements

11.29 QBE is not aware of 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.

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.

(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?

12.1 QBE considers that implementing the proposals would add significantly to the costs currently incurred in providing sustainability information. We also note that the cost-benefit assessment would differ for different types of entities. QBE response is in the context of the sustainability standards only being applicable to the consolidated financial statements of publicly-listed entities and any large emitters that are unlisted, with 'large' being determined by local jurisdictions, initially.

12.2 QBE considers many of the proposals are likely to be justifiable on cost-benefit grounds. However, our comments above indicate areas in which QBE considers the benefits would not outweigh the costs associated with preparing the information. In particular for the insurance industry, the following disclosures are not considered justifiable on cost-benefit grounds:

- discussion and analysis of products that incentivise health, safety and environmentally responsible behaviours – please see out comments in response to [Draft] IFRS S2, Q11 above;
- disclosure requirements beyond TCFD requirements and disclosure of commercially sensitive data related to climate metrics; including, in particular, climate resilience – please see out comments in response to [Draft] IFRS S2, Q7 above
- quantifying disclosures around climate resilience as it would not be useful information given the level of judgement and uncertainty/estimation involved and the likely lack of comparability of disclosures between entities.

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.

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.

13.1 QBE considers that the disclosures most likely to pose challenges in terms of verification and assurance would be:

- scenario analysis for short, medium and long term timeframes;

- modelled and non-modelled natural catastrophes as every model would have its own assumptions and limitations;
- industry disclosure specifically related to discussion of products that incentivise health, safety and environmentally responsible actions/behaviours – please refer to QBE's responses to Q11.

Question 14 – Effective date

Exposure Draft, it is proposed that an entity is not required to disclose comparative information in the first period of application.

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.

(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?*

(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.*

(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?*

14.1 QBE supports the application of the proposals with **at least** a three-year gap between the final Standards and the commencement date, subject to:

- our comments on other matters raised in the Exposures Drafts that would involve making some proposed requirements non-mandatory and removing others;
- staging the requirements such that more time is provided to implement the more difficult disclosure requirements;
- in some cases, deferring requirements that would only be able to be implemented reliably once practice develops, which could include information on climate resilience and scenario analysis.

14.2 QBE considers that three years [or more] is reasonable for the following reasons.

- While QBE has been reporting in respect of the TCFD requirements for four years, the ISSB proposals would be step up and achieving compliance is expected to involve developing, changing and testing information systems needed to facilitate making the relevant disclosures. This would be similar to the implementation of a complex new or revised IFRS, which normally have a reasonably long period between issue date and application date. For example, IFRS 17 was originally issued in 2017 with an operative date of January 2021, which was subsequently changed to January 2023 on the release of a revised IFRS 17 in 2020. The potential data and system needs that would be required by IFRS S1 and IFRS S2 would be at least as complex and time-consuming to implement for many entities as IFRS 17 has been for insurers.

- Positions on scenario analysis by industry are only in their early stages of development and are expected to need considerable time to take shape. While the issue of the standards might give impetus to these developments, the process would need to be subject to wide-ranging consultation.
- While some businesses will have experience with sustainability-related disclosures, others will not and the level of maturity of an entity's business could impact on the time needed to implement the disclosures.
- Ensuring that the information systems and output can be subject to a relevant level of assurance is also expected to extend the time needed to implement the disclosures.
- The skills and resources needed to implement the changes are in short supply and that situation is not expected to improve in the medium term. The longer the gap between final Standards and commencement, the more effectively the relevant resources can be allocated across the market.
- The ISSB could specifically encourage early adoption for those entities that are best-placed to implement the requirements. QBE notes that there are multiple market incentives that are likely to encourage entities to early adopt. These include published benchmarking and scoring of entities, for example, by the CPD in respect of TCFD disclosures, which can influence the decisions of investors.

14.3 In theory, the commencement dates of IFRS S1 and IFRS S2 would ideally be the same. However, the need for ISSB involvement in disclosures around climate-related risks and opportunities is more urgent. Accordingly, consideration could be given to using staged application dates, which would provide entities with the opportunity to implement the Standards in a phased approach.

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.
>
> *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)?*

15.1 In principle, QBE supports initiatives to enable digital reporting. However, we note that cost-benefit considerations have meant digital reporting of general purpose financial statements has not gained traction in Australia. This seems largely due to the disconnect between the information used to manage lines of business versus the information that needs to be reported to comply with IFRS Standards. It may also be due to a lack of comprehensive industry-based extensions to the IFRS taxonomy.

15.2 QBE considers that the ISSB's focus should be on setting high-quality and consistent standards and working to have them widely accepted. This should help underpin the demand for digital reporting.

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.
>
> *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?*

16.1 QBE has no comment on Q16.

Attachment – QBE's feedback on AASB's specific matters or comment

> **AASB [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?

A.1.1 QBE agrees with the enterprise value approach in considering the material sustainability-related risks and opportunities. Given the IFRS Foundation's historical focus on general purpose financial reporting, QBE considers enterprise value seems a logical emphasis for the ISSB.

A.1.2 QBE notes the ISSB might need to explain its focus on enterprise value in the context of sustainability disclosures that are often thought of as subject to so-called 'double materiality' – meaning that entities seek to report simultaneously on sustainability matters that are:

- financially material in influencing business value; and
- material to the market, the environment, customers, community and other stakeholders.

A.1.3 Please also refer to our responses to the ISSB on [Draft] IFRS S 1, Q1 and Q17 in respect of enterprise value.

> **AASB [B1]:** To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

B.1 QBE considers that Australian entities should be encouraged to disclose their Scope 3 GHG emissions in addition to their Scope 1 and 2 GHG emissions provided they meet the GHG Protocol criteria for accounting and disclosure. We consider that mandating this disclosure would currently pose challenges due to data availability, particularly in jurisdictions such as Australia. In the longer term, the methodologies are expected to evolve and lead to mandatory disclosure being feasible.

> **AASB [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)?

B.2 QBE agrees that Australian entities should be required to apply the GHGC Standard in light of the materiality of Scope 3 emission for many Australian National Greenhouse and Energy Reporting [NGER] regulated entities and in line with evolving best practice.

> **AASB [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?

B.3.1 In concept, the proposed industry-based disclosure requirements in Appendix B *Industry-based disclosure requirements Volume B17—Insurance* are relevant for the Australian insurance industry since it has been reviewed by the ISSB in the context of IFRS 17, which will be applied in Australia from 2023. However, we note that the extent of the changes proposed by the ISSB do not appear to have necessarily taken into account the types of information that insurers are likely to have available from applying IFRS 17, particularly in terms of granularity.

B.3.2 Please also refer to the QBE comments above in response to Question 11 on [Draft] IFRS S2 *Climate-related Disclosures.*

> **AASB [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?

B.4 QBE considers that it would be inappropriate for the AASB to impose additional requirements for Australian entities for the following reasons:

- The ISSB's S2 Exposure Draft disclosure proposals on climate related governance, strategy, risk management and metrics are far-reaching and expected to address any relevant matters that would arise in an Australian context;
- There is a risk that any Australian-specific requirements would pose a barrier to Australian-based entities adopting consistent industry-based conventions for climate-related disclosures that are developing internationally.

> **AASB [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?

C.1.1 QBE considers that only a subset of for-profit entities with public accountability should be expected to apply the eventual requirements resulting from the proposals. At a minimum QBE considers there should be an exemption for subsidiaries of parent entities that include their sustainability disclosures as part of their consolidated reporting. Requiring these disclosures of subsidiaries would be impracticable and, in any case, would not result in useful information since a group's sustainability strategies are typically implemented and managed at the consolidated level.

C.1.2 QBE notes that in most jurisdictions, including European Union countries, IFRS Standards are only mandatory for the consolidated financial statements of publicly-listed entities, initially. Australian

practice has developed over decades, after considerable consultation, to achieve a point at which IFRS Standards are adopted by most large Australian entities, including unlisted large proprietary companies. QBE considers that, given the considerable cost burden, the extension of the application of sustainability-related standards beyond the consolidated financial statements of publicly-listed Australian entities would need to be the subject of thorough consultation.

C.1.3 QBE would, therefore, recommend that the sustainability standard only initially be applicable to the consolidated financial statements of publicly-listed entities and any large emitters (based on NGER reporting thresholds) that are unlisted.

C.1.4 The AASB should match the status assigned to particular standards by the ISSB – that is, guidance versus mandatory disclosures, and not go beyond the ISSB's requirements.

> **AASB [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?

C.2.1 QBE notes that some entities are subject to multiple forms of regulation – for example, insurers are subject to regulation from APRA and ASIC, both of which have an interest in sustainability reporting. QBE considers it would be counterproductive to have multiple forms of regulation about sustainability disclosures for insurers. Accordingly, with the AASB taking leadership on sustainability reporting in Australia, both of these regulators should only consider introducing any additional requirements if they can establish that there is a substantial reporting gap that needs to be filled.

C.2.2 QBE also considers that the implementation of the sustainability standards should complement NGER reporting requirements. However, the NGER reporting thresholds should remain and apply to high emitters only.

> **AASB [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?

C.3.1 Please refer to QBE's responses to the ISSB on [Draft] IFRS S1 and [Draft] IFRS S2.

C.3.2 In particular, refer to our responses to the ISSB [Draft] IFRS S1, Q9. QBE considers that sustainability-related disclosures should not be required to be reported more frequently than once a year, based on cost/benefit considerations. The information can be burdensome to source, collate and analyse, while the appetite for more than annual sustainability-related disclosures is unclear. Typically, there are worthwhile changes and progress to report in respect of sustainability-related information based on an annual cycle.

> **AASB [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?

C.4 In principle, the proposed [Draft] IFRS S1 and [Draft] IFRS S2 would result in useful information for users of the general purpose financial reports. However, QBE considers there are changes required in order for them to be practicable to implement. Please refer to QBE's responses to the ISSB on [Draft] IFRS S1 and [Draft] IFRS S2.

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

C.5 QBE considers that it would be challenging to provide assurance related to scenario analysis particularly over the medium and long term horizons due to model data limitations and assumptions with respect to forward-looking information. Stating caveats in the form of disclosure of key inputs and assumptions would help minimise the auditing and assurance challenges. However, we also note that Australian regulators would need to act to remove barriers in the form of legal liability risks to entities making available forward-looking information. Without these barriers being removed, Australian entities are likely to be constrained in their ability to fully adopt ISSB standards.

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

C.6.1 QBE considers that, if the proposed [Draft] IFRS S1 and [Draft] IFRS S2 were to become mandatory in Australia, they should be made effective no earlier than the ISSB's application date(s).

C.6.2 QBE considers the time gap between the issue and mandatory application dates for the final Standards should be at least three years after the release of the standard. This would be consistent with the approach taken when a major IFRS Standard is released. Please refer to QBE's responses to the ISSB on [Draft] IFRS S1 [Q13] and [Draft] IFRS S2 [Q14].

AASB [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?

C.7.1 QBE considers that the AASB would need to be mindful of a range of factors in setting an application date, including: whether the requirements are mandatory in other jurisdictions or only guidance; and the level of compatibility with other sustainability standards applied by Australian entities.

C.7.2 In theory, the commencement dates of IFRS S1 and IFRS S2 would ideally be the same. However, the need for ISSB involvement in disclosures around climate-related risks and opportunities is more urgent. Accordingly, consideration could be given to using staged application dates, which would provide entities with the opportunity to implement the Standards in a phased approach.

C.7.3 The ISSB could also encourage early adoption of the standards.

AASB [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?

C.8 Please refer to QBE's responses above on the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 for comments on wording and terminology.

AASB [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?

AASB [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.

Note that should sustainability-related financial reporting requirements be developed as part of existing Australian Accounting Standards, they would form part of the AASB's authoritative guidance and be considered as mandatory requirements.

D.1.1 QBE considers that if the AASB is to issue sustainability-related standards, they should be a separate suite of standards from Australian Accounting Standards. QBE notes that the AASB currently has sets of standards with different status – some have legal backing under the Corporations Law and others do not. Until the status of the sustainability standards globally is better understood and their potential status within the Australian legal system can be determined, they should remain a separate set of standards.

D.1.2 The sustainability-related standards should initially be non-mandatory and not subject to audit until experience has been gained with their application, and processes and methodologies have evolved to the point where the disclosures are regarded as reliable and faithful representations. International developments as well as the preparedness of Australian entities should be monitored to determine whether and, if so, when such requirements might become mandatory.

D.1.3 QBE considers that it would be useful for sustainability information to be either included in annual reports or cross-references from annual reports to help provide a holistic view of entity performance. However, QBE thinks it would be inappropriate for sustainability-related disclosures to form part of an entity's general purpose financial statements for the following reasons:

- the materiality considerations are potentially different as between the conventional financial statements and sustainability-related disclosures, as acknowledged in the Basis for Conclusions ([Draft] IFRS S1.BC71);
- the auditing of sustainability-related disclosures is to be based on different standards from the auditing of conventional financial statements;
- this would not be consistent with global peers.

D.1.3 As noted in response to Q9 and Q10 in relation to [Draft] IFRS S1, the timelines for conventional general purpose financial reporting are typically the same for QBE's current sustainability reporting. However, it would be challenging to make the breadth of sustainability-related information proposed by the ISSB available at the same time as general purpose financial reports, particularly with respect to quantitative information and the information more generally about Scope 3 emissions, which would be heavily reliant on third party data and would often not be available within a reasonable timeframe. Accordingly, QBE considers there should be phased implementation to allow third party data to develop to enable an entity to report its sustainability related financial disclosures at the same time as its related financial statements.

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

D.2 QBE considers that, in principle, the proposals would result in greater transparency in disclosure which should lead to more informed investment decisions and drive more sustainable and socially responsible outcomes for the benefit of the future economy. However, the transition to the widespread provision of useful sustainability-related information should be staged to help ensure the effective preparation, audit and use of the information.

15 July 2022

Australian Accounting Standards Board
By email: standard@aasb.gov.au

Dear Colleague

AASB ED 321 Request for Common on [Draft] IFRS S1 and [Draft] IFRS S2

The Australian Banking Association (ABA) welcomes the opportunity to provide feedback to the Australian Accounting Standards Board (AASB) on the International Sustainability Standards Board (ISSB) 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).

The ABA is an association of 20 member banks in Australia. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

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, Scope 2 and Scope 3 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 banks.

Therefore, we strongly 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).

Separate standards for sustainability-related reporting requirements

Sustainability-related financial reporting requirements are emergent and yet to be tested and will entail significant challenges to develop. Additionally, sustainability reporting standards require specialist knowledge (e.g., climate science, natural capital, modern slavery, human rights). On this basis we recommend the development of the requirements as a separate suite of standards.

Detailed responses to questions

Our detailed responses to select questions raised in AASB ED 321 are contained in the annexure to this letter. We have also attached the ABA submission to the ISSB consultation on [Draft] IFRS S1 and [Draft] IFRS S2 as our responses to the questions raised in ED 321 cross-reference to that submission.

Thank you for your considered consultation process on this key development. We look forward to engaging further with the AASB on the introduction of sustainability-related reporting standards.

Kind regards,

Emma Penzo
Head of Economic Policy
Emma.penzo@ausbanking.org.au

Appendix

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[1]. 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 refer to the ABA ISSB submission Appendix 1 response to question 2(a).

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[2]. 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 refer to the ABA ISSB submission:

- Appendix 1 Q16(a);
- Appendix 2 Q9(a)(d)(f); Q11(d)

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)?

We support the requirement to base GHG emissions disclosures on the GHGC. We encourage Australian legislation to align with evolving global best practice.

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 refer to the ABA ISSB submission in the following sections:

- Appendix 2 [Draft] IFRS S2 Q11
- Appendix 3 [Draft] ED Volume B19 Mortgage Finance
- Appendix 4 [Draft] ED Volume B16 Commercial Banks.

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-

[1] Appendix A to Exposure Draft on [Draft] IFRS S1 defines enterprise value as "the total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt".

[2] Note that at the date of this publication the NGER Act and NGER (Measurement) Determination refer only to the disclosure of Scope 1 and 2 greenhouse gas (GHG) emissions.

related financial disclosure, should there be additional reporting requirements for Australian entities? If so, what additional reporting requirements should be required and why?

We refer to the cover letter to the ISSB submission and highlight the following:

- [Draft] IFRS S1 and [Draft] IFRS S2 to include support for a phasing-in period for preparers.
  - Scope 3 emissions to be explicitly called out for later phasing-in.
  - Smaller entities to be given additional time for compliance.
- Safe harbour provisions for preparers given the implications for potential civil and regulatory action for misleading and deceptive disclosures under Australian corporations' legislation for forward looking statements.
- 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.

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?

For part (a) Refer to ABA ISSB Submission Appendix 1 Q14(b)
For part (b) Refer to ABA ISSB Submission Appendix 2 Q9(a)

C2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft]IFRS S1 and [Draft] IFRS S2?
We see several issues for the Australian regulatory context:

First forward-looking statements as envisaged by S1 and S2 give may give rise to liability for misleading and deceptive disclosures. The following is analysis expands upon the issue and is provided by 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 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 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.

The ABA accepts the need and urgency for standards climate-related financial disclosures and recognise that 'we must start somewhere'. However, we hold serious concerns for the potential for a sizable increase on civil litigation that such disclosures may encourage. It has been noted that there are over 2200 climate change litigation cases globally and represents an exponential shift on litigation compared to ten years ago[3]. Forward statements that are based on measures with low probability of occurrence or for which there is low confidence will fuel civil litigation. Further, we note that Australia has been highlighted as a particular focal point for litigation presently.

The ABA recommends legislated 'safe harbour' arrangements that would prevent litigation against well intentioned and considered disclosures by preparers.

Second, we are concerned for the assure-ability of such statements and do not accept that at present, climate related financial disclosures can be adequately assured. We also do not accept the role of auditors in verifying the robustness, validity or appropriateness of bank models which are used for portfolio analysis and through which the result of the analysis would feed into the disclosures.

The ABA recommends consideration for an alternative category of assurance for sustainability, and more pressingly climate, related financial disclosures as an interim approach whilst the reporting of such matters matures.

[3] https://www.kwm.com/au/en/insights/latest-thinking/greenwashing-on-united-nations-radar.html

Third, we see the potential for secondary impacts on legislation. One example is the Bank Executive Accountability Regime (BEAR) or its successor. We would envisage further guidance may be required in respect to the approach to be adopted for the responsible person for the disclosure of sustainability-related financial disclosures.

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?

Aligned with expectations of CPG229 for banks.

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?

Refer to ABA ISSB submission Appendix 1 [Draft] IFRS Q2(a) and Appendix 2 [Draft] IFRS S2 Q11d Notably our response to the latter states:

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.

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

The ABA does not believe it will be possible for sustainability disclosures to be audited to a 'reasonable level of assurance and we recommend a phasing in of audit requirements.

For further detail, refer to ABA ISSB submission:

- Appendix 1 [Draft] IFRS S1 Q1(d), Q6(b), Q9
- Appendix 2 [Draft] IFRS S1 Q2 and Q12(a) Q13

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

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.

Refer to ABA ISSB submission:

- Appendix 1 [Draft] IFRS S1 Q13
- Appendix 2 [Draft] IFRS S2 Q14(b)

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?

Refer to ABA ISSB submission ABA ISSB submission Appendix 2 [Draft] IFRS S2 Q14(a)

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?

Refer to ABA ISSB submission Appendix 1 [Draft] IFRS S1 Q1(a)

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?

Refer to ABA ISSB submission:
- Appendix 1 [Draft] IFRS S1 Q16(a)
- Appendix 2 [Draft] IFRS S2 Q12a

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.

Sustainability-related financial reporting requirements are emergent and yet to be tested and will entail significant challenges to develop. Additionally, sustainability reporting standards require specialist knowledge (e.g., climate science, natural capital, modern slavery, human rights). On this basis we recommend the development of the requirements as a separate suite of standards.

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

It is in the best interests of the Australian economy to align to the disclosure expectations of the global capital markets.

15 July 2022

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

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,

Emma Penzo
Head of Economic Policy
Emma.penzo@ausbanking.org.au

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>

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.

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)

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.*

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.

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.

<table>
<tr><th>Question</th><th>ABA Position</th></tr>
<tr><td>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?</td><td>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.</td></tr>
<tr><td>Q11e. Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance</td><td>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.</td></tr>
</table>

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

Appendix 3: [Draft] ED Volume B19 Mortgage Finance

Subsection	ABA Position
Metrics (FN-MF-450a.1) **(1) Number and (2) Value of mortgage loans in 100-year flood zones**	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
Metrics (FN-MF-450a.2) **(1) Total expected loss and (2) Loss Given Default (LGD) attributable to**	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.

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.

18 Jamison Street,
Sydney NSW 2000

t: 1300 739 119
e: contact@aicd.com.au
aicd.com.au

ABN 11 008 484 197

15 July 2022

Australian Accounting Standards Board

Via web portal

Dear Australian Accounting Standards Board (AASB)

AASB Exposure Draft 321: Request for comment on Draft IFRS S1 General Requirements for Disclosure of Sustainability Related Financial Information; Draft IFRS S2 Climate-related disclosures

Thank you for the opportunity to respond to the AASB Exposure Draft 321 concerning the two draft standards released by the International Sustainability Standards Board (**ISSB**) related to general sustainability related financial information (**Sustainability Standard**) and climate related disclosures (**Climate Standard**).

The AICD's mission is 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 own 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.

We support the AASB's consultation on how sustainability standards might best be developed in the Australian market, including the AASB's preliminary approach of doing so in a suite separate to existing Australian accounting standards. We agree with the AASB's view that the decision on whether to mandate certain sustainability reporting is within the proper purview of the Australian parliament, and support the initial focus being on for-profit entities, especially those listed or with a large carbon footprint.

The AICD looks forward to playing a constructive role in the adoption of these standards in the Australian market. In our view, an appropriately phased in approach that recognises the varying levels of maturities within sectors, and the Australian market more broadly, will be critical to the Standards' successful adoption. In doing so, we must recognise that, although there are examples of advanced approaches in Australia, current sustainability and climate related reporting practices are less mature overall than in other global markets.

Enclosed with this cover letter are our detailed responses to AASB specific questions (**Attachment A**), the Sustainability Standard (**Attachment B**), Climate Standard (**Attachment C**), along with legal advice obtained from Herbert Smith Freehills regarding Australian implementation issues (**Attachment D**).

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.

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, this will be very difficult to achieve. 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 Australia. 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 calibrated appropriately, or else risk unhelpful, generalised disclosures that will not meet investors' expectations (see HSF legal advice at Attachment D). We encourage a clear focus on these issues from policymakers and standard setters to support comprehensive, good faith adoption by entities.

5. 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 AASB in this 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

AASB Exposure Draft ED 321

Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

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?

When we wrote to the IFRS Foundation supporting the establishment of the International Sustainability Standards Board, a key reason for doing so was the hope that a consolidation of existing reporting frameworks would occur. Removing the 'alphabet-soup' of Standards remains a key reason for Australian director support of the project, along with greater consistency in disclosure and a clearer ability to benchmark their organisation's sustainability performance.

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.

We acknowledge that 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 into other Standards such as the GRI. This investor and enterprise value focus may mean that preparers are 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, on balance, we support the investor focus of the Exposure Draft. 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 shift in practice expected 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.

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

© AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

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?

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 proper systems and accepted methodologies so that entities are able to capture accurate and reliable information to allow for Scope 3 disclosure.

Given the inherent uncertainty in the collection of data, we also believe that there should be a safe harbour for liability for Scope 3 disclosure. This would align the ISSB with the climate disclosure proposal put forward by the SEC. In this regard, we note the legal advice from Herbert Smith Freehills (see Attachment D) which details the legal liability risks associated with the kinds of forward-looking statements expected by the ISSB Standards.

In our view, it is only fair that if companies are being asked to provide Scope 3 disclosures, notwithstanding the widely acknowledged uncertainty surrounding them, there should be corresponding protections for good faith disclosures.

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)?

No comment.

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?

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 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.[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. Australia will need to play a role in this process, rather than leaving it as a US-centred SASB process. There would be merit in having a parallel, more detailed consultation on the SASB standards. In our view, if the Standards are to be adopted in Australia there will need to be an extensive consideration and discussion about their application. This will need to occur on an industry basis.

[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>

© AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

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?

No comment.

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?

There are some significant concerns around the Exposure Drafts set out in our attached responses and we would need to see the final form of the drafts to be in a position to provide an answer to this question.

As a starting point, these Standards would need to be limited to larger listed entities and organisations with large carbon footprints that have the resources necessary to gather the data required and which regularly provide public disclosure and/or whose activities will have the greatest impact. Disclosure by these entities would also help establish a baseline of quality reporting which could help inform wider adoption over time.

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?

Yes, various regulatory and legislative arrangements in Australia give rise to director and corporate liability issues that will require detailed consideration prior to any adoption in Australia.

The AICD has obtained detailed legal advice from Herbert Smith Freehills (HSF) on liability risks associated with the proposed ISSB Standards (see Attachment D).

It is important to note that some investors have already recognised that legal liability risks could lead to poor disclosure outcomes. For example, the world's largest institutional investor, BlackRock, in its recent submission to the SEC on climate disclosures, stated the following:

> ***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].*[2]

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).

[2] BlackRock submission to the SEC: Enhancement and Standardization of Climate-Related Disclosures for Investors (File Number S7-10-22), 17 June 2022, available here.

© AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

The following comments are made drawing on the HSF advice at Attachment D.

Australian corporate and director liability issues

Under s 769C of the *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* (Cth) 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.[3] Any representation in a periodic report that is not supported by reasonable grounds will automatically be deemed to be misleading, with associated penalties.

As the HSF advice highlights, 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 the required disclosure of the 'anticipated effects of sustainability-related risks over the short, medium and long term'. To illustrate, in the area of climate change, those short, medium and long term impacts are highly contingent on developments such as technology and global and domestic policy settings.[4]

Additionally, while it has become more common for companies to undertake (and publish the findings of) scenario analysis for climate impacts under different climate change scenarios, it is notable that those disclosures are typically bound by issue (i.e. climate) and do not require the reporting entity to present its granular view on anticipated outcomes (i.e. they are presented as possible scenarios rather than probabilities). The scale of analysis implied by the proposed ISSB Standards is considerably more ambitious given the broad application to sustainability-related risks and opportunities, and the requirement for the estimation / prediction and disclosure of their anticipated effects on entities.

The Exposure drafts often explicitly require disclosure when there are unlikely to be reasonable grounds for making such a statement. For example, paragraph 79 of draft IFRS S1 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, thereby triggering liability.[5]

HSF has advised that 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

[3] Australian Competition and Consumer Commission v Woolworths Limited [2019] FCA 1039, 37 [113].
[4] See for example the disclosure requirements at paragraph 14 of IFRS S2.
[5] 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".

carries comparatively lower levels of disclosure risk. 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.

Even where a reporting entity and its directors consider that their forward-looking representations are supported by 'reasonable grounds', this may be challenged in court in an allegation of 'greenwashing'.

Higher Australian liability risks than other jurisdictions

Compared to their counterparts in certain peer 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.[6]

There is also heightened regulator risk for directors because, in Australia, the securities regulator ASIC can and has pursued 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 the boards of Australian companies listed on the ASX are faced with higher reputational and personal 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. Another point of uncertainty at present is whether (and if so, how) the scope of directors' duties in relation to financial reporting might adjust to encompass sustainability- and climate-reporting. With existing case law on the non-delegable duties of directors having thus far been decided on the basis of financial reporting, it remains to be seen whether Australian courts would take a similar approach towards sustainability and climate-related reporting, and extend directors' non-delegable duty in respect of these additional areas.

Notably, the proposed ISSB Standards will require considerable reliance on technical and specialist advice (e.g. methodologies for calculating greenhouse gas emissions, advice on the viability of technologies). In this context, there is likely to also be an unprecedented need for directors to rely on s.189 of the Corporations Act (Reliance on information or advice provided by others) with respect to the basis for Board approvals of reporting.

Further, the ISSB standards will mean a greater volume of market disclosures. An increase in information disclosed by entities will mean a commensurate increase in the amount of information that listed entities will have to monitor under their continuous disclosure obligations. HSF has advised that this will be particularly pronounced with respect to forward looking targets required by the Standards, which will require careful monitoring, and if necessary, updating, to prevent a false market from occurring.

Need for tailored regulatory settings to support implementation

In summary, the above factors mean that Australian directors and entities are likely to be exposed to higher liability risk than other jurisdictions, if the Standards are adopted in their current form, under existing domestic laws and arrangements. We believe that these matters should be resolved at a domestic level. 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. Alternatively, language could be built into

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

the domestic version of the standard, or any explanatory or guidance material, making clear the kinds of disclosures that are required (or not required), thereby providing entities with a degree of comfort.

Interaction with director reporting requirements

Were the Standards to be introduced in Australia, there would need to be clarification on their interactions with directors' current reporting requirements under the Corporations Act, including the directors report, the Operating and Financial Review and the remuneration report. As the Exposure Drafts note, much of what they cover has traditionally been seen as matters for management commentary, rather than financial reporting. Matters contained within the Standards clearly cross over into those statutory obligations and there would need to be a resolution to avoid conflicting obligations. There would also need to be consideration of matters such as prudential reporting requirements for APRA-regulated entities.

Different materiality thresholds would also apply to matters within the Standards and management commentary. In Australia, the test is that the "Operating and Financial Review must contain information that members of a listed entity would reasonably require to make an informed assessment of the operations, financial position, the business strategies, and prospects for future financial years, of the entity reported on."[7] This appears a higher materiality threshold than the materiality test contained within the Exposure Drafts as it is limited to current members, refers to an 'informed assessment' rather than 'influence' and only requires disclosure over the named topics.

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?

See answer to Question C2.

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?

Yes, based on our discussions the Standards would result in useful information, subject to certain refinements outlined elsewhere. Directors are eager to meet the needs of stakeholders for that information, while at the same time, wishing to ensure that disclosures are robust and capable of external assurance.

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

Yes. We believe that IFRS S1, in its current form, would be very difficult to assure and it would be difficult to determine whether an entity has complied with it. 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. Assurance challenges for S2 are less pronounced, albeit very difficult in key areas such as scope 3 greenhouse gas emissions.

Please see our response to the ISSB on Question 7(b)of S1 for more details.

---

[7] S.299A(1) Corporations Act.

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

We believe that S1 and S2 could be made effective in Australia close to the date they are made effective by the ISSB. This would need to be on the basis that they are voluntary standards that Australian entities might choose to adopt and that the AASB might encourage them to adopt. This would give them a similar status to the IFRS Practice Statement on Management Commentary.

Subsequently, if the Standards were to be introduced domestically on some form of mandatory basis, due process would require the AASB to conduct a further Exposure Draft process, in line with its usual approach. It would be crucial that appropriate transitional arrangements are devised to allow the standards to be implemented effectively.

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?

See answer to Question C6.

C8. Would any wording or terminology introduced in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be difficult to understand? If yes, what changes do you suggest and why?

We have concerns about the lack of a definition of 'sustainability' in S1 and propose that the ISSB provide a definition.

We are also unclear about the meaning of the word 'significant' before 'sustainability-related risks and opportunities' in S1 and 'climate-related risks and opportunities' in S2 and its interaction with the materiality test.

In both cases we have set out potential solutions to those concerns, for further details see our response to Question 2(b) of ISSB S1.

C9. Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

We are unable to provide any specific information on the costs that will be involved for entities seeking to implement these Standards, however based on general discussions to date, we believe they will be significant. We suggest that more work may need to be done in this area once the Standards are made and if the jurisdiction considers any mandatory application. There are also workforce shortage issues that will need to be addressed. Currently there would appear to be an insufficient supply of talent to assist entities to report appropriately under the proposed standards as well as receive appropriate assurance.

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.

© AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

Yes, we agree with the AASB's approach of developing a suite of standards separate to the Australian Accounting Standards. As previously stated, we do not agree with the alternative model as it may not fit within the AASB's legislative mandate and decisions about the scope, transition periods and other matters are policy decisions for Government. For the reasons already stated, because the Standards potentially conflict with various legislative obligations such as around the OFR, any mandatory introduction would need to be considered as part of a holistic package of legislative reform.

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

As previously stated, the AICD supports the introduction of the ISSB sustainability standards. However, as we have set out in this submission and in our submission to the ISSB, there remains concerns around them as currently drafted. Moreover, there needs to be detailed consultation at a jurisdictional level about how the Standards might be phased in appropriately and whether liability settings may need to be adjusted to encourage comprehensive adoption.

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.

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.

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?

Lack of Consolidation

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.

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.

© AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

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.

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.[5]

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.

© AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

Advice

Liability risks associated with the proposed ISSB Standards

1. About this advice

The recent release of the International Sustainability Standards Board's (**ISSB**) consultation drafts of new sustainability- and climate-reporting standards[1] is a welcome development towards harmonised global reporting standards. However, in light of Australia's existing legal framework on financial reporting and directors' duties, the Australian Institute of Company Directors (**AICD**) has requested advice to seek to understand potential areas of liability or heightened risk for directors with respect to the ISSB Standards given the scope of the disclosures proposed.

In the still-developing ESG litigation environment, the ISSB Standards' requirements for forward-looking statements that are dependent on inherently uncertain matters (such as future technologies and market dynamics) are anticipated to create significant risk exposure for reporting entities and their directors in the absence of a 'safe harbour' for such statements. This advice outlines key areas of tension between the proposed ISSB Standards and directors' liability risks in the context of Australia's current legal framework for public corporate disclosures.

2. Executive summary

The proposed ISSB Standards will subject Australian reporting entities and their directors to a greater level of legal risk compared to their counterparts in other jurisdictions given the way in which forward-looking statements are regulated in this country.

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. By contrast, the new ISSB Standards would require reporting entities to make an extensive range of forward-looking statements.

Under Australian law, forward-looking statements will be deemed to be misleading unless supported by reasonable grounds. Given the subject-matter of the disclosures proposed under the ISSB Standards, establishing 'reasonable grounds' is likely to pose considerable difficulty for directors in a number of areas, given the inherent uncertainty of dependencies such as market dynamics, energy transition challenges and the development of new technologies.

While the existing liability regime for public disclosures in Australia is well understood by reporting entities and their directors, the development of ESG-related litigation is embryonic, with the *ACCR v Santos* test case[2]

[1] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (**IFRS S1**) and IFRS S2 *Climate-related Disclosures* (**IFRS S2**) (together, **ISSB Standards**).

[2] *Australasian Centre for Corporate Responsibility v Santos Limited*, Federal Court of Australia case NSD858/2021, filed on 25 August 2021.

likely to provide impetus for further litigation if the applicant is successful in establishing that Santos lacked reasonable grounds for the statements about its 'net zero' roadmap in its 2020 Annual Report. Compounding the litigation risk faced by Australian reporting entities and their directors is Australia's facilitative class action regime, where disclosure breaches may result in a reporting entity becoming vulnerable to securities class actions.

This area of tension arises because, unlike a number of other jurisdictions, Australia lacks a 'safe harbour' defence for forward-looking statements made in good faith. In jurisdictions where safe harbour defences exist, it is comparatively easier for reporting entities and directors to disclose sustainability matters alongside forward-looking information on their expected impacts for the business and the business' proposed actions in response. In the context of the current regulatory regime in force in Australia, it seems likely that reporting entities and their directors would be subjected to a comparatively higher level of risk as compared to their international peers when disclosing against the ISSB Standards.

The proposed ISSB Standards also interact with existing Australian law in other ways that will need to be carefully considered by the authorities responsible for implementing them in Australia. For example, in the context of the proposed materiality threshold, there may be a narrowing of the difference between information requiring immediate disclosure under Australia's continuous disclosure regime and the broader sustainability reporting contemplated by the new regime. There are also complexities which will need to be addressed relating to whether compliance with the new standards will be mandatory under the *Corporations Act 2001* (Cth) (**Corporations Act**), whether expanding the scope of financial reporting to cover sustainability- and climate-related issues may require 'true and fair' sign-offs by directors, and whether directors' duties will adjust to reflect the heightened levels of reliance directors will need to place on technical and specialist input underpinning the proposed reporting.

---

3. Nature and regulation of periodic reporting in Australia

Schedule 1 provides an overview of key periodic reporting obligations in Australia.

Currently, periodic reporting in Australia is largely focused on a backward-looking review of the previous reporting period. Relatively few of the reporting requirements under the Corporations Act, the ASX Listing Rules and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**) are forward-looking, with a notable exception being s 299A of the Corporations Act (the operating and financial review (**OFR**) requirements).[3]

Forward-looking statements carry a higher level of disclosure risk than backward-looking statements. Under s 769C of the Corporations Act, where a person makes a representation with respect to any future matter

---

[3] Relevantly, s 299A does also include a carve-out to disclosure which allows entities to omit material that would otherwise be included relating to their business strategies, and prospects for future financial years, if it is likely to result in unreasonable prejudice to the entity or consolidated group (e.g. likely to give third parties such as competitors or suppliers a commercial advantage, resulting in a material disadvantage to the entity).

(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 *Australian Securities and Investments Commission Act 2001* (Cth) (**ASIC Act**) 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.[4]

4. 'Forward-looking' information required by proposed ISSB Standards

As currently drafted, the proposed ISSB Standards would require reporting entities to make an extensive range of forward-looking statements, which is likely to enhance disclosure risks for reporting entities and their directors. This risk is more pronounced given the disclosures contemplated are relatively novel or unusual in the Australian market.

Scope of forward-looking information to be disclosed

A non-exhaustive list of the forward-looking requirements under the ISSB Standards is set out at **Schedule 2**. At a thematic level, they require disclosures of the following:

- **Significant sustainability- and climate-related risks and opportunities.** The overarching purpose of the ISSB Standards is to require the disclosure of information about significant sustainability- or climate-related risks and opportunities to enable users of general purpose financial reporting to assess the effects of such risks and opportunities on the reporting entity's enterprise value.[5] This would require a description of any significant sustainability- and climate-related risks and opportunities that could reasonably be expected to affect the reporting entity's business model, strategy, cash flows, access to finance and cost of capital over the short-, medium- and long-term.[6]
- **Effect of those risks and opportunities on business model and value chain.** A reporting entity would be required to disclose information about its assessment of the current and anticipated effects of significant sustainability- or climate-related risks and opportunities on its business model. This would include a description of the current and anticipated effects of such risks and opportunities on its value chain, and a description of where in its value chain such risks and opportunities are concentrated.[7]
- **Effect of those risks and opportunities on strategy and decision-making.** The ISSB Standards require a reporting entity to disclose

[4] *Australian Competition and Consumer Commission v Woolworths Limited* [2019] FCA 1039, 37 [113].

[5] IFRS S1 [1], IFRS S2 [1].

[6] IFRS S1 [16], IFRS S2 [9].

[7] IFRS S1 [20], IFRS S2 [12].

information about the effects of significant sustainability- and climate-related risks and opportunities on its strategy and decision-making.[8] Compared to IFRS S1, IFRS S2 calls for more extensive forward-looking disclosures, including information about a reporting entity's transition plans, current and anticipated changes to its business model (e.g. changes in strategy and resource allocation, direct and indirect adaptation and mitigation efforts), and how these plans will be resourced.[9]

- **Effect of those risks and opportunities on financial position, financial performance and cash flows.** The ISSB Standards require a reporting entity to disclose information that enables users to understand the anticipated effects of significant sustainability or climate-related risks on its financial position, financial performance and cash flows over the short-, medium- and long-term, including how such risks and opportunities are included in its financial planning.[10] This would include, among other things, information about risks and opportunities for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities, and how the reporting entity expects its financial position and financial performance to change over time.[11]
- **Resilience.** IFRS S1 requires a reporting entity to disclose information that enables users to understand its capacity to adjust to the uncertainties arising from significant sustainability-related risks.[12] IFRS S2 sets out more extensive forward-looking disclosure requirements. Among other things, it requires a reporting entity to disclose information about the resilience of its strategy (including its business model) to climate-related changes, developments or uncertainties. Further, a reporting entity would be expected to use climate-related scenario analysis, and would be required to disclose the results of its climate resilience analysis to enable users to understand the implications of its findings for its strategy, and its capacity to adjust or adapt its strategy and business model over the short-, medium- and long-term.[13]
- **Targets.** IFRS S1 would require the disclosure of targets (which are, by definition, forward-looking) that a reporting entity has set to assess its progress towards achieving its strategic goals (including milestones or interim targets).[14] IFRS S2 would require a reporting entity to disclose its targets to mitigate or adapt to climate-related risks or maximise climate-related opportunities.[15] Compared to IFRS S1, IFRS S2 requires the disclosure of a broader range of details for each target.[16] Further, a reporting entity would need to disclose information regarding targets for its transition plan, including the

[8] IFRS S1 [21], IFRS S2 [13].

[9] IFRS S2 [13].

[10] IFRS S1 [22], IFRS S2 [14].

[11] IFRS S1 [22], IFRS S2 [14].

[12] IFRS S1 [23].

[13] IFRS S2 [15].

[14] IFRS S1 [32].

[15] IFRS S2 [20(d)].

[16] IFRS S2 [23].

amount of its emissions target to be achieved through emission reductions within its value chain, and the intended use of carbon offsets in achieving those targets.[17]

5. Challenges with respect to establishing reasonable grounds

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 relatively speculative[18] – and for that reason, likely to be questioned as not being based on reasonable grounds (and therefore misleading). This appears at odds with Australian regulators' current expectation for companies' public disclosures to be supported by clearly demonstrable reasonable grounds.[19]

An example of a matter in respect of which it is likely to be challenging (and potentially impossible) for a reporting entity to establish reasonable grounds is the required disclosure of the 'anticipated effects [of climate-related risks] over the short, medium and long term' (IFRS S2 [14]), including:

- 'how [the reporting entity] expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting its current and 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 [the reporting entity] 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)',

given the speed and breadth with which market dynamics are changing, challenges with respect to energy transition, policy uncertainty and dependence on the development of breakthrough technologies.

Additionally:

- while it has become reasonably common for companies to undertake (and publish the findings of) scenario analysis for climate impacts under different climate change scenarios, it is notable that those disclosures are typically bound by issue (i.e. climate) and do not require the reporting entity to present its granular view on anticipated outcomes (i.e. they are presented as possible scenarios rather than probabilities). The scale of analysis implied by the proposed ISSB Standards is considerably more ambitious given the broad application to sustainability-related risks and opportunities and the requirement for the estimation / prediction and disclosure of their *anticipated effects* for the reporting entity;

[17] IFRS S2 [13(b)].

[18] See e.g. IFRS S1 [79], which provides that '[a]n 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.'

[19] See e.g. ASIC Regulatory Guide 170.

- while listed companies are already required to make forward-looking statements as part of their OFR, there is neither a legal requirement nor regulator expectation for granular disclosures in relation to inherently uncertain future matters; and
- while all companies need to include uncertain matters in their financial statements (e.g. provisions, impairments and contingent liabilities), these are subject to well understood accounting principles that are generally applicable to all reporting entities and have the benefit of full external audit, while the ISSB Standards call for highly company-specific disclosures which are usually only able to be subjected to limited external assurance (e.g. of data and performance).

6. Implications of additional disclosure for reporting entities and their directors

Misleading statements and lack of safe harbour for forward-looking statements

Under s 1041H(1) of the Corporations Act, a person must not engage in conduct in relation to a financial product or a financial service that is misleading or deceptive or is likely to mislead or deceive. This prohibition applies to the making of public statements by a company, as such statements could affect the value of its shares (and would hence be 'conduct in relation to a financial product').[20] Similar prohibitions are contained in s 12DA of the ASIC Act and s 18 of the ACL.

Litigation in this area is commonplace in Australia.[21] Further, directors and other persons could become personally liable to pay compensation for statements that are found to be misleading or deceptive, as s 1041I(1) of the Corporations Act provides that a person who suffers loss or damage by a contravention of s 1041H may recover against any person who is 'involved in' the contravention.

As outlined in **Section 3** above, a person is taken to make a misleading statement about a future matter in a periodic report or other disclosure if they do not have reasonable grounds for making it. This requirement extends beyond 'good faith' disclosure and creates potential liability risks for directors in the context of the extensive forward-looking disclosure required under the proposed ISSB Standards. Even where a reporting entity and its directors consider that their forward-looking representations are supported by 'reasonable grounds', this may be challenged in court with an allegation of 'greenwashing'. For example, proceedings were recently commenced by shareholders associated with the Australasian Centre for Corporate Responsibility (**ACCR**) against Santos, in which the ACCR is alleging (among other things) that the 'net zero representations' in Santos' 2020 Annual Report were misleading, and is challenging Santos' implied representation that it had a reasonable basis for making them.

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

[20] See e.g. *Australian Securities and Investments Commission v Narain* (2008) 169 FCR 211.

[21] See e.g. *TPT Patrol Pty Ltd v Myer Holdings Ltd* [2019] FCA 1747.

statement and including a proximate cautionary statement.[22] By way of comparison:

- in the US, a safe harbour exemption may be secured through identifying a statement as forward-looking and using meaningful cautionary statements which identify important factors that could cause the actual results to differ materially from those in the forward-looking statement. The safe harbour only applies to private civil suits and does not apply to civil and criminal enforcement actions brought by the Securities and Exchange Commission or other regulatory agencies, among other specific exceptions that apply; and
- in Canada, a person or company is not liable for a misrepresentation if the document or public oral statement containing the forward-looking information contained, proximate to that information:
    - reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information; and
    - a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information.

Meanwhile, the position taken by the Australian Securities and Investments Commission (**ASIC**) is that the use of warnings and other cautionary language in respect of prospective financial information 'will not always be sufficient to prevent particular information being misleading and importantly will not, of itself, affect the requirement for there to be reasonable grounds to state the information'.[23]

Class action risk

A further source of potential risk for Australian reporting entities and officers is securities class action risk. Securities class actions are the most prevalent type of class action litigation in Australia, where the core allegations relate to asserted disclosure failures with respect to forward looking statements (such as guidance). The two primary factors contributing to the sustained growth in securities class actions in the last decade are:

- first, the procedural hurdles for commencing class actions in Australia are relevantly low, and therefore easy to meet; and
- second, an apparent surplus of capital willing to fund securities class actions, with both litigation funders and plaintiff law firms willing (and tending) to provide financial support to prosecuting securities class action claims.

Directors' duties

Directors and officers owe a duty of care, skill and diligence in relation to the performance of their duties, including with respect to the adoption and

[22] See Herbert Smith Freehills' article on the AICD's website at: https://www.aicd.com.au/board-of-directors/duties/engagement/class-actions-freehills.

[23] ASIC Regulatory Guide 170 *Prospective financial information* (April 2011) [RG 170.94].

approval of financial statements[24] and other types of reporting. Expanding the scope of financial statements to include sustainability- and climate-related matters would broaden the range of matters that directors would need to consider in order to discharge that duty.

A failure to discharge that duty may result in a civil penalty up to the greater of:

- 5,000 penalty units (currently $1.11 million); or
- three times the value of the benefit derived and detriment avoided because of the contravention (if the value can be determined by a court).

In contrast with the position in certain other comparable jurisdictions (including, notably, the US and the UK) which rely relatively heavily on private litigants to enforce directors' duties (barring egregious breaches justifying criminal prosecution), Australian directors are subject to greater exposure to enforcement proceedings, as directors' duties in Australia are principally enforced by the publicly funded ASIC.

A further source of potential liability for Australian directors is that, for any breach of a legal requirement by a *company* (such as the making of misleading or deceptive statement in public reporting), it is possible that the company's *directors* may be found to have failed to discharge their own duty of care and diligence by failing to prevent the company's breach. ASIC has pursued directors for 'stepping stone liability' in this way on a number of occasions.[25]

---

7. Additional areas of complexity with proposed ISSB Standards

There are a number of other areas of complexity for Australian directors with respect to the proposed ISSB Standards.

Status of the ISSB Standards and related sign-offs

Under the ISSB Standards, an entity is required to 'disclose information required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting'.[26] This requirement applies to both sustainability-reporting under IFRS S1 and climate-reporting under IFRS S2.[27]

While the Australian Accounting Standards Board (**AASB**) is proposing to introduce the ISSB Standards as sustainability standards, separate to the Australian Accounting Standards (i.e. not as part of the current reporting regime under which reporting entities are mandatorily required to comply), it is consulting on whether as an alternative model, sustainability-related financial reporting requirements should be developed as part of existing Australian Accounting Standards (i.e. as part of an entity's general purpose financial statements).

---

[24] *Australian Securities and Investments Commission v Healey* [2011] FCA 717 at [21].

[25] See e.g. *Australian Securities and Investment Commission v Cassimatis (No 8)* [2016] FCA 1023 (affirmed by the Full Bench of the Federal Court of Australia in 2020); *Australian Securities and Investments Commission v Vocation Limited (in liq)* [2019] FCA 807.

[26] IFRS S1 [72].

[27] Even though this requirement is located in IFRS S1, it is relevant to both IFRS S1 and IFRS S2 because both sets of standards are 'IFRS Sustainability Disclosure Standards'.

While it is unclear to us whether the AASB currently possesses the power to implement sustainability disclosure requirements via the Australian Accounting Standards, we expect that (if able to be implemented) this would result in:

- disclosure against the proposed ISSB Standards (or other relevant 'sustainability-related financial reporting requirements') becoming mandatory under s 296 and 304 of the Corporations Act; and
- directors being required to provide a 'true and fair' sign-off in respect of the sustainability- and climate-related disclosures as part of their directors' declarations under ss 297 and 305 of the Corporations Act.

Given the volume of disclosures being required under the ISSB Standards, their complexity, and the uncertainty of some of the data that would need to be disclosed (e.g. anticipated effects of significant sustainability- and climate-related risks and opportunities on financial position, financial performance and cash flows over the short-, medium- and long-term), Australian reporting entities would face considerable difficulty in putting their directors in a position where they would be able to confidently provide a 'true and fair' sign-off on the reporting.

Directors' duties and reliance on others

Another point of uncertainty at present is whether (and if so, how) the scope of directors' duties in relation to financial reporting might adjust to encompass sustainability- and climate-reporting. While there is existing case law on directors' non-delegable duties with respect to considering financial reports (encompassing both their duty of care and diligence but also their statutory obligation with respect to the approval of the financial report)[28], it remains to be seen whether Australian courts would take a similar approach towards sustainability- and climate-related reporting and extend directors' non-delegable duty to these additional areas of reporting.

Relevantly, the proposed ISSB Standards will require considerable reliance on technical and specialist advice (e.g. methodologies for calculating greenhouse gas emissions, advice on the viability of technologies). In this context, there is also likely to be an unprecedented need for directors to rely on s 189 of the Corporations Act (*Reliance on information or advice provided by others*) with respect to the basis for Board approvals of reporting.

Inconsistency with existing reporting standards

The proposed ISSB Standards use concepts which are not currently reflected in the Australian reporting regime and which would need to be clarified or adapted to facilitate relevant reporting.

Materiality

As foreshadowed in **Section 3** above, many Australian entities are currently subject to limited requirements to include forward-looking statements in the OFR section of their directors' report. A difference between the ISSB Standards and the OFR requirements is the materiality threshold for reporting. The existing OFR requirements under s 299A of the Corporations Act require the disclosure of information that

[28] E.g. *Australian Securities and Investments Commission v Healey* (2011) 196 FCR 291.

shareholders would reasonably require to make an informed assessment of the reporting entity's operations, financial position, business strategies and prospects for future financial years. With respect to the prospects for future years, in Regulatory Guide 247 at [62], ASIC provides:

> 'It is important that a discussion about future prospects is balanced. It is likely to be misleading to discuss prospects for future financial years without referring to the material business risks that could adversely affect the achievement of the financial prospects described for those years. By 'material business risks', we mean the most significant areas of uncertainty or exposure, at a whole-of-entity level, that could have an adverse impact on the achievement of the financial performance or outcomes disclosed in the OFR. Equally, it may be appropriate to disclose factors that could materially improve the financial prospects disclosed.'

Additionally, ASX Recommendation 7.4 provides that an ASX-listed entity should disclose whether it has any material exposure to environmental or social risks, and if it does, how it manages or intends to manage those risks.[29] 'Material exposure' in this context means 'a real possibility that the risk in question could materially impact the listed entity's ability to create or preserve value for security holders over the short, medium or longer term'. In practice, many listed entities would satisfy this requirement either in their OFR or in a separate sustainability report.[30]

Unlike the OFR requirement and ASX Recommendation 7.4 (which are grounded by 'impact' on the achievement of stated outcomes), the proposed ISSB Standards call for much more granular disclosure of 'material information' about 'significant sustainability-related risks and opportunities'.[31] Materiality of information is expected to be determined by reference to whether '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'.[32]

This appears more similar to the Australian test for continuous disclosure, under which information that 'would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of … securities'[33] is taken to be information that a reasonable person would expect to have a material effect on the price or value of securities (and hence needs to be immediately disclosed).

In the absence of clarification or adaption, there may be an unhelpful narrowing of the difference between materially price sensitive information requiring immediate disclosure to ASX, and information relating to entities' sustainability and climate-related risks and opportunities which – while important – is unlikely to have the same significance.

Lack of carve-out for commercially sensitive information

[29] The ASX Recommendations are not mandatory. In the event of non-compliance, a listed entity is required to explain the non-compliance (i.e. 'if not, why not').

[30] As is contemplated under Commentary to ASX Recommendation 7.4.

[31] ISSB S1 [2]. The same materiality threshold applies under ISSB S2 (see ISSB S2 [B5]).

[32] ISSB S1 [56].

[33] Corporations Act s 677(1).

The OFR requirement under s 299A allows a reporting entity to omit information from the directors' report that would otherwise need to be included under s 299A(1) if the information is likely to result in unreasonable prejudice to the reporting entity.

However, the ISSB Standards do not provide for a carve-out for any material information about significant sustainability- and climate-related risks and opportunities that would be unreasonably prejudicial to the reporting entity. This is an issue that needs to be carefully considered by Australian standard-setters in order to appropriately balance investors' interest in the disclosure of those risks and opportunities on the one hand, and the protection of reporting entities' legitimate commercial interests on the other.

Need to monitor progress and assumptions

The ISSB Standards require the disclosure of climate-related targets,[34] and in relation to those targets, reporting entities are expected to disclose their performance against them, an analysis of trends or significant changes in their performance, revisions to those targets, and explanations for such revisions.[35]

The provision of periodic progress updates against publicly announced targets is not a new concept for corporate Australia. For example, under ASX Recommendation 1.5, ASX-listed companies are required to report on their progress against gender diversity targets. However, compared to those targets, the targets mandated by the ISSB Standards (e.g. targets set to mitigate or adapt to climate-related risks or maximise climate-related opportunities) are inherently subject to more uncertainty. This would in turn require a greater level of monitoring by reporting entities to ensure that their targets remain appropriate.

A further issue is the forward-looking nature of targets. By definition, forward-looking matters are subject to uncertainty – and sustainability and climate are areas that are subject to rapid change. For Australian listed companies, this could have the (perhaps unintended) effect of turning periodic disclosure documents (which the ISSB Standards are intended to apply to) into sources of ongoing continuous disclosure obligations. This is because the ASX Listing Rules require listed entities to immediately correct or prevent a false market, which could arise where an existing announcement subsequently becomes incorrect in a material respect. Should a reporting entity become aware that an announced sustainability or climate target can no longer be met (for example, due to a change in external factors), or the assumptions underlying those targets have changed, careful consideration would need to be given to the materiality of such information and whether there may be a false market in the entity's securities.

* * *

[34] IFRS S2 [23].

[35] IFRS S1 [33].

Timothy Stutt
Partner
Herbert Smith Freehills

+61 2 9225 5794
timothy.stutt@hsf.com

Barry Wang
Senior Associate
Herbert Smith Freehills

+61 2 9225 5765
barry.wang@hsf.com

13 July 2022

Schedule 1

Overview of directors' responsibilities under current reporting regime

Core reporting obligations

Under s 292(1) of the Corporations Act, all disclosing entities, public companies, large proprietary companies and registered schemes must prepare and lodge audited annual financial reports and directors' reports. In addition, s 302 requires disclosing entities to prepare and lodge audited or reviewed half-year financial reports and directors' reports.

Financial reports

The annual and half-year financial reports are intended to provide information about an entity's financial position and performance and are required to include financial statements, notes to the financial statements and a directors' declaration about the statements and notes (ss 295, 303). They are also required to:

- comply with the Australian accounting standards and any further requirements in the *Corporations Regulations 2001* (Cth) (ss 296(1), 296(2), 304); and
- provide a true and fair view of financial position and performance (ss 297, 305).

Directors' reports

The annual and half-year directors' reports are intended to provide information about the entity's operations and activities, with the level of disclosure required depending on the specific type of reporting entity. At a high level, for listed entities, the directors' report would typically be required to include:

- 'general' information on the entity's operations and activities (s 299);
- additional 'general' information that members of the listed entity would reasonably require to make an informed assessment of the operations, financial position, and the business strategies, and prospects for future financial years, of the reporting entity (s 299A) (referred to as the OFR); and
- specific information about the entity (s 300) and, for listed entities which are companies, the remuneration of the entity's key management personnel (s 300A).

Notably, the objectives of the OFR requirements are to provide shareholders with a narrative and analysis to supplement the financial report and assist shareholders in understanding the operations, financial position, business strategies and prospects of the reporting entity. ASIC has published *Regulatory Guide 247 Effective disclosure in an operating and financial review* (August 2019) to assist companies in applying the relevant disclosure obligations underpinning the OFR.

Additional ASX requirements

Additional periodic reporting requirements are imposed on ASX listed entities under the ASX Listing Rules, and also, the ASX Recommendations, with the latter to be complied with on an 'if not, why not' basis. Those requirements are not detailed in this advice.

Directors' duties with respect to periodic reporting

Under Corporations Act s 180, directors and officers owe a duty of care, skill and diligence.[36] This reflects a similar duty that directors owe at common law.

This duty encompasses directors' ultimate responsibility for adopting and approving a reporting entity's financial statements, and would equally require directors' care, skill and diligence with respect to other types of periodic reporting as well.

In practice, a reporting entity's financial statements would have the assurance of an external audit, while any non-audited periodic disclosures would be subject to a verification process to ensure its integrity.[37] Further, directors are 'entitled to delegate to others the preparation of books and accounts and the carrying on of the day-to-day affairs of the company'.[38] However, the *Centro* case confirmed that each director is ultimately responsible for the financial statements, and that this responsibility is non-delegable.

The Corporations Act imposes a further requirement that a financial report must include a declaration by the directors as to (among other things) whether, in their opinion, the financial statements and notes are in accordance with the Corporations Act, including the requirements referred to above.[39]

[36] A director or officer must exercise their powers and discharge their duties with the care and diligence that a reasonable person would exercise if they were a director or officer of a corporation in the corporation's circumstances and occupied the office held by, and had the same responsibilities within the corporations as, the director of officer.

[37] In the case of ASX-listed entities, the verification process should be disclosed under Recommendation 4.3 of the ASX Recommendations.

[38] *Australian Securities and Investments Commission v Healey* [2011] FCA 717 ('***Centro* case**').

[39] See ss 295(4)(d), 303(4)(d).

Schedule 2

Overview of the ISSB Standards

Background to the ISSB Standards

In recent years, the number of international sustainability-related disclosure standards has grown significantly. In an effort to harmonise sustainability disclosures globally, the International Financial Reporting Standards (**IFRS**) Foundation announced in November 2021 the establishment of the ISSB as a 'sister' board to the International Accounting Standards Board (**IASB**). In the same way that the IASB is the body that creates international financial reporting standards, the ISSB is envisioned as a body that sets international sustainability- and climate-related reporting standards.

In March 2022, the ISSB published two exposure drafts of international sustainability and climate-related reporting standards:

- IFRS S1, which sets out draft standards for disclosing information that enables investors to assess the effect of significant sustainability-related risks and opportunities; and
- IFRS S2, which sets out reporting standards in relation to the identification, measurement and disclosure of an entity's significant climate-related risks and opportunities.

In a similar way that the IASB's IFRS are implemented in Australia through the AASB's Australian Accounting Standards, once the ISSB's IFRS S1 and S2 are in place, they are proposed to be implemented in Australia by the AASB with Australia-specific adjustments. AASB is currently consulting on the ISSB Standards to inform any possible future development of a separate suite of Australian sustainability reporting standards by the AASB.

Overview of forward-looking information required under the ISSB Standards

Set out below is a non-exhaustive overview of the key heads of information required under the ISSB Standards which may be forward-looking in nature.

IFRS S1
Objective
[1] The objective of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the *primary users of general purpose financial reporting* when they assess *enterprise value* and decide whether to provide resources to the entity. ... [5] Enterprise value reflects expectations of the amount, timing and certainty 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 that is provided by the entity in its financial statements and sustainability-related financial information.
[2] A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.
[6] Sustainability-related financial information is broader than information reported in the financial statements and could include information about: … (b) 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; (c) the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them; and …

Core content
[11] Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall provide disclosures about: … (b) strategy—the approach for addressing sustainability-related risks and opportunities that could affect the entity's business model and strategy over the short, medium and long term; … (d) metrics and targets—information used to assess, manage and monitor the entity's performance in relation to sustainability related risks and opportunities over time.
Strategy
[14] The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant sustainability related risks and opportunities. [15] To achieve this objective, an entity shall disclose information about: (a) the significant sustainability-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 16–19); (b) the effects of significant sustainability-related risks and opportunities on its business model and value chain (see paragraph 20); (c) the effects of significant sustainability-related risks and opportunities on its strategy and decision-making (see paragraph 21); (d) the effects of significant sustainability-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 sustainability-related risks and opportunities are included in the entity's financial planning (see paragraph 22); and (e) the resilience of its strategy (including its business model) to significant sustainability-related risks (see paragraphs 23–24).
[16] An entity shall disclose information that enables users of general purpose financial reporting to understand the significant sustainability-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose: (a) a description of significant sustainability-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; and …
[20] An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant sustainability-related risks and opportunities on its business model. Specifically, an entity shall disclose: (a) a description of the current and anticipated effects of significant sustainability-related risks and opportunities on its value chain; and (b) a description of where in its value chain significant sustainability related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).
[22] An entity shall disclose information that enables users of general purpose financial reporting to understand... the anticipated effects [of significant sustainability-related risks and opportunities on its financial position, financial performance and cash flows] … Specifically, an entity shall disclose: … (b) information about the sustainability-related risks and opportunities identified in paragraph 22(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year; (c) how it expects its financial position to change over time, given its strategy to address significant sustainability-related risks and opportunities, reflecting: (i) its current and 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); (ii) its planned sources of funding to implement its strategy; and (d) how it expects its financial performance to change over time, given its strategy to address significant sustainability-related risks and opportunities.

[23] An entity shall disclose information that enables users of general purpose financial reporting to understand its capacity to adjust to the uncertainties arising from significant sustainability-related risks.
…

Metrics and targets

[32] An entity shall disclose the targets it has set to assess progress towards achieving its strategic goals, specifying:
(a) the metric used;
(b) the period over which the target applies;
(c) the base period from which progress is measured; and
(d) any milestones or interim targets.

IFRS S2

Objective

[1] The objective of [draft] IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its exposure to significant climate related risks and opportunities, enabling users of an entity's general purpose financial reporting:
(a) to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value;
(b) 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 significant climate-related risks and opportunities; and
(c) to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.

Scope

[3] The draft Standard applies to:
(a) climate-related risks the entity is exposed to, including but not restricted to:
(i) physical risks from climate change (physical risks); and
(ii) risks associated with the transition to a lower-carbon economy (transition risks); and
(b) climate-related opportunities available to the entity.

Strategy

[8] To achieve this objective, an entity shall disclose information about:
(a) the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9–11);
(b) the effects of significant climate-related risks and opportunities on its business model and value chain (see paragraph 12);
(c) the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans (see paragraph 13);
(d) 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 (see paragraph 14); and
(e) the climate resilience of its strategy (including its business model) to significant physical risks and significant transition risks (see paragraph 15).

[9] An entity shall disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose:
(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 or long term.
…
[10] In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B).

[12] An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model. Specifically, an entity shall disclose:
(a) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and
(b) a description of where in its value chain significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).

---

[13] An entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. Specifically, an entity shall disclose:
(a) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set. This shall include:
(i) information about current and anticipated changes to its business model, including:
about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for legacy assets, including strategies to manage carbon energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets.
information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures).
information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement).
(ii) how these plans will be resourced.
(b) information regarding climate-related targets for these plans including:
…
(ii) the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain:
(iii) the intended use of *carbon offsets* in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information including:
the extent to which the targets rely on the use of carbon offsets;
whether the offsets will be subject to a third-party offset verification or certification scheme (certified carbon offset), and if so, which scheme, or schemes;
the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and
any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).

---

[14] An entity shall disclose information that enables users of general purpose financial reporting to understand... the anticipated effect [of significant climate-related risks and opportunities on its financial position, financial performance and cash flows] … Specifically, an entity shall disclose:
…
(b) information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;
(c) how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting:
(i) its current and 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);
(ii) its planned sources of funding to implement its strategy;
(d) 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, consistent with the latest international agreement on climate change; physical damage to assets from climate events; and the costs of climate adaptation or mitigation); and
...

[15] An entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall 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. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, the entity shall disclose: (a) the results of the analysis of climate resilience, which shall enable users to understand: (i) the implications, if any, of the entity's findings for its strategy, including how it would need to respond to the effects identified in paragraph 15(b)(i)(8) or 15(b)(ii)(6); … (iii) the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of: the availability of, and flexibility in, existing financial resources, including capital, to address climate-related risks, and/or to be redirected to take advantage of climate-related opportunities; the ability to redeploy, repurpose, upgrade or decommission existing assets; and the effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience.
Metrics and targets
[20] To achieve this objective, [the objective of climate-related financial disclosures on metrics and targets] an entity shall disclose: … (d) targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities.
[21] An entity shall disclose information relevant to the cross-industry metric categories of: … (b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks; (c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks; (d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities; (e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities; ...
[23] An entity shall disclose its climate-related targets. For each climate-related target, an entity shall disclose: (a) metrics used to assess progress towards reaching the target and achieving its strategic goals; (b) the specific target the entity has set for addressing climate-related risks and opportunities; (c) whether this target is an absolute target or an intensity target; (d) the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives); (e) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party; (f) whether the target was derived using a sectoral decarbonisation approach; (g) the period over which the target applies; (h) the base period from which progress is measured; and (i) any milestones or interim targets.

Submission
AASB ED 321: Comment on ISSB Draft Standards – S1 *General Requirements for Disclosure of Sustainability-related and Financial Information* and S2 *Climate-related Disclosures*

15 July 2022

Overview

The Responsible Investment Association Australasia (RIAA) thanks the Australian Accounting Standards Board (AASB) for the opportunity to comment on AASB Exposure Draft ED321, on the Australian implementation of the ISSB's [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related and Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures* (draft ISSB Standards).

RIAA strongly supports prompt, mandatory implementation of the ISSB Standards in Australia. The Standards are a natural and welcome progression from Australia's existing legal obligations for companies to manage and disclose climate risk, and the Standards build on the well-established TCFD reporting framework. Implementation of the Standards is an important opportunity for Australia to embed a world-leading regulatory environment for sustainability disclosures.

Full and effective implementation of the ISSB Standards in Australia will significantly improve the extent and accuracy of climate-related information in our markets. It will enable investors and others to more accurately gauge the risks and value of companies, and to make better-informed decisions. It will ultimately boost efforts towards improving sustainability outcomes in Australia and align reporting in Australia with international reporting frameworks. This is critical to ensuring that Australian markets remain attractive to investors and internationally viable.

While RIAA's detailed comments on the ISSB Standards will be contained in our submissions to the ISSB, we highlight the following issues for the AASB's consideration:

- In relation to both [Draft] IFRS S1 and IFRS S2, we support clarification by the ISSB of a comprehensive definition of 'materiality' that is focused on long term view and a consideration of a company's impacts and dependencies on people, the planet and the economy as an important element of both proposed Standards.
- In relation to [Draft] IFRS S2, we strongly support mandatory disclosure of scope 3 greenhouse gas (GHG) emissions. We support the specified industry-based disclosure requirements, acknowledging these may require further work to identify and address any gaps or lack of clarity.
- We will strongly support the Australian Government and regulators to do all that is required to promptly and effectively implement the ISSB Standards as baseline standards for reporting in Australia.

- The Australian Government and regulators should take a ‘building blocks’ approach to the ISSB baseline, to ensure Australia’s disclosure requirements are comprehensive, effective and represent global leadership.
- All for-profit entities should be required to report against the ISSB Standards. We refer to the Australian Sustainable Finance Institute (ASFI) Roadmap recommendations 11 and 12 in relation to the types of entities that should first report against the Standards.
- We broadly support the AASB’s proposal that the ISSB Standards be adopted as standalone in Australia, while leaving open the option for integrated sustainability and financial reporting.

Response to 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?

We detail our view on ‘materiality’ under [Draft] IFRS S1 and IFRS S2 in our submission to the ISSB. Our following comments apply to both proposed Standards.

The definition of materiality encompasses a broad view of the risks and opportunities that may affect enterprise value. This includes ‘information about a company’s impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company's enterprise value’.[1]

From an investor perspective, enterprise value encompasses the external impacts a company has on people, planet and the economy that will financially impact the company in the medium to long term. These would include external impacts that lead to consumer backlash, stranded assets, action by regulators, litigation, law reform or other potential consequences which will affect enterprise value. A long-term view of enterprise value is critical to investors as primary users of the disclosures under the proposed standards. This comprehensive interpretation of materiality on enterprise value – sometimes referred to as double materiality – is an important element of the standards that we are recommending be further clarified by the ISSB. We also commend this approach to the AASB, consistent with global leading practices.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

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)?

---

[1] ISSB, *Snapshot of Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft S2 Climate-related Disclosures*, page 3.

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?

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?

Emissions disclosure

RIAA strongly agrees that entities should disclose scope 3 GHG emissions, in line with Draft IFRS S2 and the October 2021 Annex to the TCFD Recommendations.

The ISSB Standard will become a global baseline, which will elevate the consistency, comprehensiveness and comparability of disclosures. Derogation from the global baseline, particularly on such a significant aspect, would not be in line with the intent and direction of global standards setting and would be detrimental to Australia's attractiveness to international investors and integration into international markets.

For investors, scope 3 emissions disclosures are critical in assessing the risks in a company's value chain, for example, the company's financed emissions. Scope 3 emissions can highlight where a company is vulnerable, particularly to physical risk and transition risk, and provide a clearer and more comprehensive picture of enterprise value. The requirement to disclose scope 3 emissions will align the market with the expectations of investors and their beneficiaries to be transparent about climate risks and opportunities, and, more broadly, the company's impact on people and planet.

For companies already disclosing scope 3 emissions, this requirement under [S2] will better equalise markets by bringing competitors up to leading practices. For companies not already disclosing scope 3 emissions, it will prompt better understanding of climate risks and opportunities, and their ability to manage a range of physical, transitional, regulatory, reputational and other risks.

For Australia, it will ensure our regulatory environment better aligns with international regulatory environments and places us as an attractive market for investment, including overseas investment.

We also broadly agree with the proposal to require entities to use the international standard. International consistency should be a key objective of implementing the ISSB Standards in Australia. We are not aware of any lack of alignment between the international standard and Australian requirements. Any inconsistencies should be resolved in line with the aim of global consistency.

Industry-based disclosure requirements

RIAA supports the inclusion of specified industry-based requirements in IFRS Draft S2 Appendix B, based on the SASB Standards.

The SASB Standards are increasingly used in Australia. Adopting the industry-based requirements from the international standard in Australia will improve the comparability of disclosures. However, to ensure the industry-specific standards are comprehensive and practical, the ISSB will have further work to do in field testing the standards globally, including identifying and addressing any gaps or lack of clarity.

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?

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?

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?

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?

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

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

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?

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?

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 cost.

Implementation in Australia

The standards should apply to all Australian for-profit entities. As a starting point, the ASFI Roadmap recommends that all ASX 300 companies and all financial institutions with annual consolidated revenue of over $100 million should report against the TCFD on an 'if not why not' basis by 2023 (recommendations 11 and 12). As a leading participant in the ASFI Roadmap, RIAA supports, as a minimum starting point, immediate implementation of IFRS S2 for those entities.

We understand that, if the standards are implemented in Australia on a standalone basis as proposed (that is, not within the Australian Accounting Standards) legislative change will be required to mandate compliance with the standards. We strongly support the Australian Government promptly consulting on and implementing the law reform required.

RIAA will submit to the ISSB that the standards should be effective as soon as possible after they are finalised. This will enable Australia and other countries to make the legislative and regulatory changes required at the national level to mandate the standards.

The implementation of these standards is a natural progression from the current regulatory position of regulators encouraging listed companies to report against the TCFD framework. It is also in the context of existing legal requirements to manage climate change risk and disclose climate risk which is material to a company's financial performance. RIAA will strongly support Australian regulators to promptly enact any regulatory changes additional to legislative reform that are required to fully and effectively implement the standards. The implementation of these standards is an opportunity for Australia to shift from a less-developed regulatory environment to one which represents global leadership.

Many companies, particularly larger listed companies, are currently well-placed to start complying with the standards, having committed to reporting under the TCFD framework. ASX 200 companies are rapidly committing to TCFD reporting. The Australian Council of Superannuation Investors found that in 2020, 80 companies had adopted the TCFD framework, versus just 11 companies in 2017. It is likely that majority of ASX 200 companies are now using the TCFD framework.[2] Transitional arrangements may be required for some entities, depending on entity size and industry sector.

[2] Australian Council of Superannuation Investors, *Promises, pathways & performance: Climate change disclosure in the ASX200*, August 2021, p 5.

‘Building blocks’ approach
Given the ISSB Standards are not yet finalised, if there is any change which detracts from the comprehensiveness of the current proposals (for example, the final S2 does not mandate reporting on Scope 3 GHG emissions) we will urge the Australian Government and regulators to mandate the higher standard, in addition to the ISSB framework. This would be in line with the ‘building blocks’ approach to national implementation of the ISSB baseline. Australia can mandate more practical and effective requirements which are consistent with, but go over and above, the baseline.

We also encourage the Australian Government and regulators to keep pace with future international developments in disclosure standards, and similarly use the building blocks approach to ensure Australia leads on the regulation of sustainability disclosures.

Usefulness to investors and cost benefit

The ISSB Standards, as a comprehensive global baseline for sustainability-related disclosures, should significantly improve the consistency, reliability and comparability of sustainability related disclosures.

While many companies are already reporting comprehensive sustainability-related information to markets, including in Australia, the global baseline will enable investors to better understand, compare and analyse disclosures. This will boost their understanding of investment risks and opportunities, shape investment strategies and enable investors to make more efficient and well-informed decisions. It will also enable investors to meet their beneficiaries’ increasing expectations of transparency and sustainable and net zero-aligned investment approaches.

From the perspective of reporting entities, a comprehensive global baseline would, over time, streamline reporting costs, lower transaction costs, facilitate smoother cross-border capital flows, reduce market segmentation and increase market confidence, and has the potential to improve internal understanding of risks and opportunities. It could inform more sustainable business opportunities and ventures. ‘Good’ reporting against the ISSB Standards will signal to investors that an entity is committed to improving the sustainability of its business, and is capably managing its related risks and opportunities.
There is clear value in the ISSB’s global baseline in a range of jurisdictions. For example, Aotearoa New Zealand is forging ahead on mandating climate-related disclosures, with its own standard now in development and due to commence in 2023. That process is happening in parallel with, and informed by, the ISSB Standards. Conversely, the swift implementation of the ISSB’s comprehensive global baseline in Australia will enable us, and other countries at a similar stage, to swiftly move forward with disclosures regulation and be on par with other nations. It will enable Australian regulators and companies to prepare for higher standards of disclosures going forward as standards lift internationally.

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

Separate versus integrated reporting

We broadly support the AASB’s proposed approach, as separate sustainability disclosures reported at the same time as an entity’s general purpose financial statements, with connected information (as proposed under the ISSB Standards), can be clear and practical for users.

However, integrated sustainability and financial reporting is increasingly common in corporate reporting. Given Australia is likely to follow global trends in future, we support a model which leaves open the option for companies to prepare integrated sustainability and financial reports.

Best interests of the Australian economy

In our view, while there are issues to clarify in S1, the proposals in the draft ISSB Standards are clearly in the best interests of the Australian economy.

Investors need high-quality, comprehensive, comparable information about companies to make decisions about where to direct capital to align with both financial and sustainability objectives.

Implementation of the ISSB Standards will be critical to Australian markets remaining attractive to investors. Our global trade and investment partners are bedding down climate and sustainability disclosures regimes. Those regimes will support sustainable investment and ultimately boost the power of capital to support national and global sustainability and climate change goals. Australia must engage with international regulatory efforts to remain a globally viable market.

Investment can play a key role in supporting a prosperous and sustainable future for our nation, from building infrastructure and supporting affordable housing to investing in new technologies and financing the transition to net zero emissions. A strong and effective sustainability disclosure regime is a critical element in building confident and robust markets, which will ensure Australia has a strong, stable and resilient financial system that continues to attract capital.

About RIAA and our members

RIAA champions responsible investing and a sustainable financial system in New Zealand and Australia and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy.

With approximately 500 members managing more than US$29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across New Zealand and Australia. RIAA's membership includes superannuation funds, KiwiSaver default providers, fund managers, banks, consultants, researchers, brokers, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry, across the full value chain of institutional to retail investors.

Environmental Accounting

Special Interest Section

Response to AASB Exposure Draft 321

About the EIANZ and the EA SIS

EIANZ

The Environment Institute of Australia and New Zealand (EIANZ) supports environmental practitioners, promotes independent and interdisciplinary discussion on environmental issues and advocates environmental knowledge and awareness, advancing ethical and competent environmental practice.

Overview of EA

Environmental Accounting (EA) is the practice of measuring and accounting for all the contributing factors that result in an impact to the environment.

EA is necessary to provide veracity and confidence in environmental and sustainability assertions and spans all levels of reporting – statutory and voluntary, corporate and government.

Purpose of the SIS

The EA Special Interest Section (SIS) exists to support environmental practitioners by promoting understanding and effective implementation of accounting principles to the collation, interpretation, and reporting of environmental data.

Our Vision

Be an established authority which has set and maintain standards aimed at ensuring all reporting which contains environmental data delivers reliable information.

Our Mission

Create an environmental accounting framework and a society of environmental accounting professionals to enhance and elevate the role of environmental accounting and effective environmental data management in the public and private spheres.

Commentary

The EA SIS welcomes the opportunity to respond the AASB's exposure draft and to participating in further discussions in relation to standards which incorporate areas of environmental expertise.

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1

Questions	Response
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?	While enterprise value is a universally used and well understood metric, there are some concerns around the suitability of a single materiality perspective. For an organisation to most accurately reflect its true value, there should also be consideration given to material sustainability-related risks and opportunities that it has the ability to affect.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

Questions	Response
B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?	Understanding all impacts along the value chain is the only way to fully appreciate which of these would not have occurred if the entity did not exist. It is acknowledged that there would be a significant effort required to incorporate scope 3 elements into an emissions inventory and we would suggest a phased approach for this to occur. This would allow for a higher level of assurance around data quality, estimation methodologies and emission factors over time. This could involve a threshold for initial reporting based on sectors with typically extended upstream supply chains and downstream flows.
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	Without more widespread stakeholder engagement, any proposed guidance around a different reporting standard could risk confusion, misalignment with other local reporting requirements and becoming redundant when legislative changes are made. We would recommend that the AASB use their current sustainability working groups to lobby the government to utilise it along with other industry bodies (such as the EIANZ) to ensure that legislation and

(Measurement) Determination 2008 and related guidance)?	guidance at the local and international level are aligned as much as possible with respect to current and future developments.
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?	Yes, the sectoral approach as used by SASB is pragmatic. Care will need to be taken to ensure that these Sectors align with ANZSIC classifications or can be easily mapped to them.
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?	Physical and transition climate risks around heatwaves, fire, flooding and inundation will need to be closely evaluated by Australian entities, particularly those with operations in remote locations.

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

Questions	Response
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, Scope3 GHG emissions and scientific an scenario analyses)? If so, which entities and why?	As per our response to B.1 above, a phased approach is recommended for the inclusion of scope 3 emission sources however any entity required to prepare GPFS under Part 2M of the Corporations Act should comply with the standards. Scientific scenario analysis around physical climate risks may only be required by entities with significant infrastructure or property exposure and those for whom suppliers and customers may be severely impacted by a changing climate.
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?	Political will to implement regulatory burdens on polluting entities has historically been low, however this is changing in line with the expectations of the national and international community. Stricter and faster reduction targets at a national level will flow through the broader economy.
C3. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2	There does appear to be alignment with the exposure drafts and any potential

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?	requirements, guidance, or practices notwithstanding the potential consideration of double materiality as mentioned above which has been flagged in some jurisdictions.
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?	The primary users of GPFS need information to assess the current and future financial health of the entity but also on how efficiently and effectively management are discharging their responsibilities. -Given GPFR cannot provide all the information that users may need, the additional ED reporting is in their best interests as it provides pertinent information to assist in effective decision making.
C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?	There may be deficits to overcome in terms of the knowledge base of the audit and assurance community, particularly regarding proposed inclusions highly uncertain and variable metrics such as value chain emissions, offsets, and scenario analysis of physical risks. Therefore, consultation with, and inclusion of environmental practitioners and STEM professionals more broadly will be so critical to the successful implementation and provision of opinion on these types of reports.
C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?	Reporting requirements for Australian entities should align with international timeframes.
C.7 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?	Consideration will need to be given regarding a sufficient transition period for responsible entities to ensure that robust data capture mechanisms, calculation methodologies, staff capabilities and reporting structures are put in place. Both C.6 and C.7 should be agreed to be a broader group of stakeholders to ensure cross-industry commitment and to mitigate any potential for conflict, confusion, or undue complexity.

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?	If interpreted by technical readers, the terminology within the exposure drafts can be understood, however may be difficult to comprehend for those only familiar with financial accounting requirements.
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?	There will be long-term cost savings to be realised through the implementation of this type of reporting however consideration should be given to the upfront compliance costs entities will face to either upskill or outsource the work required to facilitate these types of disclosures.

Part D: Matters for comment relating to the AASB's proposed approach

Questions	Response
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.	Our preference would be for a separate set of standards to be developed and potentially expanded on overtime as stakeholder expectations change. This would also allow for greater flexibility to administer, scope and cost the effort required to the meet the requirements. Assurance and audit considerations as highlighted above should also be taken into account. A stand-alone set of standards would mean that entities can more easily transition to compliance and require less work to revise in the future.
D2. Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?	Demonstrating an understanding of and management around climate impacts is regarded as standard practice internationally and Australian entities showing leadership in this area will encourage and attract investment as well as level the playing field for those trading globally.

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

15 July 2022

AASB Exposure Draft 321 ***Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures***

Dear Dr Kendall

Ernst & Young is pleased to comment on the above Exposure Draft (ED 321). We welcome the opportunity to contribute to the future of sustainability-related financial reporting in Australia.

We support the Australian Accounting Standards Board (the AASB) in its efforts to developing sustainability-related reporting requirements in Australia, using the proposals contained in the Exposure Drafts IFRS S1 and IFRS S2 published by the International Sustainability Standards Board (the ISSB) as a baseline.

Please refer to our detailed responses on the questions raised in the ED 321 in the appendix to this letter. To the extent the questions are covered by EY Global's comment letter to the ISSB's Exposure Drafts, we would refer you to EY Global's responses.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Li-Peng Lim on (02) 9248 5399.

Yours sincerely

Ernst + Young

Ernst & Young

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Appendix A

Responses to AASB Specific Matters for Comment

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?

On the basis that the focus of the ISSB standards is primary users of the general purpose financial reporting, we believe enterprise value is an appropriate approach when considering sustainability-related financial reporting.

Please also refer to EY Global's view in relation to enterprise value (question 2 of the ISSB Exposure Draft IFRS S1).

B1 To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

Please refer to EY Global's views in response to question 9 (f) of the ISSB Exposure Draft IFRS S2 on the proposed inclusion of Scope 3 emissions, in addition to the Scope 1 and Scope 2 GHG 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)?

Australian entities are currently required to comply with NGER Act and NGER (Measurement) Determination 2008 and related guidance for its Scope 1 and Scope 2 emissions. Under the current operational structure in Australia, entities are not provided with information (by the Australian government) in order to apply the GHGC Standard for their Scope 2 emissions. We believe therefore it would be practicable for Australian entities to continue applying these existing Australian requirements for their Scope 1 and Scope 2 emissions disclosure. Consistent with EY Global's views, additional disclosure could be made to explain why an alternative model to the GHGC standard is used and any methodology differences between the adopted model and the GHGC Standard.

However, GHGC Standard could be applied for Scope 3 emissions disclosure.

Please also refer to EY Global's views in response to question 9(c) of the ISSB Exposure Draft IFRS S2.

B3 Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors? If not, what changes do you suggest and why?

We believe the industry-based guidance is equally relevant for Australian industries and sectors.

Please also refer to EY Global's views in response to question 11 of the ISSB Exposure Draft IFRS S2 on this regard.

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?

Please refer to our response to question B2 regarding the NGER (Measurement) Determination as noted above.

Similar to the current process of adopting IFRS standards, we recommend performing a post implementation review after a reasonable implementation period to assess whether the proposed requirements are appropriate and if any additional reporting requirements are needed to meet the users need.

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 believe Australia's existing financial reporting framework should be consistently applied to sustainability related reporting. Therefore, the concept of whether for-profit entities are "publicly accountable" should drive the need for disclosure. All for-profit entities that are publicly accountable should be required to apply the proposals in the ED 321 in its entirety. The AASB may wish to consider "simplified disclosure" requirements for non-publicly accountable entities (which are preparing General Purpose Financial Statements Tier 2 under the current financial reporting framework).

Please also refer to EY Global's views in response to question 5 in ISSB Exposure Draft IFRS S1 on a similar issue.

(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?

We recommend exploring possible reliefs by taking a similar approach to the existing financial reporting framework. Please refer to our response in C1 (a) above.

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?

The only issue we are aware of is regarding the application of the GHGC Standard for Scope 2 emissions disclosure as noted in our response to question B2 above. Particularly, the residual mix factor currently determined and provided by the Australian government is not compatible with the approach required under the GHGC Standard. We are not aware of any other regulatory or other issues arising in the Australia that may affect the implementation of the proposals.

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:

Based on our observation, the proposals in the ISSB Exposure Drafts IFRS S1 and IFRS S2 are broadly aligned with the ASX Corporate Governance Principles and Recommendations (in particular Principle 7) although the ISSB proposals provide further detailed guidance on the relevant disclosures.

(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

We observe the following key differences that may arise from applying the proposals in the Exposure Drafts on IFRS S1 and IFRS S2 as compared to the existing requirements in Australia:

- the differences noted in our response to question B2 regarding the NGER (Measurement) Determination and related guidance as noted above;
- the Prudential Practice Guide CPG 229 Climate Change Financial Risks (CPG 229) issued by the Australian Prudential Regulation Authority (APRA) uses shorter and longer term as the time horizons that entities are required to consider for assessing the impacts of the climate change, whereas the ISSB Exposure Drafts IFRS S1 proposes considering short, medium and long term in assessing the potential impact.

(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

Please refer to our response to question B2 regarding the NGER (Measurement) Determination and related guidance as noted above.

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?

Please refer to views expressed in EY Global's comment letter under questions 4 of ISSB Exposure Draft IFRS S1 and question 2 of ISSB Exposure Draft IFRS S2.

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

Please refer to EY Global's views in response to question 1(d) of the ISSB Exposure Draft IFRS S1 and question 13 of ISSB Exposure Draft IFRS S2.

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

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

Although we emphasise the importance of aligning the effective date with that proposed by the ISSB, it may be appropriate to consider a phased-in approach for different types of entities. We consider Australian entities which are publicly accountable should be subject to the same effective date as the ISSB's proposed effective date; while it might be appropriate if a one-year deferral is provided to Australian non-publicly accountable entities.

Please refer to EY Global's views in response to question 13(a) of the ISSB Exposure Draft IFRS S1.

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?

Please refer to EY Global's views in response to question 14(a) of the ISSB Exposure Draft IFRS S2.

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?

Please refer to EY Global's views and suggestions provided under question 3(a) and question 17 of the ISSB Exposure Draft IFRS S2.

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?

Please refer to EY Global's views in response to questions 5 and 16 of the ISSB Exposure Draft IFRS S1, questions 4(a), 5(d), 6(a), 7(b)(iii), 7(e) and 12 of the Exposure Draft IFRS S2, where the costs and benefits of the proposals have been discussed.

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 of developing a separate suite of standards, which is consistent with the approach taken by the IASB/ ISSB and a number of overseas jurisdictions. This would provide flexibility to the AASB in developing sustainability-related financial disclosures in Australia while leaving the decision to mandate sustainability reporting to the relevant policy makers and regulators.

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

We believe the proposals in the Exposure Drafts both IFRS S1 and IFRS S2 are in the best interests of the Australian economy.

Similar to the underlying principles driving the adoption of the IFRS standards, adoption of the proposed ISSB Standards should improve the comparability and connectivity of sustainability-related financial information presented by entities, and thereby to strengthen transparency, accountability and efficiency in capital markets around the world.

Further, the ISSB and IFRS standards share a number of underlying reporting principles which the Australian entities and users are familiar with. This could potentially streamline the implementation of the sustainability reporting standards by leveraging the existing knowledge on the financial reporting principles.

We recommend that the AASB continues to contribute to the ISSB process for greater guidance that will enable improved consistency and transparency for investors' decision-making.

AASB ED 321 Request for Comment on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures
Australian Beverages Council
July 15th, 2022
Australian Beverages

In the following submission the ABCL seeks to highlight the commercial and practical issues with the standard and strongly advocates for it to **be optional and decoupled from any requirements surrounding Australian for-profit financial reporting or assessment of EV.** As an alternative, this submission proposes the standard should be an optional guideline of reporting that can be requested by venture capital firms or financial institutions to assess a business for acquisition, investment, or other financial products. The standard **should not be a publicly accessible tool (for instance for shareholders) due to the inclusion of commercially sensitive information.**

Summary of Recommendations:

1) **This reporting being scoped to for profit businesses is unreasonable** *and doesn't consider the rich tableau of small and medium businesses that make up Australia's manufacturing sector. It is apparent that this standard is geared toward corporate-level businesses*

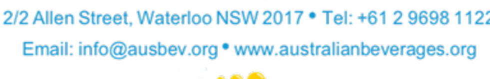
2) *This* **standard should not be applicable to businesses which fall under the ATO definition of small and medium business (under 250m revenue)**

3) *This standard should be an* **optional addition to a company's financial reporting**, *which can be requested by entities looking to acquire a business or lend financial products*

4) *This standard* **should not be used in any context where it becomes a public document** *(i.e. for shareholders) due to the proprietary nature of the metrics contained in the Appendix B disclosures*

5) *Businesses* **should not have to segregate their reporting by business type** *(ex. non-alcoholic, alcoholic and dairy) as this is* **not reflective of the current reporting environment** *and would create a significant increase in reporting burden and cost to business on top of current mandatory and voluntary reporting commitments. Additionally, this would be* **functionally impossible** *for facilities which produce products across industry segments*

6) *The proposed industry-based disclosure requirements are inconsistently applied across sectors. The ABCL recommends Australia* **considers New Zealand's proposed approach and offers all metrics as optional** *with the understanding that entities will report on all which apply to them*


Australian Beverages Council Ltd
2/2 Allen Street, Waterloo NSW 2017 • Tel: +61 2 9698 1122
Email: info@ausbev.org • www.australianbeverages.org

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?

Traditionally, a business's Enterprise Value (EV) is a financial calculation including debt and equity used to understand the value of a business in the event of an acquisition or to evaluate extending a financial product. This is a generalised financial calculation used to identify the true value of a business past what its market capitalisation can demonstrate.

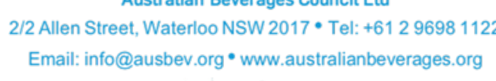
The ABCL is not principally against the theory that a wider variety of metrics can help to understand the true value of a business. However, the proposal put forth by IISB in which qualitative analysis, scenario modelling and intricate manufacturing/supply chain information contribute to this metric, is a radical rethinking of the EV concept that the ABCL does not support. Tying these types of data points into a publicly facing EV measurement without regard to the disclosure of proprietary information would be competitively damaging. In addition, the ABCL have significant concerns surrounding the ability for small and medium enterprises (SMEs) to report to this standard without significant financial and operational disruption, reducing their competitiveness against larger companies.

The ABCL strongly advocates that the standard be:

- Not integrated into standard Enterprise Value calculations for for-profit businesses
- Not integrated into any public facing financial metric
- Not required of small and medium businesses (SMEs)

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

While the ABCL recognises that scope 3 emissions often comprise the majority of emissions in business operations, measurement of such is a complex and emerging field that is not equitably accessed by business of all sizes. Mapping



Scope 3 emissions is typically undertaken by highly specialised technical staff, even further specialised if they are conforming to something as robust as the Greenhouse Gas Corporate Protocol. Without resources to dedicate to an in-house employee, consultants can cost tens, to hundreds of thousands of dollars to map the Scope 3 footprint of a business at a specific point in time.

The ABCL, in an effort to assist its small and medium members with understanding their Scope 3 emissions, has spoken with a wide range of available software solution providers throughout Australia. The ABCL has found the following in terms of what is locally available:

- Software solutions are cost prohibitive for SMEs, with the range of solutions costing $5k-60k annually for a small to medium sized business . The price increases with the number of suppliers; our quotations for larger businesses (over 500 suppliers) were all upwards of $100k per annum.
- Exclusively, all solutions that were lower in cost (<$20k annually) were start-up businesses without full functionality and minimal "runs on the board" with other companies, making a business case for our members difficult to develop.
- Many of these software solution providers did not report to the Greenhouse Gas Protocol Corporate Standard, instead choosing the simpler Global Reporting Initiative standard (which is more conducive to smaller business operations).

The infrastructure around quantifying and reporting on Scope 3 emissions is rapidly growing but still very much in its infancy. This is another example of why the ABCL has concluded that to achieve equity among businesses of all sizes, portions of the standards need to be decoupled and listed as optional. If a financial institution determines that to evaluate a specific business that they need to understand its Scope 3 emissions, then the standard should be available to guide an entity to report against this metric. In the case of a small business such as a small, single site manufacturer, it may be determined that Scope 3 does not significantly or materially contribute to the overall formula in determining the business's value.

The ABCL strongly advocates that the standard be:

- Designed so that measurement of Scope 3 emissions is optional for businesses
- Designed so that required measurements do not necessitate cost prohibitive technology solutions or highly technical staff for SMEs

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)?

Within membership of the ABCL, only four of the 70+ members are large enough to trigger NGER Act reporting, and these businesses have portfolios which stretch across additional market segments, such as food, alcoholic beverage and dairy. Approximately 90% of the ABCL's beverage manufacturing membership falls into the ATO's definition of small and medium enterprise and are too small to trigger NGER reporting. It is also important to note the very challenging economic circumstances currently confronting small businesses. In the aftermath of the peak of the pandemic, many businesses large and small face a context marked by issues like inflation, supply chain disruption and skills shortages. Additional reporting burden must be balanced against supporting these businesses continued existence in order to provide secure employment for Australian workers.

The GHGC Standard is a robust, specialised standard that only the largest of businesses adhere to. This standard is not appropriate for the current AASB scope of all for-profit businesses. To be able to report on this standard a business would need specially trained and dedicated staff, an expensive software suite (ABCL scoping found most solutions in the $40-100k annual range) or an equally expensive external consultant. There is currently no GHG Protocol standard for small businesses, and their simplified Excel tool to calculate emissions is still in Beta format and would require someone with specialised knowledge to operate. It is not appropriate in the Australian context to require for-profit businesses to conform to the GHGC standards, unless there is significant subsidisation from the Government or development of a simplified, small business focused tool. This is another example of why the ABCL believes this standard should be scoped at the very least to businesses over AUD$250m revenue.

The ABCL strongly advocates that the standard:

- Exclude SMEs if it is to incorporate use of the GHGC Standard
- Recognise that only the largest of Australian business fall under NGER reporting, making it an insufficient mechanism to argue for all for-profit businesses adhering to this standard

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?

The Disclosure Requirements

In reviewing the industry-based disclosure requirements for food and beverage sectors, the ABCL believes they are inconsistently applied and do not create an even playing field across sectors. For example:

- Non-alcoholic beverage is required to report against **Environmental & Social impacts of Ingredient Supply Chain** whereas the Agricultural sector and Meat, Poultry and Dairy are not. These sectors both utilise supply chains (and are in some cases the producers themselves) of ingredient inputs which have the propensity for major social and environmental non-conformities. If the justification for this metric is to provide transparency to the reputational risk, operational cost and ongoing resiliency of a business, surely the manufacturers of these ingredient inputs should also be reporting on these metrics?
- Similarly, food retailers, distributors and restaurants must report on their use of cage-free eggs and non-gestation crate pork, but the producers of these products do not need to declare what percentage of their outputs fall into these categories. If these are metrics that provide insight into the resiliency of a business which utilises these inputs, surely the manufacturer is also affected by this metric?
- Non-alcoholic beverages appear to be singled out for disclosure of Fleet Fuel management and percentage of renewables, whereas other sectors which manage fleets do not. Industries such as meat and poultry typically transport product (whether live or processed) in dedicated fleets owned by the company, which seemingly would also need to be disclosed under this standard.

Our above points would not apply to all companies falling under a particular sector, as there are varying degrees of vertical integration depending on company size. From the AASB stakeholder forum the ABCL attended, the ABCL understands that New Zealand will be approaching these industry-specific metrics as optional, with reporting companies being able to choose to report on which metrics apply to their operations. The ABCL strongly supports the New Zealand approach and suggest that each industry sector have an optional suite of metrics that they can choose to report to based on applicability to their operation.

Additionally, consultation with the AASB indicated that these standards would require companies to report on these metrics separately for each industry

division, i.e., differing sets of numbers for food manufacturing, non-alcoholic, alcoholic and dairy operations. It is common practice in Australia for large food and beverage businesses to report on greenhouse gas and other resource metrics as one complete operational unit not segmented by sectors as the standard is proposing. Often, products which fall under multiple industry divisions are manufactured in the same facility, making **separation of data impractical or, in some cases impossible.** Having to segment this data by sector would be an enormous additional undertaking and necessitate an entire restructuring of not only the way this data is collected and distilled, but the actual manufacturing operation itself. The ABCL therefore recommends that businesses should be allowed to report data with regard to the natural grouping of their manufacturing operations, not an arbitrary designation of what constitutes a separate industry sector.

Proprietary Information, Food Security and Confidentiality

The ABCL holds significant concerns that some information listed for disclosure by the standard represent proprietary information that if disclosed, could provide competitive advantage to other companies in their own or other sectors.

For example, the ABCL is concerned that the requirements under FB-NB-140a.2 would force companies to discuss proprietary information regarding water sources in the public domain. Locations of water sources are generally commercially sensitive and not publicly disclosed by companies that hold permits due to prospective competition and the possibility of adulteration by bad actors. The commercial stewardship of water sources in Australia is already highly regulated at the local government/council level as a minimum eg water extraction permit. In addition, members of the Australasian Bottled Water Institute (ABWI) adhere to the independently audited ABWI model code, which prescribes quality and environmental controls above and beyond what is required through national standards.

The ABCL also hold concerns for FB-NB-440a.2, which requires companies to list priority ingredients which could be highly commercially sensitive and subject to various trademarks and copyrights. The ABCL supports this information being

The ABCL strongly advocates that the standard:

- Allow for all Appendix B metrics to be deemed optional in line with New Zealand's proposed approach
- Allow for reporting of metrics across multiple market segments in line with manufacturing realities
- Re-evaluate if required information is a competitive or food security risk if made public

disclosed under NDA if deemed necessary between the reporting entity and the engaged financial institution, but not as publicly accessible information.

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

The ABCL strongly supports the proposition that this proposal is unmanageable for small or medium businesses (as defined by the ATO) to undertake without significant operational and cashflow disruption. For many of our members measuring, analysing, communicating and reducing metrics such as GHG output and resource usage is a new concept that they are just beginning to understand, let alone implement comprehensively across their business. This is explicitly why the ABCL is in development of a program for members which begins to educate them on executing these processes. It is an unrealistic expectation of small and medium business to adopt this standard without a comprehensive, government backed training program and a multi-year runway.

The ABCL believes this standard be designed so that a provider of a financial product or institutional investor can request from an entity in the normal due-diligence process, but only if that business has reported revenues over $250 million annually. Due to the confidentiality concerns outlined above, the ABCL does not believe this standard should be public facing unless voluntarily released by the business.

(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?

Due to the often-ambiguous nature of international supply chains and the difficulty achieving end-to-end traceability, entities should be given leeway to map their Scope 3 emissions and provide a baseline measurement. In lieu of a complete measurement, the entity would disclose their progress towards completion and provide interim measurements as is relevant.

As the ABCL believes this standard should not be applicable to any businesses under $250 million in revenue, the ABCL is agreeable to scientific and scenario analysis for larger businesses.

The ABCL strongly advocates that the standard:

- Not be applicable to small and medium business (under $250m revenue)
- Should be an optional standard requested by an investor or financial institution if deemed appropriate to assess extending a business product
- Should give extended timeframes to establish, map and report on Scope 3 emissions

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?

The ABCL believes that this information could be useful to institutional investors or providers of financial products, but in some cases would be unnecessary to evaluate the financing being sought. The ABCL recommends this should be an optional standard that companies could report, based on the requirements of the institution they are interacting with. For example, a venture capital firm with an ESG lens could require that this standard must be reported against to seek funding from them.

Again, due to the proprietary and competitively sensitive information sought throughout the standards, the ABCL does not believe this information should be required to be in the public domain for any reason. It is rapidly becoming standard practice for publicly listed companies to produce sustainability and ESG reports for shareholders against standards such as Global Reporting Initiative (GRI) or Science Based Targets Initiative (SBTI). As shareholders increasingly request this information, companies which do not make certain information publicly available will not be able to attract shareholder investment. It should instead be optionally released in annual or ESG reporting.

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

The ABCL believes that businesses, especially ones who needed to segment their data by industry sector, would need significant time to install processes to report on this standard. The ABCL cautions against installing this standard less than three years after it is released or required.

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?

The ABCL recommends the effective dates should be structured in reverse, with the IFRS S2 draft being adopted at a later date from IFRS S1. IFRS S2 involves detailed GHG measurement, scenario analysis and carbon abatement modelling which involves extensive work to map across an entire organisation. The ABCL believes IFRS S2 will be more difficult to measure and analyse and therefore should be made effective at a later date to IFRS S1.

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 above comments on cost only accounted for software to map and calculate measurements on Scope 3 GHG emissions. A beverage business would need multiple specialised technical staff or to employ third party consultants to map, analyse and report the detail contained in the standard. The ABCL estimates the costs to establish and report on this standard would cost a small business at least$ 100,000 in labour or consultancy costs and $100,000 in software annually. As the size of the business increased, this would grow exponentially as many consultants and software packages are priced based on business size. For a high volume, low margin industry subject to numerous supply chain and operational pressures, if made mandatory this would absolutely increase the cost of beverages to the consumer and, in current conditions, could lead to business insolvency.

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.7

The ABCL strongly supports these standards being de-coupled from any reporting requirement that applies generally to for-profit businesses. As stated

above, the ABCL views the proposed standard as an optional corporate standard and do not believe it should be applicable to businesses which fall under the ATO's definition of a small or medium business.

Woodside Energy Group Ltd
ACN 004 898 962
Mia Yellagonga
11 Mount Street
Perth WA 6000
Australia
T: +61 8 9348 4000
www.woodside.com

Attn: International Financial Reporting Standards (IFRS) Foundation / International Sustainability Standards Board (ISSB).

Sent via email: commentletters@ifrs.org

WOODSIDE RESPONSE TO ISSB CONSULTATION

Woodside welcomes the ISSB consultation process and the intent to produce globally applicable sustainability reporting standards. We believe that, if properly implemented, there is the potential that both reporters and users of reports will benefit from harmonisation of standards and a common understanding of the key concepts, terms and the purposes for which disclosures can be relied upon.

In addition to this response, as a member company of the International Petroleum Industry Environmental Conservation Association (IPIECA) we also draw your attention to their submission.

We would like to raise the following feedback on the draft standards for consideration.

Time to develop the standards. We note that the draft standards will apply across a diverse range of industries and cover complex and material data sets and information. Given this, we believe necessary time should be given to ensure an appropriate level of consolidation and alignment between existing and proposed relevant international and domestic reporting standards.

Time to implement the standards. It is important that following the finalisation of the standards, a reasonable implementation period of at least three years is provided. This timing will allow for the relevant planning, approvals and release of additional expenditure required to address the reporting requirements. This will also allow reporters the time to establish the necessary "basis of preparation" for the gathering of data. This timing should also consider relevant phasing of assurance requirements, in particular the capacity of the assurance / audit industry to respond. We also suggest that the ISSB consider the establishment of a mandatory review of the standards, following an initial three-to-five-year period, to ensure they are generating the intended outcomes.

Accurate description of data. Due consideration should also be given to data sets that are difficult to assure, audit and evidence (for example the measurement of Scope 3 emissions data in the instance where we sell an oil shipment to a trader and do not have line of sight to the end use), noting such information may be calculated from assumptions rather than directly measured. The nature of these disclosures should be made clear to users so they can calibrate their use of the data accordingly and are able to give appropriate weighting to certain data points. Consideration should be given to establishing an appropriate level of flexibility regarding the provision of information / data (e.g., estimates or averages may be utilised where data sets are not available).

Consolidation of multiple standards and frameworks. We note that entities subject to the new standards may also remain subject to separate / unchanged reporting requirements in various international jurisdictions. Also, they may voluntarily report in accordance with existing sustainability related frameworks. We further note that Environmental, Social and Governance (ESG) rating indices continue to look to broader sustainability reporting frameworks (GRI, SASB, TCFD etc.) for assessment of entities, this should also be considered in the application of the new standards.

For example, Woodside's 2021 Sustainable Development Report was prepared in accordance with the Global Reporting Initiative (GRI) Standards core option and with reference to the IPIECA, American Petroleum Institute (API) and International Association of Oil and Gas Producers (IOGP) (4th edition 2020) Sustainability Reporting Guidance for the oil and gas industry. Woodside's 2021 Climate Report was structured to align with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations framework and provide a balance of disclosures that reasonably meet the recommendations of the TCFD while avoiding overwhelming users with information. The 2021 Climate Report was also prepared with reference to selected relevant metrics from the Sustainable Accounting Standards Board (SASB) Oil and Gas Exploration and Production Standard. Woodside is a supporter of the TCFD.

We welcome the alignment of the proposed standards with TCFD and recommend a continued focus in this regard as the standards progress. We note however that the list of defined terms in the proposed standards is more limited than in the *Climate Related Disclosures Prototype. Appendix A.* published by the IFRS in November 2021. Whilst there may be a range of views, we believe that the definitions provided in the Prototype were useful.

In summary, we would like to reinforce that further consolidation work is required from a holistic perspective with regards to TCFD and SASB, as well as the consideration of broader sustainability frameworks including GRI, CDSB, VRF and other voluntary standards. The benefits of the ISSB's proposed standards will be eroded if reporters continue to be required (voluntarily or otherwise) to report to multiple standards.

We remain available to discuss our response and encourage the ongoing consultation process required to finalise the standards.

Yours faithfully

Graham Tiver
Executive Vice President / Chief Financial Officer

Tony Cudmore
Senior Vice President Strategy and Climate

Copy:

- Australian Accounting Standards Board.

15 July 2022

Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne, VIC 3000
Australia

By email to standard@aasb.gov.au

Dear Sir or Madam

Thank you for the opportunity to provide feedback on *ED 321 Request for Comment on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures*, and especially to Siobhan Hammond and her team for facilitating a meeting on 7th July. Please find below the key areas for consideration raised at the meeting as well as some additional comments mapped to the questions raised in ED 321.

#	Question	Response
A1.	Exposure Draft on [Draft] IFRS S1 is proposing that entities be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. Is focusing on an entity's enterprise value the most appropriate approach when considering sustainability-related financial reporting? If not, what approach do you suggest and why?	The move of the AASB into sustainability reporting is a good one given the critical importance of sustainability issues not only to current stakeholders but also to future generations. Much academic research has shown that corporate reporting under a voluntary disclosure regime has been incomplete at best and deliberately misleading at worst. An important philosophical point, however, is that the recognition that the topics of accounting should expand beyond the reporting of financial transactions should be accompanied by the equally important realisation that the audience of accounting information should move beyond investors. The claim that accountants should report to communities rather than just investors is not a radical one, but rather a position which clearly follows from the ethical framework which underpins the accounting profession. The IFAC *Code of Ethics for Professional Accountants* and its equivalents around the world (including APES 110 in Australia) states that the primary mission of accountants is not to serve the investment community alone, but rather to serve the public interest.

#	Question	Response
		There is significant tension between the espoused public interest orientation of the accounting profession and promulgating a set of sustainability accountings standards explicitly focused on the needs of investors, especially given the fact that the very reason sustainability issues are important is because of their impact on the public. As noted above, suggesting that voluntary standards such as the GRI will meet the needs of the wider community ignores a wealth of evidence to the contrary. Consequently, the AASB should not limit itself to the creation of sustainability standards that meet the needs of the investment community but also engage in creating standards that provides the additional information required by wider stakeholders. It is only by adopting this expanded perspective that the stated aim of the accounting profession to serve the public interest will be achieved.
A1.	As above.	A key consideration is how materiality will be determined. In GRI standards, for example, identification of material items requires stakeholder consultation, which is a notable departure from conventional approaches to financial accounting. Providing further requirements and guidance to identify issues that relate to 'value' from the perspective of primary users would be an important addition to the standard.
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)?	Yes, and the individual greenhouses gases should be disclosed. This is because the science of the appropriate 'exchange rates' to convert GHGs to their carbon equivalents continues to evolve and also depends on the time horizon selected, i.e. decay rates are different over a 20-year period then a 100-year period. Analysts may therefore wish to apply their own rates to the underlying data.

#	Question	Response
B2.	As above	It should be noted, however, that most current GHG reporting are based on estimations rather than direct measurement. The guidance provided for many of these estimations is industry-specific and many are sourced from overseas (particularly the US). Consequently the quality is mixed. Therefore as industry-specific reporting is considered (see the comments below regarding question B3) it would be appropriate to simultaneously review the permitted estimation methods for that industry.
B2.	As above	There are also areas in which the required disclosures could be improved, most notably: - Further details regarding the internal carbon price used, including what the price is; the consistency of this price and what decision-making the price informs; - An explicit requirement that firms disclose the extent to which they are benchmarking themselves in relation to best practice; - Disclosures in relation to opportunities as well as risks; - Remuneration disclosures expanded to executives as well as the Board;
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?	Industry-based disclosures are a good idea in order to promote both understandability and comparability of reporting. Given the significance and complexity of these disclosures, however, a better approach would be to introduce these disclosures more gradually in order to allow for appropriate consultation and dialogue.

#	Question	Response
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?	A key risk area that is Australian-specific is water. It is well established that a consequence of climate change is increased variability in the location and amount of rainfall and this has already been evident in Australia. Whilst not all Australian companies have exposure to water risk, this is particularly the case for agriculture, mining and some consumer goods companies. The updated water accounting standard GRI 303 *Water and Effluents 2018* now requires more significant disclosures by companies with material operations in water-scare regions and these disclosures would be useful to incorporate into mandatory Australian climate-related disclosures.
B4.	As above	It would be useful to also include a requirement for companies to disclosure the nature and location of other climate-related (or sustainability) reporting that they undertake. There have been instances in the past where entities have significant reporting obligations at the site-level (e.g. for mines) but these are not mentioned within annual reports or even corporate sustainability reports. Investors are obviously interested in deriving a complete picture of the operations of the firm and therefore highlighting other disclosures made by the entity would be helpful.
D1.	Do you agree with the AASB's proposed approach to developing sustainability financial related 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.	The concern with developing sustainability as a separate set of standards is that this may signal them as having lesser importance than existing standards, both from a legal and cultural perspective. Given that they are accounting standards there seems no reason to treat them differently to existing standards and these disclosures included as part of general-purpose financial statements, with commensurate fiduciary and assurance obligations.
D2.	Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?	Absolutely. It is critical that climate-related exposures are fully understood by the investment community in order to facilitate the optimum allocation of capital.

Once again thank you for the opportunity to comment on the ED 321 and I am more than happy to further discuss any of the above at your convenience.

Yours Sincerely

Dr James Hazelton, CA
Associate Professor
Department of Accounting and Corporate Governance
Macquarie University

james.hazelton@mq.edu.au

15 July 2022

Australian Accounting Standards Board

Level 20, 500 Collins Street
Melbourne, VIC 3000
Australia

Via email: standards@aasb.gov.au

Dear review team,

RE: International Sustainability Standards Board – Exposure Drafts

The Property Council of Australia and the Green Building Council of Australia (GBCA) welcome the opportunity to provide comments on the International Sustainability Standards Board (ISSB)'s Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 on sustainability-related financial reporting.

About us

The Property Council of Australia is the leading advocate for Australia's largest industry – property. Our industry represents 13% of Australia's GDP, employs 1.4 million Australians (more than mining and manufacturing combined) and generates $72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major built environment asset classes.

The GBCA is the nation's authority on sustainable buildings and communities. The GBCA's mission is to accelerate the transformation of Australia's built environment into one that is healthy, liveable, productive, resilient and sustainable. The GBCA works with industry and government to encourage policies and programs that support its mission and operates Australia's only national, voluntary, holistic rating system for sustainable buildings and communities – Green Star.

Australia's property industry leaders are world leaders in sustainability. They have a demonstrated commitment to ESG, topping indices like the Global Real Estate Sustainability Benchmark and the Dow Jones Sustainability Index for eleven consecutive years. Most of our leading members have net zero goals by 2030 or before, with several having reached it already. Our members have a long-term stake in helping our capital and regional cities thrive and want to see decisive action on climate mitigation and adaptation to avoid the worst projected impacts of climate change.

The Australian property industry has also shown global leadership on social sustainability initiatives, including gender diversity through the Property Champions of Change and the establishment of world first industry-wide online supplier platforms to tackle modern slavery and measure social impact in property operations and supply chains.

General comment

In principle, the Property Council and GBCA support a global approach to the development of sustainability disclosure standards and we are supportive of the ISSB being the global body to issue these standards.

The overarching goal should be a globally consistent, comparable, reliable, and assurable corporate reporting system 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 by aligning key concepts, terminologies, and metrics on which disclosure requirements are built. The current fragmentation of regulation and standard-setting is adding confusion, complexity and costs for both respondents and users of sustainability reporting – detracting attention away from the important actions that need to be taken to meet ESG commitments.

We note there are challenges in establishing a global baseline and offer comments below on suggested approaches or changes within the draft exposure drafts.

In our December 2022 submission to the initial consultation paper, we recommended engaging with existing sustainability frameworks and welcome the collaborative work of the ISSB to date.

Key priorities

We have included a detailed submission addressing the AASB's and ISSB's targeted questions at **Attachment A** for your referral.

The Property Council and GBCA's key priorities in relation to the AASB's consultation on the [Draft] IFRS S1 and S2 standards are the following:

1- **The need for further consultation prior to local implementation.** While we are supportive of the objectives laid out in the [Draft] IFRS S1 and S2 standards, further consultation is needed prior to their implementation in Australia.

   Areas for further discussion will include the approach to adopting the standards, the coverage of captured entities, transition phases and governance arrangements.

   a. *Adopting the standards* – Australia supports moving towards a single set of high-quality global accounting standards delivered through IFRS. This does not currently apply to sustainability related standards. Further consultation will be required to assess the regulatory impact of adopting the ISSB standards and consider the legislative framework that would enable them.

   b. *Coverage* – Some small and medium enterprises may have concerns regarding the costs of fully complying with AASB Standards as they may not have the resources or expertise to respond effectively. Consideration should be given to a staged approach or carve-outs from any potential mandatory reporting requirements. Additionally, while it is not directly in the remit of the AASB, we encourage it to engage with the regulators to ensure that the reporting is not restricted to publicly traded entities alone. Failure to do this will narrow the application of the standards and reduce their effectiveness in disclosing ESG credentials to investors.

   c. *Transition phase* – Reporting against the IFRS S1 and S2 standards will have a material impact on resourcing and expertise for captured entities and assurance service providers. Establishing adequate resourcing and upskilling staff to respond to the requirements of the standards will take time. For this reason, we recommend the standards applying no earlier than reporting periods commencing **24 months** after their final publication by the ISSB. During this transition phase the AASB should also commit to an education and awareness program including guidance material and training for reporting entities and assurance service providers.

   d. *Governing body* – Initial feedback from the AASB appears to indicate that the [Draft] IFRS S1 and S2 standards as well as any future ISSB standards will be implemented through existing frameworks. The Property Council suggests establishing a new body to mirror the ISSB arrangement. This body should be equipped with adequate resourcing and subject matter expertise to administer sustainability-related accounting standards.

2- **Managing legal risks of disclosures and market sensitive information.** The anticipated effects of current and committed investment plans on a reporting entity's financial position should be made in line with current requirements, not sooner (e.g. major acquisitions, joint ventures, new business areas

and asset retirement). They are market sensitive and there are legal risks associated with their disclosures. Further, the standards should not request the disclosure of market sensitive information, such as how any item will be funded/resourced, including addressing climate resilience.

3- **Risks associated with uncertain disclosures**. In the domestic implementation of the ISSB standards, the local legal context must be considered. We suggest clear guidance from domestic regulators, and if necessary regulatory support, may be needed to ensure that entities can make the forward-looking statements required by the ISSB standards. Noting this, it will be important that liability risks do not undermine comprehensive and good faith implementation of the ISSB standards and appropriate accountability for disclosure. We propose the implementation of "safe harbour" provisions to allow entities to disclose predictions with high levels of uncertainty while reducing the risk of litigation.

4- **Quantification and estimation of uncertainty over time**. While there is merit in seeking to align financial predictions with the expected impacts of climate change, they operate on different timescales. While we are already experiencing the impacts of climate change today, many of the worst impacts are expected to manifest decades into the future. By contrast financial modelling tends to operate no more than 1-2 years ahead. This is due to the significant uncertainty that longer term predictions entail. For this reason, we encourage the ISSB to consider the approach laid out in the TCFD's Guidance on Metrics, Targets, and Transition Plans (2021). Figure D2 illustrates an alignment between the accuracy of financial projections and the number of years ahead.

5- **Alignment to existing accounting principles.** We support a separate suite of standards. However, the principles behind the accounting standards should be applied to the Sustainability-related and climate-related standards. One key principle where difference has been observed is conservatism. Under the accounting standards the threshold for recognising revenue is higher than recognition of liabilities. We anticipate users of these general purpose financial statements would inherently expect alignment. As such, we believe that recognition and disclosure of "opportunities" and "risk should adopt a similar approach. More clarity should be provided on this matter.

6- **A flexible approach to disclosing Scope 3 emissions**. While there is broad support to measure and disclose Scope 3 emissions in the property sector, data is not readily available across the range of Scope 3 emission sources. A combination of technical and legislative barriers stands in the way of full disclosure. For instance, there is currently no established and commonly accepted methodology to measure embodied carbon in building projects and lifecycle analyses can produce significantly divergent outcomes. Tenancy laws also currently prevent building owners from accessing and reporting on tenancy energy usage and associated emissions. The consistent and robust measurement of scope 3 emissions is an enormous challenge across the economy, not just in the property sector. While we expect data availability and calculation methodologies of Scope 3 emissions to improve over time, a flexible approach will be needed while industry builds its reporting capabilities.

The Property Council and GBCA look forward to further engagement on this important issue to ensure the sustainability achievements and competitiveness of our property market is recognised on a global scale. Please reach out to Tim Wheeler, National Policy Manager – Sustainability and Regulatory Affairs at TWheeler@propertycouncil.com.au should you wish to discuss this submission in further detail.

Sincerely,

Ken Morrison	**Davina Rooney**
Chief Executive Property Council of Australia	Chief Executive Officer Green Building Council of Australia

AASB Exposure Draft – Australian specific questions

https://aasb.gov.au/admin/file/content105/c9/ACCED321-04-21.pdf

Question	Property Council and GBCA response
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?	• As noted further in our response to Q2, we recommend a detailed consultation process to be undertaken by the Federal Government in relation to adoption of the ISSB in Australia, and this consultation should include the scope of entities that may be required to apply the standards. • We agree that the focus on all for-profit entities is appropriate. These standards should apply to both regulated & unregulated and private & publicly-listed entities. • Should the standards be made mandatory in Australia, consideration should be given to a staged approach or carve-outs for some small or medium sized enterprises (SMEs) that may not be prepared or have the capacity to report. • Guidance will be required for stapled security structures (including those with international entities). We suggest they report on a consolidated position rather than for each entity at the top of the group on the basis that investors may only invest in them as one. This would mean that each of the individual entities (or sub-trusts) would not be required to produce a separate report. It would be helpful if the AASB and the ISSB could facilitate multilateral agreements that would mean that the local statutory filings of a member of the stapled group could comply using the global consolidated report. Similarly, this would have application for local subsidiaries of multinational companies reporting in Australia. If such stapled entities or foreign subsidiaries could be classed as “private” entities and captured within the required reporting group, this would enable clarity to the market. • Guidance will also be required to clarify the relationship between a unit trust and the manager. The unit trust is a flow through entity with no employees and holding inert assets (property) so in its own right, it will not be able to influence outcomes. The manager (Responsible Entity), its Board

	and investors (depending on the governance) can influence the outcomes. Therefore, the report should enable their producer to determine the basis of reporting to suit their circumstances. Practice notes to describe the various acceptable forms would help make this clear and avoid the potential for double-counting.
Q2. 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?	● If the standards are to become mandatory in Australia, legislative changes will be required to mandate their implementation. ● We recommend a detailed consultation process to be undertaken by the Federal Government that would consider all the regulatory changes required (e.g. Corporations Act), lead time to ensure the market has the required capabilities, transitional arrangements that may be required for different entities (e.g. SMEs) as well as the appropriate governing body to be responsible for the Australian-equivalent of the ISSB standards (e.g. AASB). The implications for ASIC, ASX, APRA and ACCC should also be considered as part of this consultation. ● Required capabilities - if disclosure is mandated but does not form part of the Financial Statements, there is likely to be a gap in audit coverage that industry would need to address. Recommend alignment or phased implementation until such alignment exists. ● Governing body - Questions remain around who will be responsible for the implementation of ISSB – potential sister board model is required in the Australian context that mirrors the IASB / ISSB relationship. ● The AASB's existing structure is not well suited to implement sustainability standards – we urge the AASB to establish a separate body with relevant expertise and coverage of sectors (to mirror the IASB and the ISSB). ● We understand that, at this time, the Financial Reporting Council (FRC), the Auditing and Assurance Standards Board (AUASB), and the AASB (the Boards) are not planning to establish a new body that would specialise in developing sustainability reporting standards. We believe a key part of defining a long-term strategy would include consultation with stakeholders on the best structure.

	● The body responsible for providing Australian specific interpretation of the ISSB standards may take the form of a sub-committee under the AASB, or a sister body to AASB – mirroring the relationship between the International Accounting Standards Board (IASB) and ISSB. It is important that stakeholders contribute to a consultation on this matter. We acknowledge the Boards intend to recruit in-house technical expertise; however, consideration needs to be given to establish a specific body responsible for standards related to sustainability reporting. This body could include appropriate ESG specialists, as sustainability reporting differs from financial reporting, and sector specialists (such as real estate).
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? 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?	● We understand there is broad alignment of S2 with: ○ ASIC Regulatory Guide 247 ○ ASX Corporate governance principles and recommendations ○ ASX Continuous Disclosure ● S1 would be new to Australia. ● Clarification will be required for stapled entities (including those with international operations). Will reporting in aggregate be permissible? And if reporting is undertaken in aggregate and any one jurisdiction is found to meet the requirements of the ISSB standards, can this be applied to all aggregated jurisdictions? Can the flexibility to report in aggregate or on an equity basis be retained?
C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?	● We urge the AASB to conduct further consultation once the Draft Standards are finalised and prior to making them effective in Australia (see response to Q2). ● The Property Council and GBCA recommend the standards applying no earlier than reporting periods commencing **24 months** following the publication of the final ISSB standards. This is necessary to provide the AASB and other professional bodies with sufficient time to roll out necessary education and awareness programs, including guidance materials for reporting entities and assurance service providers.

	● The implementation date should relate to the commencement of the reporting period rather than the due date for reporting (noting a staged approach may be required for SMEs)
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.	● Yes, we support a separate suite of standards. However, the principles behind the accounting standards should be applied to the Sustainability-related and climate-related standards. One key principle where difference has been observed is conservatism. Under the accounting standards the threshold for recognising revenue is higher than recognition of liabilities. We anticipate users of these general-purpose financial statements would inherently expect alignment. As such, we believe that recognition and disclosure of "opportunities" and "risk" should adopt a similar approach. More clarity should be given to this matter. ● We support sustainability related disclosures forming part of an entity's general purpose financial statements.
D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?	● Yes. To remain globally competitive as an investment destination, Australian corporate reporting will need to – at a minimum – meet the global baseline. ● It is important that it has wide coverage otherwise it will undermine effectiveness and may result in an inefficient allocation of resources.
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?	● N/A

ISSB ED S1 – sustainability related financial disclosures

Document link: ISSB Exposure Draft S1 general requirements for disclosure of sustainability related financial information

<table>
<tr><th>Question</th><th>Property Council and GBCA response</th></tr>
<tr><td>Overall approach[1]</td><td></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?
b) Do you agree that the proposed requirements set out in the ED meet its proposed objective (para 1)? Why/why not?
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?
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?[2]</td><td>● The exposure draft refers to existing standards and frameworks to address areas that are not currently covered by IFRS sustainability disclosure standards. This approach is supported by the Property Council and GBCA.
● By focusing on materiality, entities are able to report on all their sustainability-related risks and opportunities under the Standards.
● The building blocks approach is suitable. Putting investor requirements as the foundation for reporting is appropriate. It is important to cater to the needs of broader stakeholders by referring to existing frameworks such as GRI.
● There will be instances whereby auditing and assurance will become difficult or even impossible. In particular, issues will occur whereby a material element is detected but it is very difficult to measure and/or attribute a value due to a lack of standards or available information.</td></tr>
</table>

[1] *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?*

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

Objective[3]	
Document reference: ED Para1-7, Appendix A	
PREAMBLE: The ED 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. **Q2.** a) Is the proposed objective of disclosing sustainability-related financial information clear? Why/why not? b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why/why not? If not, do you have any suggestions for improving the definition to make it clearer?	● The standards lack a definition for the words 'sustainability', 'climate' and associated terms. These should be included directly within the text of the standards, or as a reference to an existing definition. ● The objective of disclosing 'sustainability-related financial information' is clear and actionable by respondents. ● *"Disclosures about sustainability-related risks and opportunities that are <u>useful</u> to users of general purpose financial reporting when they assess an entity's enterprise value, including information about its governance, strategy and risk management, and related metrics and targets."* ○ We suggest the term 'useful' be replaced with 'relevant'. ● We note the requirement to '*disclose material information about all of the <u>significant</u> sustainability-related risks and opportunities*'. ● We provide feedback on 'materiality' in our submission, we note that the term 'significant' is less well understood. We recommend consideration be given to providing greater clarity between significant and material in [DRAFT] IFRS S1. ● A distinction should be made between information that can be reliably measured and disclosed and information that cannot be easily measured due to a lack of standardisation or available information.
Scope	
Document reference: ED Para 8-9	
Q3 Do you agree that the proposals in the ED could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's	● We support a standard that establishes a global baseline that aligns with any jurisdiction's GAAP.

[3] *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?*

GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?	
Core Content	
Document reference: 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? b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why/why not?	● Yes, we support alignment with the TCFD structure. ● Suggest consistency in terminology – i.e. replace 'significant' with 'material'. ● Paragraph 22(b) states "*An entity shall disclose information about the sustainability-related risks and opportunities identified in paragraph 22(a) for which there is a significant risk that there will a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year*". We propose changing "for which there is a significant risk" to "where it is expected that" to align to ASX Listing rule 3.1 on Continuous Disclosure to avoid creating two points in time where disclosure is required. ● Paragraph 22(c) requires the disclosure of expected changes in financial position including major acquisitions and divestments as well as planned sources of funding to implement its strategy. It is inappropriate to forecast expected impacts as well as disclose planned acquisitions and divestments and how they will be funded. It could both create legal risk as well as being market sensitive information. We would propose removing sub-sections 22(c)(i) and (ii) and leaving the 22c as a broad statement.
Reporting entity	
Document reference: ED Para 37-41	

PREAMBLE: The ED also proposes that an entity disclose the financial statements to which sustainability-related financial disclosures relate. **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? b) Is the requirement to disclosure 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? c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?	• Agree, this should be the same as financial information. • Recommend including a requirement for entities to disclose/reconcile if specific metrics are calculated on a different 'entity' basis.
Connected information	
Document references: 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? 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 need for connectivity between sustainability risks and opportunities is clear. • The ISSB should consider forming an agreement with sustainability reporting standards (such as the GRI, the Principles for Responsible Banking, the Principles for Responsible Investing) that where elements of the sustainability standard (e.g.: GRI standard) are reported under the ISSB framework that those elements do not need to be reported again under the extended external reporting (e.g., the GRI report). • The ISSB could consider adding provisions allowing insurance data to be used as evidence for the financial impact of climate risks. Insurance cost is a good proxy for measure of impact.
Fair presentation	
Document reference: ED para 45-55	

Q7 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? 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? c) Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the ED.	• Paragraph 51 lists several reference documents that provide additional context for reporting entities and will form part of reporting in an informed way. While we understand the need for including this additional context, we note that will make assurance more difficult.
Materiality	
Document reference: ED Para 56-62	
Q8 a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why/why not? 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/why not? c) Is the ED and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why/why not? If not, what additional guidance is needed and why? d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information? Why/why not? If not, why?	• Paragraph 58 notes that materiality will be entity specific. We consider it important to clarify that it will also be specific to the particular sustainability matter. Wording should be updated to reflect this.
Frequency of reporting	

Document reference: ED 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?	• There may be resourcing issues within smaller reporting entities seeking to deliver general purpose financial reporting and sustainability related financial reporting at the same time. It would be appropriate to stagger the delivery of these reporting requirements to avoid overloading smaller reporting teams. • Clarification is sought on whether comparatives include prior year projections vs current year.
Location of information	
Document reference: ED Para 72-78	
PREAMBLE: 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. **Q10** a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why/why not? 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? 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? 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?	• N/A

Comparative information, sources of estimation and outcome uncertainty, and errors	
Document reference: ED Para 63-65, 79-83 and 84-90	
PREAMBLE: The ED sets out: ● Proposed requirements for comparative information, sources of estimation and outcome uncertainty, and errors. ● 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 **Q11** 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**?**	● 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'. ● 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 result from 'better' estimation methods. 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 be at the discretion of the preparing entity.
Statement of compliance	
Document reference: ED Para 91-92	
PREAMBLE not replicated here refer to p19 ED **Q12** Do you agree with this proposal? Why/why not? If not, what would you suggest and why?	● Issue for Australian regulatory environment. ● There is potential for any forward-looking statements in S1 (and S2) giving rise to liability for misleading and deceptive conduct under Australian Law i.e. if a representation about a future matter is made

	and there is no reasonable ground for making the representation, it could be considered misleading. • Problem lies in S1 and S2 calling for information related to disclosures even when estimations only (see S1 paragraph 79, 82) • ASIC in general discourages these sorts of statements (RG 170) • 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.
Effective Date	
Document Reference: 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. 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 recommend the standards applying no earlier than reporting periods commencing **24 months** following the publication of the final ISSB standards. This is necessary to provide the local jurisdiction governing bodies and other professional bodies time to roll out education and awareness programs, including guidance materials for reporting entities and assurance service providers. • Further transitional arrangements (or staggering of reporting) for metrics and targets may be required given challenges surrounding data availability. (S2)
Global baseline	
Document reference:	

Preamble: The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. **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 support the establishment by ISSB of a global baseline for disclosure (noting some small regional variations may be necessary in some jurisdictions). ● We consider this to be critical for consistent and comparable disclosures and a failure if this cannot be achieved. ● While we support disclosure of industry specific metrics and a common global baseline, we are 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.
Digital reporting	
Preamble: 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. At a later date, an Exposure Draft of Taxonomy proposals is planned to be published by the ISSB for public consultation. **Q15** 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 support digital reporting enablement.

Costs, benefits and likely effects[4]	
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? b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	• Responding to the standards is likely to result in a material increase in consulting costs, audit costs and internal resource costs, each entity will be different. A standard reporting entity would need at least 1 full time equivalent internally, pay consultants to measure and verify and then pay auditors to verify. We estimate this could add >$1m per annum to costs.
Other comments	
Q17. Do you have any other comments on the proposals set out in the ED?	

[4] *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?*

ISSB ED S2 – climate related disclosures

Document link: https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf [**ED**]

Question	**Property Council and GBCA response**
Objective of the Exposure Draft	
Q1. 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?	• We propose substituting the word "significant" for "material" for consistency of terminology in the following statement: *"an entity to disclose information about its exposure to significant climate related risks and opportunities, enabling users of an entity's general purpose financial reporting."* • We support a common purpose for improved, comparable and consistent disclosures and support the disclosure of scope 1-3 emissions. • However, presently a tension exists between the disclosures investors want and the data availability for reporting entities. Attempting to assess climate impacts on particular issues in isolation may be counterproductive within the broader context of physical and transition risks. • We support transitional arrangements for these disclosures to encourage continuous improvement that also recognises the challenges accessing the required data within the timeframe.
Governance	
Q2. a) 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?	• Governance is a key factor in determining the prospect of success for sustainability-related strategies for mitigation and adaptation. As such we support robust disclosure requirements around this issue. • We support the approach based on the expanded TCFD provisions: ensuring disclosure on the governance entity's terms of reference and

	relevance within the organisation will be a good indicator to investors of the prominence of the entity.
Identification of climate-related risks and opportunities	
Q3. 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?	● The requirements are clear and the general approach is supported. ● While there are some concerns with the current iteration of the SASB Real Estate Standard (please refer to the response to Q17), the principle of considering the applicability of disclosure topics is supported. ● As stated above, it can be difficult to estimate the impact of a sustainability initiative on the future opportunities they will deliver. e.g. performing an energy upgrade to a building is within the operational control of a reporting entity but the overall occupancy and financial performance may not be easily predictable.
Concentrations of climate-related risks and opportunities in an entity's value chain	
Q4. 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? 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?	● Supported.
Transition plans and carbon offsets	
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? b) Do you agree with the proposed disclosure requirements for transition plans? Why or why not? c) 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. d) 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? 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?	● The Property Council supports the inclusion of the proposed disclosure requirements for transition planning, including anticipated changes to business models for adaptation and mitigation purposes. ● The carbon offsetting requirements should be subject to **third party verification** that includes an understanding of the qualitative aspects of carbon offsets. These should include consideration of an offset's **permanence** (how long carbon stays out of the atmosphere), additionality (assurance that the emissions reduction would not have occurred in the absence of the credit being generated), and **leakage**. These criteria should take precedence over disclosing the removal method (e.g. nature-based vs technological).
Current and anticipated effects	
Q6. 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? c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an	● While there is merit in seeking to align financial predictions with the expected impacts of climate change, they operate on different timescales. Many impacts of climate change are expected to manifest decades into the future. By contrast financial modelling tends to operate no more than 1-2 years ahead. This is due to the significant uncertainty that longer term predictions entail. For this reason, we encourage the ISSB to consider the approach laid out in the TCFD's *Guidance on Metrics, Targets, and Transition Plans (2021).* Figure D2 illustrates an alignment between the accuracy of financial projections and the number of years ahead. For example, in the 0-2 year time horizon financial implications can be estimated using 'actual climate change impacts on current revenues',

entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?	whereas on a 10+ year time horizon financial implications can, at best, be reported as 'broad conceptualisations'. Should this approach not be taken, it is likely entities will spend significant time and resources on seeking to model the future financial implications of climate change and results will be low accuracy and dependent on many assumptions. ● Paragraph 14(b) states "An entity shall disclose information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year". We propose changing "for which there is a significant risk" to "where it is expected that" to align to ASX Listing rule 3.1 on Continuous Disclosure to avoid creating two points in time where disclosure is required. ● Paragraph 14(c) requires the disclosure of expected changes in financial position including major acquisitions and divestments as well as planned sources of funding to implement its strategy. It is inappropriate to forecast expected impacts as well as disclose planned acquisitions and divestments and how they will be funded. It could both create legal risk as well as being market sensitive information. We would propose removing sub-sections 14(c)(i) and (ii) and leaving the 14c as a broad statement.
Climate Resilience	
Q7. 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? 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,	● 15(a) requires disclosure of financial resources to address climate resilience. This is not appropriate as it is market sensitive information and could inappropriately lock respondents in a form of financing. We propose removing 15(a)(iii)(1) entirely. Investors are still able to view current financial statements and can independently assess liquidity and debt/equity ratios to gain an understanding of the company's financial options. ● Climate-related scenario analysis is a useful but complex process which may put it out of the reach of smaller reporting entities within the real estate sector. The current drafting will allow more sophisticated reporting entities

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? c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not? 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? 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?	to apply CRSA while leaving the option open to others to take a simpler approach. This course of action is supported. ● While some smaller entities will be able to engage consultants to produce a standardised report, requirements will increase significantly in complexity for larger organisations and associated costs will grow accordingly. E.g. a gas station may be able to report in a relatively straightforward manner, while a multinational property investment fund would require a much higher degree of complexity.
Risk Management	
Q8. 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?	● N/A.
Cross industry metric categories and GHG emissions	

Q9.	
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?	● We support a common purpose for improved comparable and consistent disclosure of scope 1 and 2 emissions. ● We also support the disclosure of Scope 3 emissions while acknowledging they are inherently more challenging to measure and/or calculate. Scope 3 emissions will also make up the largest portion of emissions for many organisations within the property sector. This makes attempts to include them in disclosure more material. The Property Council supports the use of the GHG Protocol as the correct way to go about measuring Scope 1-3 emissions. However there remain questions around the boundaries of Scope 3 emissions measurement. Many property organisations diverge in their approach to measuring Scope 3 emissions. Some of them will set the boundary where they are responsible for **purchasing/procuring** goods or services with associated upstream or downstream emissions. Others approach the measurement of Scope 3 emissions using the **organisational sphere of influence** as boundaries. Providing sector specific guidance to unify this approach and ensure that results between organisations are comparable should be considered a priority moving forward. However, any initiative to standardise sectoral interpretation and reporting of scope 3 within the GHG Protocol Standard will need to consider impacts to organisations that span different segments of the property value chain. For instance, companies in the development and investment space vs companies spanning construction, development, and investment. ● Local legislation is also an impediment to accurately calculate scope 3 emissions in some cases. In Australia, building owners do not have the right to access tenant electricity/emissions data. This makes a significant portion of Scope 3 emissions not readily available. Should the ISSB provisions for the disclosure of Scope 3 emissions be enacted as they are in the Exposure Draft, Australian property companies will not be able to accurately include emissions from tenancies. It will however create an imperative for governments to enable access to this information for the purpose of disclosures.

	• Aligning the disclosure and targets associated with this standard to the latest international consensus delivered by the UNFCCC is a good approach that will ensure it remains aligned with evolving international expectations. The Property Council is supportive. • The definition of the latest international agreement on climate change is clear to leading members of the property industry who participated in this consultation. • We encourage the 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.
Targets	
Q10. 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?	• Aligning the disclosure and targets associated with this standard to the latest international consensus delivered by the UNFCCC is a good approach that will ensure it remains aligned with evolving international expectations. The Property Council is supportive. • The definition of the latest international agreement on climate change is clear to leading members of the property industry who participated in this consultation.
Industry-based requirements	
Q11. 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 support the ISSB approach to build on existing frameworks to capture industry-based requirements. Our members are familiar with SASB and GRI and will be able to transfer these skills in responding to the ISSB standards. We request further consultation on the industry-based requirements (see response to Q17).

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 use the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not? 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?	● Replacing references in industry-based requirements to jurisdiction-specific regulations with international standards will assist in delivering a global baseline. This approach is supported by the Property Council. ● We support disclosing both absolute and intensity based financed emissions.
Costs, benefits and likely effects	

Q12. 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?	• Responding to the standards is likely to result in a material increase in consulting costs, audit costs and internal resource costs, each entity will be different. A standard reporting entity would need at least 1 full time equivalent internally, pay consultants to measure and verify and then pay auditors to verify. We estimate this could add >$1m per annum to costs.
Verifiability and enforceability	
Q13. 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.	• N/A.

Effective Date[5]	
Q14 . 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? 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. 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?	• We recommend the standards applying no earlier than reporting periods commencing **24 months** following the publication of the final ISSB standards. • This is necessary to provide the local jurisdiction governing bodies and other professional bodies time to roll out education and awareness programs, including guidance materials for reporting entities and assurance service providers. • Further transitional arrangements (or staggering of reporting) for metrics and targets may be required given challenges surrounding data availability.
Digital Reporting	
Q15. 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 requirements for governance can be reported on earlier than other elements due to their administrative nature. Other elements such as GHG emissions and strategies will require more data to be completed.
Global baseline	
Q16	• N/A.

[5] *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?*

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 comments[6]	
Q17. Do you have any other comments on the proposals set out in the Exposure Draft?	• While not directly relevant to the scope of this response, the Australian Property sector holds some concerns on the current requirements of the SASB Real Estate Standard. Key improvements: • The SASB Standard should use carbon intensities like GRI 302.3 not their like-for-like change process. Intensities are far better for long term trending. • The descriptions of how management consider sustainability is redundant and low value compared to the far more comprehensive TCFD framework • The tenant sustainability impact is written for jurisdictions with different levels of access to tenancy data. This makes it unsuitable for Australia and will lead to misinterpretation. • The Climate Adaptation section is simplistic and holds no value alongside a TCFD report.

[6] *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?*

Department of Climate Change, Energy, the Environment and Water

Response to:

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 Comments for AASB:

Use of climate-related scenario analysis

We are supportive of the exposure draft requirements to use climate-related scenario analysis to assess climate resilience. The use of climate scenarios for risk analysis can be a valuable input to an entity's strategic decision-making and risk-management processes. The disclosure of the scenarios used, including the underpinning data and assumptions are integral to any assessment of a company's climate risk management strategy.

We acknowledge that some entities may be unfamiliar with using climate-related scenario analysis and may not have ready access to the information needed to conduct climate-related scenario analysis. The government is seeking to further enhance the provision of climate data and services, including through Commonwealth science delivery agencies such as the Australian Climate Service, Commonwealth Scientific and Industrial Research Organisation (CSIRO) and Bureau of Meteorology. In the future, this type of information should support entities to disclose climate-related information. In addition, information being developed by Australian Government agencies will provide authoritative information and data frameworks to enable entities to undertake climate-related scenario analysis to satisfy their fiduciary reporting obligations and address business concerns around potential legal liability associated with disclosure (or misinterpretation) of such information.

AASB Specific Matters for Comment

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.[1] Do you agree that Australian entities should be required to disclose their Scope 3 GHG

[1] Note that at the date of this publication the NGER Act and NGER (Measurement) Determination refer only to the disclosure of Scope 1 and 2 greenhouse gas (GHG) emissions.

emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

- A requirement to report scope 3 emissions would help serve increasing interest, particularly amongst domestic consumers, investors and trading partners, for information on entity's scope 3, as well as its scope 1 and 2 emissions.
    - It is also noted that the Task Force on Climate-related Financial Disclosures recommends disclosure of scope 1 and 2, and *if appropriate* scope 3, emissions.
- The *nature* of any such requirement, and acceptable level of accuracy of the scope 3 emissions estimates, warrants careful consideration given the following issues.
    - As the exposure draft notes, "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.".
    - Such emissions vary greatly in scale, nature and complexity depending on the sector.
        - For example, scope 3 emissions for a financial institution can be quite different to those of an agricultural company, or an electricity generator. And the degrees of removed control can vary too. (e.g. are food waste emissions the scope 3 emissions of a seed supplier, a farm, their bank, a food transport contractor, a supermarket, their insurer, an individual, a landfill site?).
    - Activity data can be difficult and/or prohibitively costly to obtain for some scope 3 emission sources; often requiring the use of expenditure-based emissions factors to calculate emissions, which decreases the accuracy of the resulting scope 3 estimates.
- The exposure draft appears to accommodate these challenges to some extent.
    - It notes that responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements (page 50).
    - Clause 21 provides that an entity would indicate which scope 3 emissions have been included or excluded in its estimates, and state the reason for any exclusion.
    - Provisions for scope 3 reporting vary by industry.
- Managing the above challenges in the Australian context could also include consideration of approaches taken under the National Greenhouse and Energy Reporting (NGER) Scheme and Climate Active.
    - Under the NGER Scheme, only facilities or corporations with emissions, energy production or consumption exceeding prescribed thresholds are required to report. Corporate reporting under the Scheme was also introduced progressively over three years, under a graduated threshold regime.
    - Under the Climate Active Carbon Neutral Standard for Organisations, scope 3 emissions that arise as a consequence of an organisation's activities must be assessed for relevance against a set of relevance criteria, and if relevant must be included within the organisation's emissions boundary.

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)?

- We suggest the proposal accommodate the application of other comparable standards, as well as the GHG Protocol.
- In the Australian context, comparable standards would include the NGER Scheme and the Climate Active Carbon Neutral Standard.
    - Providing entities with the option of applying these standards would help minimise regulatory burden (including to any domestic agency administering IFRS S2), avoid duplication of reporting requirements, and/or deliver more accurate estimates through the use of Australia-specific methods and parameters that have been tested through independent international review.
- The Exposure Draft on IFRS S2 refers to the equity share and operational control methods under the GHG Protocol Corporate Standard, but should also refer to the financial control method under the same Standard.

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?

- The Government's Powering Australia Plan states that it will work with regulators to ensure large Australian businesses make disclosures using a standardised reporting requirement that aligns with international standards. DCCEEW is supporting Treasury/APRA to deliver this commitment.
- As expressed in the HOTARAC submission, and in the other sections of this submission, while Appendix B is relevant to Australian industries and sectors, consideration needs to be given to addressing associated implementation and ongoing compliance challenges.

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?

- Consideration could be given to incorporating non-confidential climate-related information already reported under other processes. Such an arrangement could help facilitate a 'one-stop shop' for investors and the Australian public, and could be serviced by simply cross referencing publications/websites where that information was reported.
- Such information could include case-by-base metrics based on specific projects, facilities, locations, etc. For example,
    - Entities could be required to disclosure their performance against metrics stated in their Environmental Effects Statements (EES), if they were required to create one, i.e. explicit comparisons between expectations and results.
    - The capacity for a EES review panel to recommend that the Planning Minister impose additional disclosure requirements on an entity as a condition of Planning approval.

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

- See also response to B1. A number of approaches could be considered to manage the implementation and ongoing compliance challenges of IFRS S2. These could include:
  - Materiality and threshold-based subsets. For example, low market cap based exclusions, low Scope 3 Emissions.
  - Phasing in some/all of the requirements based on materiality/degree may also be appropriate, where the largest corporations/biggest emitters have stricter and/or more comprehensive initial requirements, which become mandatory at lower thresholds over time.

(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?

- See also response to B1 and General Comments.
- Materiality should matter more than compliance burdens. If Scope 3 is a major factor, or the primary Scope of climate impact, it should be a disclosure requirement.
  - That said, consideration should be given to the challenges associated with obtaining reliable data, including on a cost-effective basis. Consideration should also be given to the level of accuracy expected by users.
- Scenario analysis must be rigorous to be valuable. There is a risk that without independent, science-based scenario data, the exercise can be internally customised to fit the interests of the entity. Customising scenarios to best fit an entity, and disclosing against these specialised scenarios, has been reported from investment groups active in the climate finance space, and has been described as a form of greenwashing.

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?

- The objective of the IFRS S2 is stated as disclosing information useful to *primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity*; creating the impression that reported information will be publicly disclosed.
- In Australia, related existing reporting arrangements such as the NGER Scheme do not currently publicly disclose all information reported by entities. As such it would be important for any agency administering the IFRS S2 or a version of it in Australia to make clear that all reported information would be publicly disclosed.
  - The NGER Scheme disclosure and privacy rules are provided here: https://www.cleanenergyregulator.gov.au/NGER/About-the-National-Greenhouse-and-Energy-Reporting-scheme/Disclaimer-disclosure-and-privacy
- As stated in B3, the Government intends to introduce mandatory climate disclosure reporting for large business aligned with international standards.
- It should be explicit if/how any aspects of the new standard apply, or don't apply, to public sector entities (like departments) and publically owned entities (like some energy generators).

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

- See also B2. The current proposal to use the GHG Protocol alone for GHG emission estimation risks duplication, increased regulatory burden and less accurate estimates, than could be achieved by allowing the application of comparable standards.

(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

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?

- There may be lessons to be learned from existing reporting arrangements such as the NGER Scheme when considering how to calibrate reporting requirements such that they are proportionate to an entity's emissions contribution, and the value of the reported information to users.
  - As mentioned above, the NGER Scheme does not require reporting by all companies, but rather only those companies with emissions/energy production or consumption higher than prescribed thresholds. This approach balances the implementation costs imposed on reporting entities against the need for a particular level of data coverage.

Part D: Matters for comment relating to the AASB's proposed approach

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

- See response to B3.

15 July 2022

Australian Government

Australian Accounting Standards Board

PO Box 204. Collins St West, VIC 8007

Submitted electronically

Dear Australian Accounting Standards Board (AASB),

We thank you for the opportunity to provide comment on the draft IFRS S1 General Requirements for Sustainability-related Information and draft IFRS S2 Climate-related Disclosures.

Publish What You Pay (PWYP) Australia is a civil society coalition of anti-corruption, human rights, faith-based, environment, and union organisations campaigning for greater transparency and accountability in the oil, gas and mining sectors.[1] We work with the global Publish What You Pay coalition, a network of over 1000 organisations in more than 51 countries around the world, united in our call for an open and accountable extractive sector, so that communities share in the benefits of our natural resources and a just transition.

The task of ensuring a just energy transition and keeping global heating to below 1.5° C degrees requires strong accounting standards and climate related disclosures, particularly for Australia's oil, gas and mining sectors. This comment provides feedback from civil society to support AASB's input into the work of the ISSB; and inform the AASB on important sustainability and climate related disclosures.

I enclose the following submission for your consideration and look forward to discussing these issues in more detail over the coming months.

Yours sincerely,

Mr. Clancy Moore

Publish What You Pay Australia – National Director

[1] More information on the 30 organisations that make up the Publish What You Pay Australia coalition go: www.pwyp.org.au

15 July 2022

Comment for Australian Accounting Standards Board (ASSB) [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

Contents

Introduction....3

Part A: The materiality of climate risk and sustainability reporting for coal, oil and gas sectors 6

Part B: The importance of disclosures of Scope 1, Scope 2 and Scope 3 GHG emissions disclosures for the coal, oil and gas industries 11

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2) 15

Part D: Matters for comment relating to the AASB's proposed approach....18

Recommendations 19

Introduction

There is a global consensus among policymakers, scientists, financial institutions, and market regulators that climate change is real and that impacts of global heating will devastate our communities, economies, and eco-systems.

The latest Intergovernmental Panel on Climate Change (IPCC) report predicts widespread economic impacts from climate change and related extreme weather events, which could cause significant economic instability, limited access to natural resources and disruptions in supply chains.[2]

The costs of not acting on climate change are also high for Australia. Failing to rapidly cut emissions this decade will cost future generations to come. The Climate Council of Australia reported that for Australia, they economic costs would be $129 billion per year.[3] The Insurance Council of Australia (ICA) estimated the insurance costs of the April QLD and NSW floods in 2022 as being $3.35 billion alone.[4] The incoming federal government has recently ordered the Department of Treasury to model the costs of climate change.

As climatic events increase in frequency and severity, the associated costs that have been rising over the last two decades, will only continue to rise. Indeed, the IPCC's August 2021 report noted, "there will be an increasing incidence of unprecedented extreme climate events even at a warming of

[2] Intergovernmental Panel on Climate Change (IPCC), 2022. *Climate Change 2022: Impacts, Adaptation and Vulnerability Summary for Policymakers*. February 2022, pg. 21 para. B.5.3. Accessed: https://www.ipcc.ch/ report/sixth assessment-report-working-group-ii/

3 Climate Council, (2021), *Markets are moving: The economic costs of Australia's climate inaction*, accessed: https://www.climatecouncil.org.au/wp-content/uploads/2021/10/Markets-Are-Moving_V5-FA_High_Res_Single_Pages.pdf

[4] ICA, (2022), *Updated Data Shows 2022 Flood was Australia's costliest,* accessed: https://insurancecouncil.com.au/resource/updated-data-shows-2022-flood-was-australias-costliest

1.5°C, the limit set under the UN's Framework Convention on Climate Change's Paris Agreement, and that these extremes will get worse for every additional fraction of a degree of warming."[5]

The CSIRO states: "Australia has already experienced increases in average temperatures over the past 60 years, with more frequent hot weather, fewer cold days, shifting rainfall patterns and rising sea levels".[6] The impacts of climate change have serious consequences for virtually every sector of society from extractives, tourism, manufacturing, and agriculture.

There is also global consensus across government, industry and civil society that greenhouse gas (GHG) emissions need to be cut dramatically to ensure global heating does not exceed the agreed target of 1.5°C warming.[7] This is particularly important for Australia and our industry as we are home to more than 700 ASX resources companies operating in more than 100 countries globally. Our recent research shows that there are 116 ASX listed fossil fuel companies with almost 400 planned and operational coal, oil and gas projects[8]. This includes many in low- and middle-income countries such as Indonesia, South Africa and PNG.

The need to transition to a lower-carbon economy is already shifting economic models as future regulations and changes in consumer demand impact how energy is sourced and used. The energy transition will have sweeping impacts on nearly every corner of our economy, and there can be no question that those industries that require or benefit from a high carbon economy will – and in many

[5] IPCC Working Group I. 2021. *Climate Change 2021: The Physical Science Basis*, August 6, 2021, p.SPM-5, https://www.ipcc.ch/report/sixth-assessment-report-working-group-i/
[6] CSIRO, (2022), *Climate Change in Australia,* accessed: https://www.csiro.au/en/research/environmental-impacts/climate-change/climate-change-information
[7] IPCC, (2018), *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. Summary for Policy Makers, Accessed: https://www.ipcc.ch/sr15/
[8] This refers to upstream companies involved in exploration and production

cases already do – face substantial changes to their business models and financial prospects. Given the universal and transformational nature of climate change, and the necessary transition to a low carbon economy, it is therefore essential that sustainability accounting standards and climate related disclosures for listed companies reflect this and support the transition.

As BlackRock's CEO Larry Fink succinctly put it: "climate risk is investment risk."[9] The risk of climate change has been identified by both market participants and regulators, internationally and domestically, as having a demonstrable impact on portfolio performance.[10] Climate change is one of the most significant investment issues facing investors today….climate related risks will impact all economies, asset classes and industries, as well as societies and the physical environment.[11]

Australian and international accounting standards should include sustainability reporting and require companies to disclose information about their climate-related financial risks and metrics. This will help level the playing field for reporting and help investors understand the risks and opportunities associated with their investments to make informed decisions about how to allocate capital.

Likewise, information relating to climate-related risk governance and management processes, a company's GHG emissions profile, and financial resilience are essential for Australian investors to be more fully able to assess risks and climate impacts and the broader stability of financial markets.

This submission draws on the work of the PWYP coalition in the US and focusses on Australia's upstream coal, oil and gas sectors.

[9] BlackRock, (2020). *BlackRock's 2020 Letter to Clients: A Fundamental Reshaping of Finance*. January 2020, https://www.blackrock.com/us/individual/larry-fink-ceo-letter
[10] The Association of Superannuation Funds of Australia, (2021), *Climate Change Risk: A discussion paper,* Accessed: https://www.superannuation.asn.au/ArticleDocuments/270/211001_ASFA_Climate_Change_Paper.pdf
[11] Australian Super, (2022), *How we invest: Climate Change,* accessed: https://www.australiansuper.com/investments/how-we-invest/climate-change

Part A: The materiality of climate risk and sustainability reporting for coal, oil and gas sectors

This section responds to: *Part A: Matters for comment relating to specific proposals in Exposure [Draft] IFRS S1* Sustainability Disclosures, question 8. *on materiality* and *[Draft] IFRS S2 Climate-related disclosures,* questions 4. and 5. This section outlines how the coal, oil and gas sectors are the most significant, and most immediately, impacted sectors by both physical and transition climate risks.

Climate-related risk information and sustainability reporting for Australia's coal, oil and gas sectors, including the 116 ASX listed companies with 396 planned and operational fossil fuel projects[12], are most clearly and unquestionably material. There are many more private companies involved in fossil fuel but less transparency on their operations, size and climate related information. There is broad, global consensus that in order to avoid the worst, and most costly, impacts of climate change, global warming must be limited to 1.5°C.

In March 2022, the Tyndall Centre for Climate Change Research found that in order to preserve even a 50-50 chance of keeping warming below 1.5°C, we need "immediate and deep cuts in the production of fossil fuels" with oil and gas production phased out no later than 2050 and in the wealthiest nations by 2034.[13] The financial implications of failing to phase out fossil fuels and transition to less carbon-intensive energy sources is profound.

[12] This refers to the number of ASX materials and energy companies involved in exploration and production of coal, oil and gas. Projects does not refer to energy generation projects such as a coal fired project or gas rig.
[13]The Tyndall Centre for Climate Change Research is a UK-based organization that works with several universities to bring together scientists to "research, assess and communicate from a distinct trans-disciplinary perspective, the options to mitigate, and the necessities to adapt to current climate change and continuing global warming, and to integrate these into the global, UK and local contexts of sustainable development." Calverley, Dan and Kevin Anderson, "Phaseout Pathways for Fossil Fuel Production Within Paris-compliant Carbon Budgets," *Tyndall Centre for Climate Change Research*, March 2022,

There is also a consensus that demand for coal (thermal), oil and gas is in decline which makes climate related reporting material. A peer review paper showed demand for Australia's thermal coal will decline in two to three years due to decreases and uncertainty in Chinese demand.[14] The study's modelling predicts Australian thermal coal exports would sink to 30-40 m tonnes in 2025, from about 50Mt in 2019. For coking or metallurgical coals, exports from Australia would drop from about 30Mt in 2019 to 20-22Mt by 2025.[15] In 2021, a new consensus emerged among the largest and most prominent industry forecasters, including the International Energy Agency (IEA), Rystad Energy, and Wood Mackenzie, that 2050 demand for oil and gas will fall below current levels of about 100 million barrels per day.[16] This reduction in demand for thermal coal, oil and gas is despite an expected doubling of global domestic product (GDP) by 2050. These facts untie the virtual lockstep growth in hydrocarbon demand and economic growth witnessed over many decades.[17]

In relation specifically to oil, there is significant debate around the specifics of the declining rate of oil. The 2022, the IEA stated "Global oil demand rebounded in 2021 from its Covid-induced historic decline and while demand is set to keep increasing in the immediate years, its longer-term outlook is

pp. 6 and 49, https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets(c7235a8e-e3b1-4f44-99de-c27958c03758).html.

[14] Gosens, J., Turnbull, A., & Jotzo, F., (2022), China's decarbonization and energy security plans will reduce seaborne coal imports: Results from an installation-level model": Science Direct, Volume 6, Issue 4, 20 April 2022, Pages 782-815, accessed: https://www.sciencedirect.com/science/article/pii/S2542435122001350

[15] Ibid

[16] International Energy Agency (IEA), 2021. *Net Zero by 2050: A Roadmap for the Global Energy Sector.* May 2021, pg. 18, https://www.iea.org/reports/net-zero-by-2050; *See also* Wood Mackenzie. 2021. *Reversal of Fortune: Oil and Gas Prices in a 2-degree World*. 2021, pg.5, https://www.woodmac.com/horizons/reversal-of-fortune-oil-and-gas-prices-in-a-2-degree-world/; Rystad Energy. 2021. *Slowing down as electric vehicles accelerate, oil demand set to peak at 101.6 million bpd in 2026*. April 21, 2021, https://www.rystadenergy.com/newsevents/news/press-releases/slowing-down-as-electric-vehicles-accelerate-oil-demand-set-to-peak-at-101p6-million-bpd-in-2026/

[17] PWYP US, (2022), *PWYP US comment on SEC Proposed Climate Rule June 2022,*

uncertain."[18.] Leading energy analysts, Rystad predicts that peak oil demand will be in 2026 and then drop in the coming years.[19]

The transition away from fossil fuels is already underway in Australia and globally and will have dramatic impact on our economy, investment decisions and communities. Transition risks are defined as the risks involved in the transition to a low-carbon economy. The drivers of transition risks for the 116 ASX listed coal, oil and gas companies involved in exploration or production of fossil fuels, include government and international regulation, policies and legislation, changes in consumer demand and technological drivers. These drivers also impact downstream operators who are responsible for activities are extraction.

The transition risks and physical risks associated with climate change will impact the operating costs and asset valuation of ASX listed and private coal, oil and gas companies. These companies are generally capital intensive, require major financial investments in fixed assets and supply chain management, and have longer business strategy/capital allocation planning horizons relative to many other sectors—horizons that may be particularly affected by climate-related risks and opportunities.[20] This in turn requires careful assessment of climate-related risks and opportunities to inform future decisions.

Australia government regulation includes the recently submitted, and more ambitious, Nationally Determined Contribution (NDC) to the UNFCCC which committed Australia to a 2030 target by reducing GHG emissions by 43% below 2005 levels. Whilst the government hopes to use some

[18] IEA, (2022), *World Oil Production*,

[19] Rystad, (2021), *Slowing down as electric vehicles accelerate, oil demand set to peak at 101.6 million bpd in 2026*, accessed: https://www.rystadenergy.com/newsevents/news/press-releases/slowing-down-as-electric-vehicles-accelerate-oil-demand-set-to-peak-at-101p6-million-bpd-in-2026/

[20] TCFD, (2021), *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures,* p63.

carbon offset credits to meet these targets there will also be a required phase out of coal, oil and gas usage by 2030 which will impact many Australian producers, companies and supply chains. These and other transition risks represent a clear case of the materiality of climate related risks for ASX listed coal, oil and gas companies.

Furthermore, the potential of stranded assets and how companies account and plan for these risks is also considered material. The Centre of Decommissioning Australia (CODA) estimates the costs of decommissioning Australia's offshore gas and oil assets to be around $55billion by 2050.[21] A disorderly transition can harm financial stability, thus limiting firms' capacity to invest in low-carbon activities that could decrease their exposure to transition risk and help them recover from climate physical shocks.[22]

To further demonstrate the materiality of climate related and sustainability reporting is the fact that coal, oil and gas company valuations are based on the viability of future reserves. Specifically, the most common means of assessing the value of a ASX listed coal, oil and gas company involves the estimation of the economic life or availability of its oil and gas reserves, especially proven reserves over an investment horizon. This evidenced by an IHS Energy analysis has found that about 80 percent of the value of most publicly traded oil and gas companies in the US is based on the viability of proved reserves.[23] Put simply, fossil fuel companies hold vast oil, gas and coal reserves that help determine their market value. These reserves are also the basis to understanding the potential

[21] The CODA is a collaboration between many of the world's major oil and gas companies, including Chevron, Woodside Energy, Santos Limited, Esso Australia Pty Ltd, and BHP and many leading service and research organisations. See https://www.nera.org.au/News/CODA-launch/CODA-launch

[22] Gourdel, R., Monasterolo, I.,Dunz, N., Mazzocchetti, A., & Parisi, L., (2022). "*The double materiality of climate physical and transition risks in the euro area,*" Working Paper Series 2665, European Central Bank.

[23] According to the Society of Petroleum Engineers, a proven reserve refers to "quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations." Society of Petroleum Engineers, "Glossary of Terms Used in Petroleum Reserves/Resources Definitions," https://www.spe.org/ en/industry/terms-used-petroleum-reserves-resource-definitions/

climate risks of burning these fuels. To date there is yet to be harmonized mandatory approach or common accounting standards for companies to disclose their potential emissions from these reserves particularly at a project level.[24] Mark Carney, the FSB chair stated that a carbon budget consistent with a 2°C target "would render the vast majority of reserves 'stranded' — oil, gas and coal that will be literally unburnable without expensive carbon capture technology, which itself alters fossil fuel economics."[25]

Underpinning companies' estimates of future cash flow are assumptions about long-term future demand and future commodity prices, which are largely based on historic oil prices. Because oil and gas companies' valuations are heavily influenced by historical data, very few oil and gas companies are currently factoring in the risks of decreased demand in the next 30 years and the potential impacts that seismic market shifts could have on the economic viability of different projects and overall reserves figures.

It is now widely accepted within many major financial markets that climate-related impacts on a company can be material and must require granular disclosure. The idea of double materiality is becoming an international norm. This means that climate related impacts on a company are material but also that the impacts of a company on the climate are material.[26] The recent EU's sustainable finance disclosure reporting rules introduced by the Non-Financial Reporting Directive established important principles for certain large companies to report sustainability information on an annual basis, introduced a 'double materiality perspective', meaning that companies have to report about

[24] PWYP US, (2022), *Public Comment on SEC Proposed Climate Rule June 2022,*
[25] Carbon Tracker, (2022), *Stranded Assets, accessed: https://carbontracker.org/terms/stranded-assets/*
[26] Täger, M, (2021), *Double Materiality: What is it and why does it matter?,* London School of Economics, accessed: https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/

how sustainability issues affect their business and about their own impact on people and the environment.[27]

Part B: The importance of disclosures of Scope 1, Scope 2 and Scope 3 GHG emissions disclosures for the coal, oil and gas industries

This section responds to *Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2.* We strongly support the requirement for companies to disclose qualitative data made with reasonable assurance about the intensity of their Scope 1 and Scope 3 GHG emissions for the fiscal year, with separate calculations for the sum of Scope 1 and 2 GHG emissions.

The IISB's IFRS S2, climate related disclosures states "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".[28]

Disclosure of direct emissions (Scope 1) and emissions from electricity and heat (Scope 2) provides valuable context for certain important financial estimates and assumptions, particularly related to the value of long-lived assets and the sustainability of certain operating costs. Importantly, disclosure of emissions from entities in a company's value chain (Scope 3) are perhaps even more critical, as they provide information about potential transition risks to their supply chain or revenue base and about opportunities to partner with customers and suppliers on mitigating this risk. Whereas Scope 1 and Scope 2 emissions are much more directly linked to a company's operations,

[27] European Commission, (2021), *Questions and Answers: Corporate Sustainability Reporting Directive proposal,* https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_1806
[28] IFRS, (2022), *ISSB exposure draft 2022, climate related disclosures,* p.22

Scope 3 emissions are impacted by a number of external factors, including the physical risks of climate change, and the risks associated with the transition to a low-carbon economy, which can also affect entities up and down a company's value chain.

Under the National Greenhouse and Energy Reporting (NGERs) legislation, large emitting coal, gas and oil companies are required to report their Scope 1 and Scope 2 emissions and energy consumption. This information is relevant to assessing carbon risk and can be linked back to TCFD recommendations in relation to targets and metrics. Importantly however, NGERs reporting doesn't address carbon risk exposure embedded in the company's broader value chain, supply chain or fossil fuel reserves, for example, as represented by Scope 3 emissions.[29]

Mandating Scope 3 emissions disclosures would ensure that investors and others have the reliable information they need for investment and voting decisions in a timely fashion. Many investors are already encouraging Scope 3 emissions disclosures of large coal, oil and gas companies.

In the US, 75 investors with USD $4.7 trillion of assets under management wrote: "investors need robust, complete and comparable disclosure of emissions data to determine which companies are aligning their business activities with Paris targets, thereby minimizing transition risks…Scope 3 emissions are the largest source of emissions and present the most significant opportunities to influence GHG emissions reductions. Failure to require disclosure and reporting of Scope 3 emissions is therefore likely to result in the largest source of emissions remaining unaccounted for in company reporting and unaddressed in company activities."[30] In response to investor pressure, ASX

[29] IGCC, (2021), *Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia*, P17,
[30] As You Sow, (2022), *Verified Scope 3 emissions disclosure is required or the rule will not be useful* Accessed: 75 Investors With $4.7 Trillion AUM Weigh in on Upcoming SEC Climate Disclosure Rulemaking — As You Sow

companies BHP and Rio Tinto, are now disclosing, and setting goals to reduce, their Scope 3 emissions.

Fossil fuel companies should disclose Scope 1, 2 and 3 GHG emissions data at a project level, based on contract terms or relevant lease agreement. Aggregated emissions figures can often enable issuers to obfuscate the extent of risk inherent in asset portfolios by hiding high-risk projects in pools of less risky assets. Moreover, aggregated figures also prevent investors from being able to see how companies are working to address emissions risks within their portfolios. With project level data, an investor can determine whether a company is working to lower emissions by simply selling off dirty assets or by cleaning up operations.

An important feature of the global standard on extractives sector payments-to-governments disclosure has been the focus on project-level reporting with disaggregated payment information. This information has allowed investors and the broader public to understand individual mining, oil, and gas projects' fiscal impacts at the local level. Specifically, project disclosures in almost all jurisdictions include the specific amounts paid to specific disaggregated government recipients at all levels of government for each of a variety of different types of payments made. Aside from the extractive sector international norms of payment disclosures – the Extractive Industries Transparency Initiative and mandatory payments-to-governments disclosures – the Global Reporting Initiative (GRI) also requires project level reporting for the coal, oil and gas sectors.[31]

Project-level data also enables investors to determine how host-government actions impact transition risks faced by companies both positively (by cleaning up the electricity grid, for example)

[31] See Global Reporting Initiative (GRI) sector specific standards for coal (GRI 12) and oil and gas (GRI 32), via https://www.globalreporting.org/standards/sector-program/

or negatively (by failing to create an enabling environment to bring emissions down). Data at this level of granularity is so useful that companies such as ExxonMobil are already sharing it with company decision makers.[32] Making this information publicly available would allow investors to understand which projects are most at risk and plan accordingly

Publish What You Pay endorses two widely accepted reporting standards – the TCFD and the GHG Protocol – into Australia's future accounting and climate related disclosures requirements. Notably, the TCFD has contemplated climate-related disclosures since it was created by the Financial Stability Board in 2015, and provides authoritative guidance on the subject, including on Governance, Strategy, Risk Management, and Metrics and Targets.

As of July 2022, the TCFD's supporters include "1,384 financial firms, responsible for assets of $215.6 trillion."[33] These includes Australian firms such as AGL, BHP, South32, Rio Tinto and Woodside Energy.[34] Australia adopting TCFD-aligned definitions would reduce the costs of implementing disclosure requirements for registrants who already use TCFD or a TCFD-aligned frameworks, and would also facilitate future efforts at global harmonization, improving the cross-border comparability of climate-related disclosures. For GHG emissions disclosure, the GHG Protocol's Corporate Accounting and Reporting Standard (GHG Protocol) is by far the most comprehensively used global GHG accounting standard, and its concepts and vocabulary are widely understood by registrants and investors.[35]

---

[32] PWYP Australia, (2021), *Exxon's project level analysis shows mandatory reporting is needed,* accessed: https://www.pwyp.org.au/news/21102021exxon-analysing-project-level-climate-impacts-shows-need-for-mandatory-disclosure
[33] TCFD, (2022), *Overview. May 2022,* pg. 36. Accessed: https://assets.bbhub.io/company/sites/60/2022/05/TCFD_Overview_Booklet _Digital.pdf
[34] TCFD, (2022), *Supporters, June 2022,* Accessed: https://www.fsb-tcfd.org/supporters/
[35] GHG Protocol, (2022), *Companies and Organizations.* Accessed: https://ghgprotocol.org/companies-and-organizations

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

We urge the AASB and IISB in reviewing the IFRS S2 Climate Related Disclosure Draft to include in its objectives the concept of double materiality as being particularly relevant for coal, oil and gas sectors. We note the adoption of the concept of double materiality in the objectives and considerations for companies by European Financial Reporting Advisory Group (EFRAG) and the EU's CRSD.

Based on the concept of double materiality, the large physical and transition risks facing the sector and Australia's 116 ASX listed companies involved in exploration and production of coal, oil and gas, strongly encourages the inclusion of granular and robust Scope 3 emissions disclosures at the project level for the coal, oil and gas sectors.

In response to IFRS S2 Climate-Related Disclosures, *Q9. Cross-industry metric categories and greenhouse gas emissions,* we encourage requiring companies to disaggregate GHG emissions for Scope 1, Scope 2, and Scope 3 by specific types such disclosing methane (CH4) separately from nitrous oxide (NO2). Clearly this is relevant for the coal, oil and gas sector given the large amounts of methane, including fugitive emissions, and reported differences in company reporting and scientific studies on methane emissions from projects in Australia.[36]

[36]New research using satellite technology has found that Australia could be under-reporting the true extent of its greenhouse gas emissions from coal mines. A peer reviewed study by Dutch scientists claims six mines in the Bowen Basin emit twice as much methane as mining companies have been reporting to government. See: https://www.abc.net.au/news/2021-12-03/new-data-suggests-australia-could-be-underreporting-methane/13660496#:~:text=New%20research%20using%20satellite%20technology,have%20been%20reporting%20to%20government.

Additionally see industry articles outlining the challenges of methane leakage here: https://www.ausimm.com/bulletin/bulletin-articles/australian-fugitive-methane-reduction-a-case-study-for-coal-mining/ and reports from Melbourne University here: https://www.climatecollege.unimelb.edu.au/review-current-and-future-methane-emissions-australian-unconventional-oil-and-gas-production

Additionally, we support the disclosure of scenario analysis from companies, including the coal, oil and gas sectors, when it is utilised to communicate its climate change strategy. This is particularly relevant for coal, oil and gas companies when setting GHG targets. The EC's European Financial Reporting Advisory Group (EFRAG) already requires this of companies. Given the uncertainty of different emission pathways and commitments, scenario analysis. Scenario analysis has emerged as a key analytical tool for assessing the potential impacts of climate change because it allows market participants to understand multiple possible outcomes while still reflecting a realistic level of uncertainty.

In response to question 10. As requested in the IFRS S2, P24, another key inclusion to the AASB and in-turn IISB would the requirement of disclosing GHG emission reduction targets and specifically explaining how a transition plan is aligned with limiting global warming to 1.5 °C in line with the Paris Agreement. We also support the need for third party validation of any targets that are disclosed given recent allegations of large coal, oil and gas companies greenwashing climate reporting.[37]

A key recommendation under the Strategy heading, in Task Force on Climate-Related Financial Disclosure (TCFD) is the use of scenario analysis. According to Accounting for Sustainability, "it allows a company to understand and quantify the risks and uncertainties it may face under different hypothetical futures and thus helps in decision making and allows businesses to shape their strategy".[38] According to the ISSB (p.17), "[m]any entities use scenario analysis in risk

[37] Li M, Trencher G, Asuka J (2022) The clean energy claims of BP, Chevron, ExxonMobil and Shell: A mismatch between discourse, actions and investments. PLoS ONE 17(2): e0263596. https://doi.org/10.1371/journal.pone.0263596
[38] Accounting for Sustainability, (2022), *TCFD Climate Scenario Analysis,* accessed: https://www.accountingforsustainability.org/content/dam/a4s/corporate/home/KnowledgeHub/Guide-pdf/A4S%20Guide%20to%20TCFD%20Climate%20Scenario%20Analysis.pdf.downloadasset.pdf

management."[39] The ISSB also argues that for some sectors, specific climate-related scenario analysis is already common practice; "[s]ome sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years."[40]

However, companies often provide little to no detail to investors regarding the forward-looking assumptions used in these assessments, which further underscores the importance of disclosing key assumptions and estimates. Disclosures of scenario analysis was recommended by the TCFD for a number of reasons, including demonstrating resilience of the business model and strategy to climate change and identifying potential financial risks and opportunities.[41] CDP notes that many companies use rely on one scenario, don't include the rights scenarios for their business and fail to report on the use of scenario analysis.[42]

Many ASX listed companies have signed up to net zero by 2025 commitments and are relying on offsets, including many unproven technologies such as Carbon Capture Storage (CCS). As such, we support the inclusion in IFRS S2 draft, paragraph 13, for the requirement of disclosures around the use of carbon offsets, including the verification, types of offsets, whether the amount offset is achieved, and any other information on the credibility and integrity of the offsets.

Publish What You Pay Australia strongly supports the usefulness of the information that is proposed in relation to sustainability and climate related disclosures to primary users being investors and

---

[39] IFRS Foundation. 2022. Exposure Draft: Climate-Related Disclosures. 2022, pg. 17, https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf.
[40] Ibid
[41] CDSB & ESG Research, *How to make TCFD useful for investors: a short guide,* accessed: https://www.cdsb.net/sites/default/files/how_to_make_tcfd_scenarios_useful_for_investors_a_short_guide.pdf
[42] CDP is a not-for-profit that helps companies, investors and organisations manage their environmental impacts including advising on climate disclosures. See CDP, (2022), *Common Pitfalls companies make when using scenario analysis and how to avoid them,* accessed: https://www.cdp.net/en/articles/companies/3-common-pitfalls-companies-make-when-using-scenario-analysis-and-how-to-avoid-them

companies but also to government regulators and communities as secondary users. Once again for Australia's coal, oil and gas companies project level data is essential in order to inform investors of risks and performance to enable investment decisions.

Part D: Matters for comment relating to the AASB's proposed approach (D1) and how the proposals are in the best interests of the Australian economy (D2)

This section responds to section D1 in relation to AASB proposed approach and D2 in relation to the proposals being in the best interests of the Australian economy. We support the AASB's attempts to align the approach with the growing consensus on ensuring level playing field for sustainability and climate related reporting as evidenced by the IISB, TCFD and GRI's work for common reporting across jurisdictions. Furthermore, any sustainability standards and climate related reporting must be mandatory as Publish What You Pay's 20 years of experience in advocating for greater transparency in the mining, oil and gas sectors has demonstrated that voluntary schemes do not create the sufficient incentives for company compliance. We also note the mandatory climate disclosure regimes in place or underway in the UK, US, New Zealand, Hong Kong and others. Further, we support the Investor Group on Climate Change, Center for Policy Development and UN Principles for Responsible Investment calls for TCFD aligned climate mandatory reporting in Australia by 2024.[43] The proposed implementation would be guided by a joint taskforce including representatives from investors, business, and the major accounting bodies under the oversight of the Council of Financial Regulators, consistent with the recommendations of the Climate Change Authority.[44]

Overwhelmingly the proposals in drafts IFRS S1 and [Draft] IFRS S2 are in the best interests of the Australian economy. Given the reliance of revenues from coal, oil and gas and the Australian

[43] IGCC, (2021), *Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia*,
[44] Ibid

government's increased GHG emissions targets and NDC, it clear that there is a need for strong accounting standards that include sustainability and climate related disclosures to support de-carbonization and a just transition. This includes the aligned GHG emissions disclosures for Scope 1, Scope 2, and Scope 3, including emissions intensity and actual amounts, transition plans and disclosures around scenario analysis and the assumptions underpinning them.

As part of a global coalition, we **strongly support moves for internationally aligned sustainability and mandatory climate related disclosures across capital markets that are home to large numbers of resources companies such as the UK, 27 EU nations, US and Canada.**

Part E. Main Recommendations

Industry specific disclosures for the coal, oil and gas industry

As the ultimate source of the majority of Australia's greenhouse gas ("GHG") emissions, Australia's upstream coal, oil and gas companies have outsized transition risks whose impacts will be felt throughout financial markets if they are not adequately priced into investment and voting decisions. As discussed above, little to no climate transition risk is currently priced into the oil and gas sector. Akin to the GRI, we **recommend industry specific sustainability and climate related disclosures for the coal, oil and gas sectors.**

Project-level GHG emissions disclosure

Scope 1, 2 and 3 GHG emissions intensity varies markedly by project so aggregated emissions figures may in some instances enable issuers to obfuscate the extent of risk inherent in asset portfolios by hiding high-risk projects in pools of less risky assets. Moreover, aggregated figures also prevent investors from being able to see how companies are working to address emissions risks within their portfolios. Furthermore, the IISB should **mandate project level GHG emissions disclosures that will**

enable investors, and importantly, regulators to understand whether a planned project is consistent with keeping warming to below the Paris Agreement targets of below 1.5°celsius.[45]

Scope 3 emissions disclosures

Scope 3 emissions disclosures are essential to understanding a company's total GHG emissions and thus its overall climate risk. CDP's latest global supply chain analysis showed Scope 3 emissions average 11.4 times greater than a company's direct emissions.[46] Thus **mandated and verified Scope 3 emissions disclosures are required** to enables investors to determine the climate risks and whether companies are responding accordingly. Additionally, we **support moves by the AASB and ISSB to include disclosures on GHG targets emissions, both intensity and absolute targets**.

Emissions embedded in reserves

Fossil fuel companies should disclose projections of emissions embedded in reserves. Given that fossil fuel reserves represent the overwhelming majority of upstream oil and gas companies' valuations. Coal, oil and gas companies reserves that help determine their market value and these reserves are also the basis to understanding the potential climate risks of burning these fuels[47]. Standardised projections of GHG emissions-embedded-in-reserves would generate critical forward-looking climate-risk metrics based on existing reserves disclosure requirements.[48] This would be a low burden disclosure and build upon existing practice already undertaken by the companies such as Exxon.

---

[45] In line with established international norms specified by the EU and Canada, we define "project" as operational activities that are governed by a single contract, license, lease, concession, or similar legal agreement, which form the basis for payment liabilities with a government. See Directive 2013/34/EU, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013L0034, Extractive Sector Transparency Measures Act (ESTMA), https://www.nrcan.gc.ca/our-natural-resources/minerals-mining/extractive-sector-transparency-measures-act/18180, and SEC, File No. S7-25-15 Disclosure of Payments by Resource Extraction Issuers, pp.71-72 https://www.sec.gov/rules/final/2016/34-78167.pdf

[46] CDP, (2020), *Supply Chain Report*, accessed via: https://www.cdp.net/en/research/global-reports/transparency-to-transformation;

[47] WRI, (2016), *3 reasons why fossil fuel companies should disclose their reserves,* accessed via: https://ghgprotocol.org/blog/3-reasons-why-fossil-fuel-companies-should-disclose-their-reserves

[48] PWYP US, (2022), *PWYP US Comment on proposed SEC climate rule June 2022,*

Scenario analysis / Price sensitivity analysis

We note the IFRS S2 climate-related disclosures exposure draft proposes " that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted."[49] However, given the significant risks and the widely available scenario analyses for the coal, oil and gas sectors, **we recommend mandating the use, and disclosures, of scenario analysis** for climate related risk.

Scenario analysis helps investors in understanding the robustness of organizations' strategies and financial plans and in comparing risks and opportunities across organisations.[50] Furthermore, **coal, oil and gas companies must disclose the assumptions** underpinning the scenarios to better inform investors as to how decision were made and what the underlying information and data sets that were used. Scenario analysis helps investors in understanding the robustness of organisations' strategies and financial plans and in comparing risks and opportunities across organisations.[51]

There is a compelling case for companies to actually disclose these estimates and assumptions in the first place. This information helps investors compare reporting made by companies. Key figures that should always be published by coal, oil and gas companies include:

• The commodity prices, discount rates and estimates about the remaining useful lives of assets used in forecasting revenue and costs for impairment testing.

[49]ISSB, (2022), *[Draft] IFRS S2 Climate-related Disclosures Exposure,* p.19
[50] TCFD, (2017), TCFD-Final Report, p.34
[51] TCFD, (2017), TCFD-Final Report, p.34

• The discount rates, estimated timelines and the undiscounted estimated costs used to calculate asset retirement obligations.[52]

We welcome the disclosure in B11 that requires companies to undertake a sensitivity analysis of reserves to future price projection scenarios. Undertaking this would allow investors to better ascertain how a company's reserve valuation would perform under different price scenarios. In turn this would enable an assessment on the steadfastness of the reserve valuation. We would further encourage the use of the *Net Zero Emissions by 2050 Scenario*, which sets out a narrow but achievable pathway for the global energy sector to achieve net zero CO2 emissions by 2050, noting that all four of the WEO scenarios should be used.[53]

The AASB / ISSB should require coal, oil and gas companies to analyse the sensitivity of reserves using the *Net Zero Emissions by 2050 Scenario* in addition to the three other WEO scenarios.

[52] PWYP US, (2022), *Public Comment on SEC Proposed Climate Rule June 2022,*
[53] IEA, Understanding WEO Scenarios, https://www.iea.org/reports/world-energy-model/understanding-weo-scenarios

19 July 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VICTORIA 8007

Issued by email only – kkendall@aasb.gov.au

Dear Dr Kendall

AASB Sustainability Project

Thank you for the opportunity to respond to Exposure Draft – ED321 Request for Comment on [Draft] *IFRS S1 General Requirements for Disclosures of Sustainability-related Financial Information* and [Draft] *IFRS S2 Climate-related Disclosures* (April 2022).

The Australasian Council of Auditors-General (ACAG) considered the Exposure Draft at its recent Business Meeting held on 30 June 2022.

Whilst ACAG members decided not to provide detailed comment in response to the Exposure Draft, they were collectively of the view that the audit offices are well positioned to provide assurance in relation to sustainability-related disclosure requirements as they relate to the Australian public sector should the Australian Accounting Standards Board ultimately expand its scope to include sustainability reporting.

ACAG appreciates the opportunity to comment. Should you require any additional information, or wish to discus sthis further, please do not hesitate to contact me on 0418 179 714 or at rachel.portelli@acag.org.au

Yours sincerely

Rachel Portelli
Executive Director
Australasian Council of Auditors General

About you

AY-1. Please provide your full name and email address:

First name:	Tim
Last name:	Kelly
Email:	

AY-2. Are you responding as an individual, or on behalf of an organisation?

- Individual

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:

There is a need for transparency by corporations and organisations on climate risks, exposure and their adaptation and mitigation planning activities

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 Disagree

01-BR. Please explain your answer:

There are not sufficient market based GHG and renewab;les accounting frameworks for organisations and customers to make credible assessments of their GHG exposure, or to report their scope 1, 2 and 3 emissions in a consistent way that deals with market based accounting.
In Australia there is a legal NGER Framework that uses location based accounting for approximately 415 companies. This does not apply accountring methods across the economy. The Federal Departments and Regulators DCCEEW and the Clean Energy Regulator use competing and contradictory location based and market based methods in guiding the rest of the market which result in total double counting of accredited renewable electricity and ACCU carbon offsets. Australia's carbon markets are an absolute farce and none of the repoorted emissions Scope 1, 2 & 3 can be trusted from any organisation because of the ability to choose between different methods.

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:

If there is no consistent market based GHG and renewables accounting framework, none of the disclosures can be credible

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:

As stated, In Australia there is no consistent GHG and renewables accounting framework that applies acrposs the economy, for mandatory reporting and for voluntary markets and claims.

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:

Massive renewable projects are being created with complete avoidance of GHG and renewables accounting.
There is a loopho;e under the NGER Act that allows corporations to build consume, and claim behind the meter renewables whilst selling the Large Scale Certificates that are used by third parties to meet mandatory operations or used by GreenPower customers to claim renewables use. That is one karge and growing area of double counting.
Another area is that all grid based renewables are allocated to the grid via Government NGER Determination and NGA Factors, whilst voluntary accredited renewable markets using Large Scale Certificates also claim these same renewables. All voluntary renewables via the grid are double counted.
All ACCU Carbon offsets are also double counted as basic debit and credit rules don't apply to carbon markets in Australia.

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:

First, there needs to be reform of GHG and renewabes accounting frameworks across Australia and checks that all participating nations have also established market based GHG accounting frameworks in law.

For Australia:

Market based accounting should be integrated into Australia's Climate Change Accounting Law, which is the National Greenhouse and Energy Reporting (NGER) Framework via the NGER Determination.

• No change is required for the NGER scope 1 emissions methods which by definition, are location based.

• For consistency, the National Greenhouse Accounts (NGA) Factors need to be brought into the NGER Framework to legally apply to all participants in Australia's low carbon markets. This is not about forcing all participants to report under the NGER reporting, it simply means that when sellers and buyers are making reputational, product and service based claims, they all follow the same set of market rules under a legislated framework.

• A change to the NGER Determination is needed to transition to market based accounting for scope 2 emissions will require alignment of the Determination with the GHG Protocol Scope 2 Guidance. A single method to claim renewable electricity use and zero scope 2 emissions is required. The revised NGER Determination should formerly establish a National Residual Grid Mix Factor. Those not making emissions specific claims for renewable electricity should be reporting their electricity emissions using the Residual Grid Mix Factor as the primary method, including to make any and all reputational, product and service based claims. The Dual Reporting with a location based factor should therefore become a reference point only and must not be a choice, as this would not prevent double counting.

• To align the Residual Grid Mix Factor (RMF) with a location based factor, the State Average Factors should no longer be used. Instead, dual reporting should use the National Location Based Factor to compare performance against the primary market based method.

• If LGCs are to be treated as incorporating renewable use and zero scope 2 emission attributes then these attributes need to be legally assigned with the Large Scale Certificates.

• All eight quality criteria of the GHG Protocol Scope 2 Guidance should be achieved.

• A change to the NGER Determination is needed to introduce market based accounting for carbon offsets as negative scope 3 emissions. This is essential to stop double counting across producers, consumers and sectors. Where a carbon offset such as Australian Carbon Credit Units are sold or allocated across different entities or locations, then basic debit and credit rules need to apply such that a scope 3 emission are added to a sellers account in order for scope three deductions to be claimed by a buyer/end user. This basic concept is the foundation of financial markets and must also apply to carbon markets in order for integrity, certainty and sustainability to be established.

The Safeguard Mechanism applying to facilities in Australia to prevent excess emissions needs to use basic debit and credit rules so that carbon offsets purchased reduce aggregated emissions through the -ve scope 3 ACCUs purchased When Safeguard entities sell ACCUs they need to be adding a scope 3 emission. When land or agricultural or non NGER companies create and sell ACCU carbon offsets they also need to be required to add a scope 3 emission to their accounts and claims.

• NGER reporting, Climate Active, GreenPower, the Hydrogen Guarantee of Origin Scheme and the CERT should all be based around a common single National Greenhouse and Energy Accounting framework that is established under the NGER Determination.

• Given the scale and expansion of low carbon markets together with the rapid growth of emissions and renewable electricity related claims:

o The Clean Energy Regulator needs to address the fundamental problem of low carbon markets not having a legislated carbon and renewables accounting framework.

o The Department of Industry, Science Resources and Energy needs to start addressing carbon accounting rules seriously to establish long term and sustainable carbon markets and claims integrity to legally underpin such concepts as renewable hydrogen, green steel and exporting renewable electricity to Asia, as well as underpinning Australia's domestic low carbon markets and claims.

o The Australian Securities and Investment Commission (ASIC) should be called upon to assure that NGER reporting and claims, GreenPower, Climate Active, the CERT, The Hydrogen Guarantee of Origin Scheme, NABERS are all underpinned by an emissions and renewables accounting framework that is robust and applies consistently across the economy for Corporations to be protected when making investment decisions.

o The ACCC should be called upon to assure that all the schemes have sufficient legal foundation, clarity and fairness to enable enforcement actions to be applied where required to protect consumers

o The Productivity Commission should be asked to address:

 The economic impacts of the continuation of the RET from now until 2030 noting that the target has already been achieved and continuation creates unwarranted scarcity for renewables and artificial upward pressure on prices in voluntary renewable electricity markets that are already primed to take over from the mandatory mechanism

 The economic impacts of not allowing pre 1997 renewable electricity a place in voluntary markets

 The economic impact of not having a single national accounting and allocation framework for greenhouse gas emissions, renewables and offsets to legally apply across the market to provide business and customer certainty and assurance.

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:

I agree with market based supply chain accounting at a customer, business, sector, national and international scale.
To achieve this requires:
1) market based accounting for electricity WITHIN an established electricity grid.
2) market base accounting of scope 3 emissions and carbon offsets as negative scope 3 emissions. These can be traded more broadly but only where debit and credit rules apply.
Also, Australia's trick of only requiring corporations to report Scope 1 & 2 location based emissions whilst using slight of hand approaches to allow opt in non legal market based reporting and scope 3 carbon offsets is fundamentally unethical. Carbon offsets need to be properly defined as -ve Scope 3 emissions in law, and there is no justification for big corporates to not acknowledge significant upstream and downstream scope 3 emissions.

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:

There is no time for vague unquantified greenwash and free riding.

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?

- Broadly Disagree

05-AR. Please explain your answer:

In Australia , we are not at a point where carbon offsets have any credibility.
Much of the attention is directed to methods and additionality which have been identifdfied as major problems.
However, just as significant is that there is no legislated accounting framework to support carbon offsets. There are no debit and credit rules and ACCU carbon offsets in Australia have no legal attributes.
ACCU Carbon Offsets are not actually carbon offsets
Recently, we brought you the story of how the Department of Industry, Science Energy and Resources (DISER) (Restructured on 1 July 2022 as the Department of Climate Change, Energy, Environment and Water (DCCEW), had double counted the renewables abatement from Australia's household and small scale solar systems to the grid, enabling most of this benefit to be claimed by big NGER reporting corporations as lower emissions in their Scope 2 reporting.
This week we continue in a theme of dodgy and contradictory reporting frameworks in Australia around carbon offsets. References to DCCEW and DISER should be regarded as being the same Department.
Australia's carbon offsets have received lots of negative publicity in recent months with the former Chair of the Emissions Reduction Assurance Committee Andrew Macintosh blowing the whistle on methods that are counting carbon abatement that hasn't actually been created. Readers can see more about Dr Macintoshes claims here: Australia's carbon market a "fraud on the environment".
Largely in response to these concerns, the new Federal labor Government has established an Independent Review of Australian Carbon Credit Units (ACCUs) which will not only examine the methods to create Australian Carbon Credit Units (ACCUs) but also look at legislative requirements to ensure good governance and confidence in scheme integrity Any other matters relevant to the integrity of ACCUs and requirements for the use of ACCUs under the voluntary Climate Active scheme.
There are two key areas where the Government can completely fail with regard to the integrity of ACCUs and carbon markets more generally. One relates to bad methods and the second area is bad or non-existent market based accounting frameworks. This article deals with the accounting of ACCUs and the abatement that they are used to convey.

The planned Review does not go far enough and should have covered market based accounting reform for both carbon offsets and renewable electricity (stay tuned for the next in this series of carbon accounting for 'Almost all voluntary renewables double counted'). This article however will focus on ACCUs.
To understand the double counting issues that surround ACCUs, there is first a need for a basic understand of how direct and indirect greenhouse gas emissions are accounted for in scopes. The following diagram provides a typical overview that is used inby the GHG Protocol and has been used by the Federal Government in the past:
Scope 1 emissions are the direct release of GHGs from a given facility or area activities such as from fuel burning, leakage of methane or refrigerant gases.
Scope 2 emissions are indirect emissions related to energy consumption that has been transported to a site where an emissions was caused at another site. The most common form of Scope 2 emissions in Australia are from electricity consumption, where electricity was created from fuel burning at another site.
Scope 3 emissions are all other indirect emissions typically associated with upstream purchasing downstream use of a product that causes emissions after sale.
Emissions can also be positive or negative. Negative emissions to take carbon dioxide out of the atmosphere can occur on a site where a forest is re-established to sequester carbon from the atmosphere, or through carbon capture and geological storage. Where this occurs, it can be claimed as a negative scope 1 emission at that facility or site (and only at that site)
What are ACCUs
By considsering the diagram above,bBy definition , ACCUs are not negative Scope 1 emissions as carbon offsets are are related to off site activities.
By definition, ACCUs are not negative Scope 2 emissions as they are not a form of energy.
By definition, ACCUs are negative scope 3 emissions as they are associated with a claim relating to a purchased activity that has occurred offsite.
ACCUs are used in Australia to offset emissions and are created in relation to an emissions reduction activity that has occurred elsewhere in the market. The offset may be traded for a compliance requirement of a facility, or for voluntary markets, or to sell to the Government that uses taxpayer money to pay for emissions reduction activities.
How are ACCUs accounted for in Australia
The first issue is that ACCUs as Australia's carbon offsets do not actually incorporate any carbon offset attribute in law. This is the cause of a massive double counting and integrity problem.
Part 2 of the Carbon Credits (Carbon Farming Initiative) Act 2011 describes how ACCUs are created and issued in relation to eligible offset projects but there is no adequate definition of what ACCUs are, or any attributes that they could potentially contain or how they should be used in relation to claims. There is a No double counting test under the Certificate of Entitlement Provisions in Division 3, but this test only deals with potential double counting of certificates, not double counting of abatement.
Accounting for ACCUs under the NGER Act and NGER Determination
The NGER Determination used by approximately 415 of Australia's largest GHG emitters and electricity consumers, only requires reporting of Scope 1 and Scope 2 emissions. By definition, Scope 1 emissions are reported by the location of the facility where the emission takes place, and by choice, the Australian Government has used a state location based grid electricity emissions factor to apply to scope 2 emissions. For NGER reporting organisations, there is no requirement for scope 3 reporting and no market based accounting (such as for buying accredited renewable electricity or carbon offsets is provided for in NGER reporting) In fact market based concepts cannot work under NGER reporting without double counting.
Accounting for ACCUs under the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015
The NGER Safeguard Rule is actually entirely different legislation with a different and contradictory accounting approach to the NGER Determination. It is actually bazaar that it has the NGER terminology in its title as the NGER Framework was intended to be a single reporting framework yet here is a different accounting framework sharing the same name.
The Safeguard Mechanism rule allows ACCUs to be used by corporations to prevent what the Rule calls an 'excess emissions situation' where a facility may emit more emissions than it is entitled to discharge. This means that ACCUs are used to reduce the facility Scope 1 emissions without calling it that. The Clean Energy Regulator has confirmed that "Surrendering ACCUs does not alter a facility's total scope 1 emissions". They do but they don't.
There are some important issues to note in relation to how the Rule is treating ACCUs.

- They are enabling an indirect emission offset certificate (Scope 3) to directly reduce direct emissions (scope 1) at a facility under the name of reducing an 'excess emissions situation'.
- The ACCUs do not legally contain any negative emission to use for this purpose and there has been no adjustment to the emissions of the sellers account. Where the abatement activity has occurred in a different sector (such as a land use sector), there has also been no adjustment for the sector accounting.
- Where an NGER Reporting Corporation or Safeguard facility creates and sells ACCUs, the CER has confirmed that "Similarly, corporate NGER totals are not adjusted with changes in ACCUs sold as they reflect the actual emissions reported under NGER, not the facility's safeguard position".

The Department in its response to the 2022 NGER Determination consultation has stated that:
The Department does not intend to explore options for market-based estimation of scope 1 emissions in the NGER Scheme at this time. The Scheme's approach to scope 1 emissions estimation is designed to support Australia's international emissions reporting and target tracking obligations. As such, it is consistent with the rules and guidance adopted under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, including Intergovernmental Panel on Climate Change (IPCC) guidelines.

By definition, Scope 1 emissions are location based, even where market based accounting has been adopted for scope 2 and scope 3 emissions accounting. The statement which refers to 'at this time' suggests that the idea has not been ruled out which demonstrates a comprehension failure of GHG accounting. Despite this, the Department and government have in fact established the Safeguard Rule to use offsets to reduce combined scope 1&2 location based emissions with market based ACCUs. Under the Corporate Emissions Reduction Transparency reporting scheme the department has gone even further to allow ffsets to directly reduce Scope 1 emissions for a "net scope 1 emissions" claim.

Accounting for ACCUs by non NGER market participants

Where a business creates creates and sells ACCUs (such as from not clearing land that they have a legal authorisation to clear, or by planting trees or by site improvements to increase carbon sequestration from vegetation), the CER has confirmed that "Non-NGER reporters are not obligated to add abated emissions from delivered units onto net emissions". This means that a carbon farmer can claim the abatement on property, whilst selling ACCUs to third parties.

Accounting for ACCUs by end users in voluntary markets

There is no legislation that covers end user claims or economy wide scope 1, 2 and 3 reporting (NGER only applies to ~415 Corporations and only for Scopes 1&2). This means that for all voluntary market participants there are no rules, just perceptions and selective use of bits and pieces from the NGER framework whilst a whole series of different market based accounting concepts and used and misused.

- Public end use customers

Public end use customers (including myself) may typically purchase carbon offsets as part of a product which could be a carbon offset flight, carbon offset electricity, carbon offset fossil gas, or just doing business with an organisation that claims to be carbon neutral. As a public end user, there shouldn't be any need to understand emission scopes or double counting, there should just be robust frameworks established in legislation to prevent double counting and ensure that Australian Consumer Law is complied with.

Sadly however, because ACCUs can be claimed by the creators of the ACCUs, or businesses that have sold ACCUs make no adjustment, and the ACCUs that consumers pay for, do not include the emission reduction attribute in law, the entire framework lacks integrity and is riddled with double counting.

- Business claims - Climate Active Carbon Neutral Program

Climate Active is a Federal Government initiative and standard to guide businesses as they account for and reduce carbon emissions. It is designed for community take action by making it easier to identify and choose brands (paraphrased).

Climate Active uses market based concepts for accredited renewable electricity and carbon offsets (including ACCUs) to either sell products and services or promote branding of organisations as clean and green.

However, Climate Active also accepts location based emission claims to be used in parts of its standards at the same time, and this means that the abatement associated with renewables and ACCUs can be double counted. In addition, the location based accounting of NGER reporting corporations is not altered by Climate Active.

Climate Active provides a level of assurance and legitimacy that is actually not possible under law because Australia has not yet adopted market based accounting for renewable electricity or carbon offsets.

Corporate Emissions Reduction Transparency (CERT) reporting program

The CERT was created by the Federal Government in 2021 to make reputational claims about their greenhouse reductions using market based accounting in addition to their NGER Reporting which precludes market based accounting. The CERT is being trialled in 2022, but has not addressed the systemic double counting issues that it is perpetuating. The CERT allows Corporations to choose between market based accounting or location based accounting as it best suits the Corporation.

Scope 1 emissions can be directly offset using ACCUs (-ve scope 3 emissions), whilst there is still no requirement for corporations to report on their other upstream or downstream emissions. The big emitters and electricity consumers get to claim emission reductions with no accountability for their scope 3 emissions. This arguably amounts to a rort and the entire CERT scheme as presented to date is false in law and is a contradiction.

The Clean Energy Regulator has defined ACCUs under the CERT as "A unit issued pursuant to the Carbon Credits (Carbon Farming Initiative) Act 2011 and is equal to one (1) tonne of carbon dioxide equivalent" This definition completely misrepresents the Carbon Farming Act as it does not say that ACCUs are equal a tonne of carbon dioxide equivalent, it only defines how an ACCU is created. It is argued that the Clean Energy Regulator is misrepresenting legislation.

When developing the scheme, the Regulator had stated that the CERT "will be underpinned by the National Greenhouse and Energy Reporting scheme", but following complaint that the CERT was contradictory to the NGER Scheme this was later changed in the second round consultation to the "CERT is underpinned by data collected as part of the NGER scheme and the Renewable Energy Target (RET)".

How should carbon accounting be reformed for ACCUs?

The first step is to broaden the scope of the NGER Determination to cover guidance on Scope 3 emissions reporting, and to then define ACCUs as negative scope 3 emissions in legislation.

The NGER Framework through a reformed NGER Determination should be Australia's single GHG and renewables accounting framework that applies across the whole economy, both for mandatory reporting and voluntary markets, and should cover scope 1, Scope 2 and Scope 3 accounting.

- Scope 1 emissions accounting would not change (by definition, it is location based). With ACCUs legally defined as negative scope 3 emissions, there will be clarification that the use of carbon offsets does not change scope 1 emissions, but rather is an offset for combined scope 1+2+3 emissions. .

● Scope 2 accounting should be changed to market based accounting (more about this next week)
● Scope 3 accounting guidelines should be introduced to cover the approaches to acknowledge upstream and downstream supply chain emissions and carbon offset accounting.
● Debit and credit rules should apply
DEBIT RULE When a creator of ACCUs sells these offsets they should add a scope 3 emission to their account.
For example, where a farmer sequesters 1000 tonnes of carbon dioxide from re-establishing forest, they can claim 1000 tonnes of negative scope 1 emissions. If they create and sell 1000 tonnes of ACCUs from this activity, they must add 1000 tonnes of scope 3 emissions to their account. Their net result for this activity is -1000 tonnes S1 + 1000 tonnes S3 which = 0 tonnes overall.
The buyer could then use and claim the -1000 tonnes S3 to offset their aggregate emissions.
CREDIT RULE When a buyer of an ACCU or user of an offset product they are entitled to claim a scope 3 emissions reduction
● Currently, NGER reporting corporations are not required to acknowledge or quantify significant scope 3 emissions. However, when NGER reporters seek to make reputational claims using market based accredited renewables or carbon offsets (including ACCUS), they should be required to report on all significant scope 3 emissions.
Conclusion
Because ACCUs are not legally defined as incorporating a negative emission and in fact the abatement can be claimed by the creator and end user at the same time, there is a fundamental lack of integrity in Australia's only carbon offset unit. The problem is cause by a reluctance by the federal Government to properly establish market based accounting for scope 2 and 3 emissions.
ACCUs are used by the federal Government to pay polluters for emissions reductions in the absence of any carbon pricing mechanism, they are used by business to create as a source of revenue and by consumers for an emissions reduction attribute that they don't have.
The issue can be fixed but to date it appears that the responsible Government Department does not have regard to established carbon accounting processes and has created perverse concepts which benefit big polluters.
The Department claimed in their consultation Outcomes report for the 2022 NGERE Determination Consultation that it would not be considering the use of ACCU Carbon offsets to reduce Scope 1 emissions in NGER Reporting. Such a concept should never be adopted under any conditions as that is not how carbon accounting works. The Department has allowed this under the Safeguard Rule under a different name and it should not have done so.
The Department has allowed for ACCUs to be used directly against scope 1 emissions in its CERT reporting scheme for an offset Net Scope 1 emissions outcome value. It should not have done so.
The Department has created multiple and growing different and contradictory accounting and assurance schemes.
Australia only needs one market based accounting framework for GHG emissions, offsets and renewables, to be established in law and to prevent double counting.

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.

- Yes

05-BR. Please explain your answer:
A Renewable Electricity Transition Plan should be included based on market based accounting principles. To do this, nations need to establish market based accounting for electricity under legislation for all market participants and stop the use of location based scope 2 emission claims.
Also, it is important that the Residua;l Mix factors of major grids are covered by a legislated determination (such as the NGER Determination).
In Australia, the Federal Government has created a Residual Mix Factor under Climate Active that is not appropriately used, calculated or understood.
It currently does not net out all small scale solar schemes claimed by householders and does not net out voluntary accredited renewables. As previouslky stated, All voluntary accredited renewables in Australia are double counted.

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?

- Broadly Disagree

05-CR. Please explain your answer:
Without fundamental reform, a legal foundation, defining carbon offsets as negative scope 3 emissions and basic debit and credit rules all of these disclosures will lack any credibility or meaning.
They will simply be another attempt to legitimise greenwashing and free riding.

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?

- Broadly Disagree

05-DR. Please explain your answer:

As covered above, carbon offsets in Australia are not legitimate, remain undefined in scope and basic debit and credit rules do not apply.

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 Disagree

06-BR. Please explain your answer:

If the GHG and renewables accounting is flawed the financial disclosures associated with GHG and renewables disclosures is also flawed

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 Agree

06-CR. Please explain your answer:

N/A

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?

For small entities this might be difficult. Could be addressed at a sector level, such as at a retail sector level

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?

- Broadly Agree

07-ER. Please explain your answer:

N/A

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 Agree

09-AR. Please explain your answer:

This won't work unless there are legislated market based rules for emissions accounting covering scope 1, 2 and 3 emissions.
There needs to be market based rules for accounting for electricity that are established in law and are not undermined by Governments continuing to allow Corporations to report on location based electricity scope 2 emissions.
Carbon offsets need to be legally defined as negative scope 3 emissions in all participating jurisdictions or systemic double counting will continue.
The correct use of applying carbon offsets needs to be defined for these disclosures to prevent against nonsense concepts that the Federal Government in Australia has used such as Net scope 1 emission values.
If carbon offsets are used at all, they must be used as a negaitve Scope 3 emission applied across the aggregate of an entities Scope 1+Scope 2 + significant Scope 3 emissions. It is completely inappropriate for carbon offsets to be claimed under Scope 1& 2 only disclosures such as the Australian Government's Corporate Emissions Reduction Transparency (CERT) reporting scheme.

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.

- No

09-BR. Please explain your answer:

N/A

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:

The GHG Protocol is itself vague and does not prescribe accounting standards and methods.
The GHG Protocol Scope 2 Guidance should bu updated to guide Market Based Only scope 2 accounting because dual reporting is overly complex and has been exploited to ignore the Guidance Quality criteria and allow simultaneous choice of either location based or market based methods. Itr is misrepresened in Australia.
The GHG Protocol is very poor on market based accounting and use of carbon offsets. It needs to be updated to adequately define carbon offsets as negative scope 3 emissions and establish debit and credit principles for GHG accounting across sellers and buyers.

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 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))?

- Broadly Disagree

09-DR. Please explain your answer:

Need to be dis-aggregated.
The only time for aggregation is at the highest level of stating that a corporations combined scope 1, 2 & 3 emissions are:.......

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 Agree

09-FR. Please explain your answer:
N/A

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 Agree

011-AR. Please explain your answer:

N/A

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

N/A

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?

- Broadly Disagree

011-CR. Please explain your answer:

First, we need basic GHG and renewables accounting reforms. Consistent legislated frameworks are required in each jurisdiction as is expected of financial markets.

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

Financial disclosures rely on legislated and consistent market based GHG and renewables accounting across all jurisdictions.

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 Agree

011-ER. Please explain your answer:

N/A

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

- Broadly Agree

011-FR. Please explain your answer:

N/A

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:

Consistency is essential for credibility.
In Australia, selecting from multiple GHG accounting methods and frameworks has created nothing but distrust and confusion.

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:

As previously discussed, the GHG Protocols need to be updated to properly define carbon offsets as negative scope 3 emissions, and guide basic debit and credit rules. The GHG Protocol Scope 2 Guidance needs to be updated to guide market based only Scope 2 emissions accounbting to stop the confusion and systemic misuse and double counting of, renewables use and scope 2 emissions avoidance.

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?

- Broadly Agree

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:

There needs to be a greater customer and end user focus. The customers are the ones that need to tolerate the industry narrative, good, bad and greenwash.

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.

- No

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?

- No

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?

Carbon markets as a whole are at stake.
Currently there is nothing credible in Australia's carbon markets.
If consumer confidence cannot be assured through LEGISLATED frameworks and assurances, then there will not be any consumer confidence/

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

Australia has now created the NGER Determination, the National Greenhouse Accounts, Climate Active accounting, the Corporate Emissions Reduction Transparency Report, NABERS, the Hydrogen Guarantee of Origin Scheme, GreenPower, Voluntary Surrender of LGCs and is now looking at a Renewables Guarantee of Origin Scheme.
All of these schemes apply different competing and contradictory GHG and renewables accounting methods and concepts creating an absolute farce with complete double counting of everything, with great complexity and excessive bureaucracy and cost.
est need one National Greenhouse and Energy Accounting Scheme that is market based and applies across all organisations and markets to be used by those with mandatory obligations and in voluntary markets.

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?

- No

012-CR. Please explain your answer:

N/A

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:

Nothing can be audited, verified or enforced if there are legislated and consistent market based rules for GHG and renewables accounting.
Scope 1 is location based always
Scope 2 should be market based only, unless a jurisdiction and electricity grid is already 100% renewable
Scope 3 is by definition, market based, and therefore carbon offsets are also by definition, scope 3 and market based.
Debit and credit rules need to apply
Carbon offsets should only be applied across aggregated S1+S2+ Significant S3 emissions and nothing less.

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?

- Later

014-AR. Please explain your answer:
Entities should not try and use this Disclosure Framework until the basic foundational GHG and Renewables accounting frameworks are legally established in their country of operation.
Without this the disclosures are meaningless and potentially greenwash.

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.
N/A

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 Disagree

014-CR. Please explain your answer:
No legal foundation. Systemic double counting.

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)?

No,

Get the rules right with a single common accounting framework and then ease of reporting will be optimised.

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?

N/A

016-AR. Please explain your answer:

International debit and credit rules for dealing with carbon offset trades

Question 17—Other comments

017-AR. Do you have any other comments on the proposals set out in the Exposure Draft?

I would be very happy to discuss my submission.

My recent submission on the National Greenhouse and Energy Reporting Determination 2022 is relevant. I will be making a direct submission.

Kind regards

Tim Kelly

29 April 2022

Tim Kelly
Adelaide SA

Department of Industry, Science, Energy and Resources
National Greenhouse and Energy Reporting
Emissions Reduction

Cc ACCC

RE: Updates to National Greenhouse and Energy Reporting (NGER) Scheme legislation.

Please accept this submission on NGER Determination amendments for 2022.

Some of the needs for reform identified in previous NGER submissions include:

- The NGER Framework should be reformed to cover an economy wide approach to transitioning to a low carbon economy, not just isolated segments and schemes.
- Landscape fugitive emissions away from gas wells, potentially caused or aggravated by dewatering and hydraulic fracturing to be addressed in the NGER Framework.
- Anomalies in deforestation and reafforestation to be addressed.
- Supporting retail accredited renewables to exist in law without double and triple counting
- The introduction of a no double counting principle into the NGER Framework. Just as we would expect in the banking sector.

2022 SUBMISSION

Regarding the update the methodology used to calculate 'Scope 2' emissions, which arise from consuming grid electricity, the amendments do not provide an acceptable outcome that is consistent with the first Object of the NGER Act to:

> *Introduce a single national reporting framework for the reporting and dissemination of information related to greenhouse gas emissions, greenhouse gas projects, energy consumption and energy production of corporations to:*
>
> *(b) inform government policy formulation and the Australian public; and*
> *(c) meet Australia's international reporting obligations; and*
> *d) assist Commonwealth, State and Territory government programs and activities; and*
> *(e) avoid the duplication of similar reporting requirements in the States and Territories.*

The reason why the NGER Determination does not provide a *single National Reporting Framework to inform the Australian Public* about the claims of Corporations or their products is because DISER has not supported or adopted market based accounting for scope 2 emissions or to deal with scope 3 emission acknowledgements or offset claims in law.

There has been inadequate attention to the national and international shift towards market based action and accounting, despite Australia not having an effective mandatory mechanism for almost a decade.

In 2020, the DISER General Manager - National Inventory Systems and International Reporting Branch stated that:

> *The Department would like to acknowledge the potential benefits of a market-based approach system to scope 2 accounting. When the department last conducted an analysis and public consultation on this proposal it found that the benefits of using a contract-based approach were outweighed by the additional complexity, information requirements and lack of transparency. The department remains open to the view, however, that as circumstances evolve over time, a different balance and different conclusions may be possible in future.*

In 2022, the Department has created and/or supported not one, but many market based accounting schemes, none of which are supported in legislation for offsetting, renewables use or abatement attributes. The Department has made the situation overly complex, completely lacking integrity and usability whilst continuing to cause systemic double counting of renewable electricity and abatement claims through offsets that are not yet supported by law.

The Department continues to support, and promote location based greenhouse gas accounting whilst at the same time establishing and/or directly or indirectly supporting market based accounting through the Corporate Emissions Reduction Transparency (CERT) reporting scheme, through the Hydrogen Guarantee of Origin (GoO) scheme, the Climate Active Scheme, GreenPower and the voluntary surrender of Large Scale Certificates (LGCs). Each one of these schemes is founded on making market based GHG or related claims of corporations and businesses relating to their reputation, products, services or end use consumption.

The Department has not respected the Object of the NGER Legislation for a "single national reporting framework" and has instead created multiple and contradictory frameworks, one in law and the rest sitting outside legislation. The Hydrogen GoO scheme is an example of a framework that will be used by NGER scale Corporations. This is not different accounting it is double counting.

The CERT is also created primarily for use by NGER Reporting Corporations using market based methods that are precluded by or not covered by the NGER Determination. This not only leads to utter confusion on basic issues such as what defines renewable electricity use and how carbon offsets should accounted for in consumer markets, but it also creates systemic double counting and free riding.

Australia's multiple contradictory GHG, renewables and offsets schemes are all used by NGER liable corporations, non NGER businesses, market intermediaries and end user consumers for reputational, products, service and consumption based claims.

In seeking to suggest that NGER is for a different purpose, the Department has created utter confusion

SOLUTION TO ESTABLISH INTEGRITY IN AUSTRALIA'S MANDATORY REPORTING AND VOLUNTARY CARBON AND RENEWABLE ENERGY MARKETS

Australia as an advanced economy with an established REC Registry and Clean Energy Regulator should now fully embrace market based GHG accounting for renewable electricity and carbon offsets.

Reccommendations

To achieve this outcome, market based accounting should be integrated into Australia's Climate Change Accounting Law, which is the National Greenhouse and Energy Reporting (NGER) Framework via the NGER Determination.

- No change is required for the NGER scope 1 emissions methods which by definition, are location based.
- For consistency, the National Greenhouse Accounts (NGA) Factors need to be brought into the NGER Framework to legally apply to all participants in Australia's low carbon markets. This is not about forcing all participants to report under the NGER reporting, it simply means that when sellers and buyers are making reputational, product and service based claims, they all follow the same set of market rules under a legislated framework.
- A change to the NGER Determination is needed to transition to market based accounting for scope 2 emissions will require alignment of the Determination with the GHG Protocol Scope 2 Guidance. A single method to claim renewable electricity use and zero scope 2 emissions is required. The revised NGER Determination should formerly establish a National Residual Grid Mix Factor. Those not making emissions specific claims for renewable electricity should be reporting their electricity emissions using the Residual Grid Mix Factor as the primary method, including to make any and all reputational, product and service based claims. The Dual Reporting with a location based factor should therefore become a reference point only and must not be a choice, as this would not prevent double counting.
- To align the Residual Grid Mix Factor (RMF) with a location based factor, the State Average Factors should no longer be used. Instead, dual reporting should use the National Location Based Factor to compare performance against the primary market based method.
- If LGCs are to be treated as incorporating renewable use and zero scope 2 emission attributes then these attributes need to be legally assigned with the Large Scale Certificates.
- All eight quality criteria of the GHG Protocol Scope 2 Guidance should be achieved.

- A change to the NGER Determination is needed to introduce market based accounting for carbon offsets as negative scope 3 emissions. This is essential to stop double counting across producers, consumers and sectors. Where a carbon offset such as Australian Carbon Credit Units are sold or allocated across different entities or locations, then basic debit and credit rules need to apply such that a scope 3 emission are added to a sellers account in order for scope three deductions to be claimed by a buyer/end user. This basic concept is the foundation of financial markets and must also apply to carbon markets in order for integrity, certainty and sustainability to be established.
- NGER reporting, Climate Active, GreenPower, the Hydrogen Guarantee of Origin Scheme and the CERT should all be based around a common single National Greenhouse and Energy Accounting framework that is established under the NGER Determination.
- Given the scale and expansion of low carbon markets together with the rapid growth of emissions and renewable electricity related claims:
    - The Clean Energy Regulator needs to address the fundamental problem of low carbon markets not having a legislated carbon and renewables accounting framework.
    - The Department of Industry, Science Resources and Energy needs to start addressing carbon accounting rules seriously to establish long term and sustainable carbon markets and claims integrity to legally underpin such concepts as renewable hydrogen, green steel and exporting renewable electricity to Asia, as well as underpinning Australia's domestic low carbon markets and claims.
    - The Australian Securities and Investment Commission (ASIC) should be called upon to assure that NGER reporting and claims, GreenPower, Climate Active, the CERT, The Hydrogen Guarantee of Origin Scheme, NABERS are all underpinned by an emissions and renewables accounting framework that is robust and applies consistently across the economy for Corporations to be protected when making investment decisions.
    - The ACCC should be called upon to assure that all the schemes have sufficient legal foundation, clarity and fairness to enable enforcement actions to be applied where required to protect consumers
    - The Productivity Commission should be asked to address:
        - The economic impacts of the continuation of the RET from now until 2030 noting that the target has already been achieved and continuation creates unwarranted scarcity for renewables and artificial upward pressure on prices in voluntary renewable electricity markets that are already primed to take over from the mandatory mechanism
        - The economic impacts of not allowing pre 1997 renewable electricity a place in voluntary markets
        - The economic impact of not having a single national accounting and allocation framework for greenhouse gas emissions, renewables and offsets to legally apply across the market to provide business and customer certainty and assurance.

WHY WAS THERE NO CONSULTATION ON THE NATIONAL GREENHOUSE ACCOUNTS (NGA) FACTORS?

Content of the NGA Factors

For years, the Department has published the NGA Factors which is for a broader (but non-defined) use in markets without there ever being consultation on this document.

The document is used as the foundation for the emission values published on consumer electricity bills and in carbon calculators across the nation. They are used in the analysis behind important modelling such as that undertaken to support the Future Fuels Strategy, its discussion and recommendations.

The NGA Factors extends into Scope 3 accounting which is important to consumer markets and the reputational claims of the business sector. However, the NGA Factors still do not cover the concept of market based renewables or carbon offsets, and they have zero standing in law.

I had asked the Department as to whether it would include consultation regarding the NGA Factors as part of this NGER Consultation, given that the department had claimed that:

> *Regarding the NGA Factors – Methods contained in this workbook are based on Method 1's extracted from the NGERS Measurement Determination. The workbook is intended for voluntary use by non-NGERS reporters to estimate their carbon footprint. It has no legal standing, and therefore, it is not our practice to consult on annual updates. In any case, any amendments flowing through from NGERS are consulted on through the regular NGERS consultation process.*

If the Department believes the NGA Factors are covered by NGER Consultation then it should have broadened the scope of the NGER Determination Consultation to cover the NGA Factors and scope 3 components. The key matter of the NGA Factors covering Scope 3 emission values does by definition, mean that the NGER Determination Consultation cannot cover key emissions methods relating to indirect upstream or downstream scope 3 emissions. The consultation should have begun to manage the interface with renewable electricity and offset markets for end users.

Lack of Purpose and Guidance regarding the NGA Factors.

In response to suggesting to the Department that the **NGA Factors** are "dumped in the market without any legislative teeth or a clearly defined role, a DISER Officer commented that:

> *One of his main points appears to be that electricity companies and so on use the NGERS factors in their bills for people to estimate the emissions. "end user claims and are dumped in the market without any legislative teeth or a clearly defined role". I'm not really sure what to say about that, as that is companies using what we provide.*

Well, yes, that is the point. The NGA factors are dumped into the market and used by businesses and consumers to make reputational, product, service and consumption based claims using the NGA Factors based on location based methods. At the same time there are now a growing

number of alternative schemes each with contradictory accounting methods (CERT, Hydrogen GoO, Climate Active, NABERS, GreenPower and Voluntary surrender of LGCs).

The market does use what the Department provides or does not provide. Currently the Department provides contradictory schemes and documents with inadequate guidance resulting in all the market based methods for renewables and offsets being unsupported by law and double counted.

- Ordinary household and small business GreenPower customers are still being charged for ~120% LGCs to buy 100% accredited renewable electricity
- NGER corporations (particularly in the mining, resource processing and water industries) are able to produce and consume and claim renewables from behind the meter or in close proximity to their facilities whilst creating and selling LGCs to other consumers where they are claimed again and double counted.
- Carbon offset creators can claim the abatement sold as offsets and claimed by others
- All accredited voluntary renewable electricity is double counted
- Abatement from all household and small scale solar renewable systems is double counted.
- There is no legal definition of what constitutes voluntary renewable electricity from the grid.
- There is massive confusion on the use of the state based emission factors, the Climate Active market based Residual Mix Factor (RMF) and market based renewable claims, such that consumers in South Australia do not know if they should pay 120% for GreenPower, or claim the ~20% mandatory renewables component, or claim the 65% state renewables generation component, or just claim renewables in connection with a generation facility without any LGCs.

Australia's greenhouse and renewables accounting is unworkable and unusable for voluntary markets.

It would be less complicated for the Government to simply amend the NGER Determination to support market based Scope 2 accounting and to enable carbon offsets to function as negative scope 3 emissions with basic debit and credit rules. Then there could be one national accounting framework and the assurance schemes could then just focus on assurance, not on parallel fairytale accounting methods. The NGER Determination could then absorb the NGA Factors.

TAKING OF HOUSEHOLD SOLAR ABATEMENT

The Department, using STC information provided by the Clean Energy Regulator has effectively taken the household abatement of all household solar systems and allocated this to reduce state grid factors, with full double counting. Approximately 60% of the abatement benefits of household solar goes to NGER liable corporations. These benefits are no longer small and cannot be trivialised.

This action by the Department appears to directly contravene the NGER Technical Guidelines (2017-18) which state that:

$$EFG\ scope2_i^t = \frac{\text{Combustion emissions from electricity consumed from the grid in state } i\ (CE_C_i^t)}{\text{Electricity sent out consumed from the grid in state } i\ (ESO_C_i^t)}$$

Where

'combustion emissions from electricity consumed from the grid in state i' (CE_C_{ti}) and 'energy sent out consumed from the grid in state i' (ESO_C_{ti}) are defined in terms of the state's electricity grid generation, imports and exports as follows:

$$CE_C_i^t = CE_P_i^t + \sum^{j}\left(\frac{ESO_M_{j,i}^t}{ESO_P_j^t} \times CE_P_j^t\right) - \sum^{k}\left(\frac{ESO_X_{i,k}^t}{ESO_P_i^t} \times CE_P_i^t\right)$$

$$ESO_C_i^t = ESO_P_i^t + \sum^{j} ESO_M_{j,i}^t - \sum^{k} ESO_X_{i,k}^t$$

where

CE_P_{ti} is the total CO_2-e emissions from fuel combustion at generation attributed to the electricity generated/produced for the grid in state i in financial year t

CE_P_{tj} is the total CO_2-e emissions from fuel combustion at generation attributed to the electricity generated for the grid in state j in financial year t

$ESO_M_{tj,i}$ is the imports of energy sent out from state j to state i in financial year t. Imports are calculated from the interregional flows of electricity across the interconnectors published by the National Electricity Market Management Company (NEMMCO)

$ESO_X_{ti,k}$ is the exports of energy sent out from state i to state k in financial year t. Exports are calculated from the inter-regional flows of electricity across the interconnectors published by NEMMCO

It is important to note that household renewables produced and consumed behind the meter:

- Are not sent out to the grid
- Are not consumed from the grid
- Are not produced for the grid.

The Department had no justification to take the abatement from small scale system owners without any attempt to determine the proportion of small scale use behind the meter or the net surplus exported to the grid.

The treatment of householders to take their abatement and allocate this to the grid is opposite to the treatment of NGER corporations producing and consuming behind the meter renewables which are not allocated to the grid.

The worst aspect of this Departmental administrative action is that the double counting of small scale abatement by households is not and has never been properly disclosed to households or other small scale system owners as a part of disclosure when Small Tradeable Certificates (STCs) are signed across to third parties. Indeed, even when asking questions to the Department directly about this situation it took at least four years to get a clear answer that yes, all the abatement from small scale systems is allocated to state grid factors. The householder effort is being claimed a second time by all other consumers.

CERT TREATMENT OF CARBON OFFSETS AND CONSEQUENCES FOR THE NGER DETERMINATION

The DISER CERT scheme has adopted an approach for carbon offsets to be directly used to reduce scope 1 emissions.

This approach is a fundamental perversion of accounting for emissions in scopes, because offsets rightly belong the Scope 3 accounting column These are indirect emissions reduction activities that occur outside the boundary of operational control by a business or consumer and should be carefully claimed against the aggregate of scope 1, 2 & 3 emissions. Where an abatement of 1 tonne of GHG is achieved by a third party and they sell the abatement, that provider should add a scope 3 emission to their account so a consumer can claim a scope 3 reduction. Sadly, Australia has not applied basic debit and credit rules to carbon offset markets so the seller can claim the abatement as well as the consumer, which of course results in double counting.

Through the perverse CERT treatment of offsets, it appears that the Department is trying to shield Corporations from acknowledgement of scope 3 emissions that are not reported on via mandatory NGER Reporting, whilst enabling to claim the indirect reductions of offsets by shifting offsets into the Scope 1 column for corporations to claim a reduced 'Net scope 1 emissions' value.

This approach is opposed because it is so perverse, but if it is the case that NGER liable Corporations are to be able to claim lower 'net scope 1 emissions' when buying offsets through the CERT or even in general claims, then the NGER Determination should also require that NGER liable corporations add 'net scope 1 emissions' when selling offsets. This is not an extreme concept, just a basic market based accounting convention to ensure integrity that is quite well accepted in financial markets and banking.

HOW AUSTRALIA IS DOUBLE COUNTING RENEWABLES AND OFFSETS.

I attach the text from a recent article that I authored for the Fifth Estate Spinifex online magazine. This describes an overview of Australia's double counting and failure to legally establish market based accounting.

How Australia's accredited renewable electricity products and carbon offsets are systemically double counted and lack legal foundation.

I have been asked by several peers to provide a summary of the key legal and accounting issues behind my assertions that Australia's accredited renewable electricity products and carbon offsets lack legitimacy and integrity. This might come as a surprise to some, but it is pretty easy to back up. Over many years, the government departments, assurance organisations and authorities have not been able to provide a credible to dispel concerns raised and typically dismiss them as out of scope or not a current priority.

Greenhouse Accounting Overview and the Greenhouse Gas Protocol

Greenhouse and renewable electricity accounting is often seen as a complicated rules and policy that are too complex for most consumers to understand, yet if renewable electricity and offsets were solid objects that could be traded in blocks, then the accounting issues would be apparent for all to see.

The Greenhouse Gas Protocol is a globally accepted set of standards for accounting for greenhouse gas emissions and describes key types of emissions as outlined below:

- **Scope 1** emissions are direct emissions from burning fossil fuels or releasing other harmful gasses.
- **Scope 2** emissions are indirect emissions associated with using energy where the emissions occur in another location, including imported electricity, heat and steam.
- **Scope 3** emissions are other indirect emissions in the life cycle of products and services.

ACCOUNTING FOR ELECTRICITY AND RENEWABLE ELECTRICITY

Accounting for electricity and renewable electricity is specifically referring to the Scope 2 emissions area.

There are different potential ways to account for scope 2 emissions and it is up to Governments to determine how Scope 2 emissions will be accounted for in their jurisdictions. However, the GHG Protocol does provide guidance on how to establish accounting that ensures quality and integrity for two broad alternative approaches.

- One way to account for electricity is referred to the **Location Based Method** where emissions from all generation sources are pooled together and are allocated across all customers in a jurisdiction in proportion of their electricity consumption from the grid. This is done through a pooled emissions factor that applies to that market jurisdiction. It means that regardless of any decision made by a customer, all electricity emissions are allocated at the same rate per kWh. Under such a framework, choices like GreenPower do not work.

- The other way to account for electricity emissions is referred to as the **Market Based Method** which is designed to enable customer choices for renewable electricity so that individual households and businesses can buy accredited renewable electricity, claim renewable electricity use and claim zero electricity related emissions. However, there is a logical requirement that when this is done, those renewables claimed uniquely in contracts need to be removed from the pooled emission factors in a jurisdiction to prevent dilution and double counting. This requirement is achieved by establishing a Residual Mix Factor (RMF) that should apply to all consumers not buying renewable electricity. Those not buying renewables will report higher emissions compared to the

location based method, whilst those buying the accredited renewable electricity have exclusive assess and rights to claim renewables use and zero emissions.

The Greenhouse Gas Protocol Scope 2 Guidance released in 2015, provides specific methods and quality criteria for ensuring that market based renewable claims can have integrity and are indeed unique.

Describing the core accounting issue with Australia's end user renewable claims

In Australia, however, there has not been a clear government decision to adopt market based accounting or location based accounting, but rather both are used at the same time without any legislative support for consumer claims. This results in systemic double counting, where renewables are allocated across all consumers and claimed by those buying accredited renewables as well.

Specifically:

- The legislated National Greenhouse and Energy Reporting Determination uses the location based approach and applies to approximately 415 of the largest greenhouse polluting or electricity consuming corporations.
- The non-legislated National Greenhouse Accounts (NGA) Factors also apply the location based approach to the broader market and these are used to determine the default electricity emissions printed on customer bills and in carbon calculators across Australia.

Between the NGER Determination and NGA Factors the vast majority of renewable electricity is fully allocated and no further claims can occur without double counting. However, Australia has normalised double counting:

- GreenPower applies a market based approach to guide consumers to claim zero Scope 2 emissions
- The Climate Active – Carbon Neutral Accreditation Scheme allows either the market based method or the location based method to be used by their participants to claim carbon neutrality. Climate Active have prepared a RMF but this does not apply across all consumers in the market not buying renewable electricity so double counting is not prevented. The method of producing the RMF also does not remove voluntary renewables and behind the meter renewables from diluting the RMF.
- The Corporate Emissions Reporting Transparency (CERT) scheme currently being trialled for NGER Reporting organisations, allows a choice for the Location Based Method or the Market Based Method to be used.
- The Hydrogen Guarantee of Origin Scheme currently being trialled, allows the Market Based Method to be used to make claims relating to the origin and greenhouse intensity of the hydrogen. Only the market based method is use for the Guarantee of Origin Scheme but those producers making NGER Reports still report using the location based approach.
- The NABERs scheme covering buildings allows the market based approach.

There are a variety of less formal methods to make claims which span across concepts, typically exploiting loopholes. These include:

a) Power Purchase Agreements without Large Scale Certificates (LGCs) to make market based renewable claims
b) Producing and consuming renewables on site, claiming zero scope 2 emissions and potentially use, whilst selling LGCs to third parties
c) Claiming the state renewables generation as the percentage of renewable electricity purchased
d) Claiming that time of day consumption aligns with renewable electricity generation and therefore represents use of renewables.

All methods, whether in a mandatory or voluntary scheme context, are used by organisations and consumers to make reputational, product and service based claims or to lead to a belief that renewable electricity has been purchased.

Across market and location based methods, Australia's accredited renewable electricity is systemically double counted as a minimum. This also means pricing unfairness as those not paying for renewable electricity receive a free ride benefit, whilst those paying for renewable electricity are not assured through legislation that they are receiving what they have paid for. Renewable electricity for most ordinary small business, households, are charged as a premium product when they should now be cheaper to buy as fossil fuelled electricity is now more expensive to produce.

Just consider how it would be seen if renewable electricity was a car, and a consumer has paid a premium price for their new car for it to be zero emissions, only to find out when asking for the keys to claim their ownership and exclusive use, they are told it has been driven down the road as a taxi for all.

But don't Large Scale Certificates (LGCs) underpin claims?
LGCs are used to infer legitimacy and credibility of accredited renewable products, but they were not created or reformed for this purpose. The Renewable Energy (Electricity) Act 2000 describes how LGCs are created under Section 18, and the form and content of LGCs under Section 25, but it is important to note that these sections do not include any suggestion that the key attributes of ' renewables use' or 'zero scope 2 emissions' are incorporated into the LGCs for trading and end use claims. Without such an inclusion in a legislated accounting framework, LGCs fail to assure integrity or prevent double counting.

What about small scale household systems and Small Tradable Certificates (STCs)?
The National Greenhouse and Energy Reporting Technical guidelines describe that state (location based) grid factors are calculated from: "combustion emissions from electricity consumed from the grid in each state" divided by the "total electricity sent out consumed from the grid". As the vast majority of household small scale systems are producing and consuming the bulk of their solar electricity behind the meter (both an instant basis and a net consumption basis), this should have precluded the zero emissions from these renewables being allocated across all customers. An adjustment should have been made but that did not happen. Using STC data from the Clean Energy Regulator, the Department of Industry, Science, Energy and Resources (DISER), has allocated all small scale renewables to the grid, as well as these being naturally claimed by households.

All of Australia's voluntary renewables appear to be double counted.

AUSTRALIAN CARBON OFFSETS
Australian Carbon Credit Units share a very similar problem to that of renewable electricity in that there is no legislated market based accounting trading and claims framework to underpin offset emission claims made by end users.

Emissions reductions take place in the Scope 1 space but if third parties are seeking to make a market based claim then this needs to take place in the indirect emissions space (Scope 3). For this reason, I argue that carbon offsets should exist as negative scope 3 emissions.

The core accounting issue with Australian Carbon Credit Units
Australia has no legislated market based accounting framework to guide scope 3 emissions or emissions reduction trading and claims.

The creators of ACCUs are able to keep claiming emissions reductions from offset activities whilst selling ACCUs to third parties who also make emissions reduction claims. When the Government says it purchases abatement through emissions Reduction Fund Auctions, it is actually buying certificates, not abatement because these certificates do not incorporate the abatement.

Division 2 of the Carbon Farming Initiative Act (2011) describes multiple aspects relating to the issue of Australian Carbon Credit Units, but nowhere in this Act, does it describe the attribute of abatement, nor how abatement can be traded or claimed. Australian Carbon Offsets (ACCUs) do not legally contain the carbon offset that they are traded for in voluntary markets.

Just as legislated market based accounting is required to support end user renewable claims, legislated market based accounting is also required to guide Australia's carbon offset markets and end user claims. There needs to be debit and credit rules that apply to all markets. I have suggested solutions in my Submission on the Corporate Emissions Reduction Transparency Report (2nd round consultation) to align with the GHG Protocol Scope 2 Guidance for market based renewable electricity and to establish market based accounting for carbon offsets.

Without credible and legislated rules, Australian Clean Energy Markets will continue to operate in uncertainty and be challenged on their integrity.

MIGRATORY EMISSIONS OF GASEOUS FOSSIL FUELS

The methods described for determining fugitive emissions from fossil fuels remain of key concern with the rapid expansion of this industry. Current methods still ignore landscape scale migratory leakage which may occur away from exploration and production wells through fissures cracks, geological faults, water pathways etc, directly or indirectly from dewatering or hydraulic fracturing activities.

The NGER Determination outlines mass balance calculations but when leakage pathways are omitted from the calculations and methods, the end result is a partial process method. I understand that some research is being undertaken to assess landscape scale emissions from the industry, yet there is no current requirement for baseline assessment of fugitive emissions before new activities start in a region, or regular sampling and monitoring in the proximity as operations continue.

Even with that constraint, fugitive emissions away from wells and pipes caused by hydraulic fracturing and dewatering are not zero. A method to estimate this leakage based on actual proximity sampling, infra-red or remote sensing or other techniques needs to be developed and incorporated in GHG monitoring, reporting and assessments.

Recommendations

- The NGER Determination should require that all pathways to landscape scale leakage are assessed prior to exploration and production activities for gaseous fossil fuel production. Until more detailed methods are developed, the NGER Determination should include and over-arching principle or statement to require that there be a robust assessment of all potential pathways for leakage to be assessed

- The NGER Determination should require that all pathways to landscape scale leakage are monitored and quantified throughout the life of exploration, production activities and continue until the sites are adequately decommissioned.

CONCLUSION

In conclusion, there is a need for the Department to decide whether it supports low carbon markets or not. If it supports carbon markets, there is a need to establish a market based accounting framework in law and to stop the double counting from using both location based and market based methods at the same time.

There is absolutely no need for the NGER Framework to continue requiring NGER Corporations to calculate location based state scope 2 emissions. Corporations already report on grid electricity consumption which is sufficient for DISER to determine any average grid wide condition for state planning activities.

For consumers, whether they be large NGER liable corporations, small business or small household consumers, they should be receiving their billing information and making claims based on their market based choice to either buy accredited renewable electricity at zero scope 2 emissions or buy unspecified electricity at the National Residual Mix Factor (N-RMF) emissions intensity.

Any location based reporting should be for reference, not for claims, as described by the GHG Protocol Scope 2 Accounting Guidance.

Basic debit and credit rules should be established to support the use of carbon offsets as negative Scope 3 emissions.

I request the opportunity to discuss the issues and need for reforms with appropriate representatives from the Department.

Yours sincerely

Tim Kelly

100% accredited GreenPower customer and offset consumer for flights

APPENDIX 1 PREVIOUS RELEVANT SUBMISSIONS

- **2022 Climate Active renewables for Organisations**
  https://drive.google.com/file/d/11sPTscKTNf_YAqM9oZ8toLKmC9e1ru_m/view?usp=sharing
- **2021 CERT 2nd Round Consultation**
  https://drive.google.com/file/d/1UKe9DOBxEeYdO5GcxUoOJVcZBMq46ZlM/view?usp=sharing
- **2021 Hydrogen Guarantee of Origin Scheme**
  https://drive.google.com/file/d/1kHOEZOLEb7TkzJ6KkqqH6cygCSeoGAT6/view?usp=sharing
- **2021 Carbon Capture and Storage Method**
  https://drive.google.com/file/d/1UF4vyiQfBnHRYtV0I58ZGU9XDC3WqpJF/view?usp=sharing
- **2021 NGER Determination Consultation**
  https://drive.google.com/file/d/1UF4vyiQfBnHRYtV0I58ZGU9XDC3WqpJF/view?usp=sharing
- **2021 Submission on the proposed Corporate Emissions Reporting Transparency Scheme**
  https://drive.google.com/file/d/1-1ahaLXpTPlIOiSBIvlfGI5m_Zo0bm0K/view?usp=sharing
- **2020 Climate Active Accounting for Electricity Emissions Discussion Paper**
  https://drive.google.com/open?id=1qjiV1_bkSIpODeVGkW5TEl1TIVEgcuAY
- **2020 NGER Determination**
  https://drive.google.com/file/d/14XY3beOwIwy1fHntVGbTpT1GgcW9bBDm/view?usp=sharing
- **2020 The Climate Change Authority Review of the Emissions Reduction Fund**
  https://drive.google.com/open?id=1YKvH7pIFijKXLEvgeuVpPHaeK-F1Tf5T
- **2020 Clean Energy Regulator Draft guidance on the Emissions Reduction Fund's regulatory additionality requirement**
  https://drive.google.com/open?id=1bpwJkovyBD9cuir9p1fSoGed3NZ0A1cv
- **2020 Carbon Market Institute: Independent Review of the Carbon Industry Code of Conduct**
  https://drive.google.com/open?id=1h69IznYLAEip-551LrpwoTE-KIoJDp2L
- **2020 Submission on proposed Hydrogen Accreditation Scheme**
  https://drive.google.com/file/d/1V3gtgGgimLfeODfKdy6fKMBjRHvHBu2I/view?usp=sharing
- **2018 Climate Change Authority review of the National Greenhouse and Energy Reporting Act**
  https://drive.google.com/open?id=1SuZl5QBVEGCDDMAXrexjLxJLIjAc1r2e
- **Submission on the National Energy Guarantee Emissions Registry – Emissions Reduction Requirements**
  https://drive.google.com/file/d/1BHsU_sQZQX6k9SjhJpjOv7V7OsqCQRPa/view?usp=sharing
- **2011 GreenPower Program Rules – Version 7**
  https://drive.google.com/file/d/1lsBKfYIBh1GpmsphAPm5McBXbtPIwxgq/view?usp=sharing
- **2010 Submission on Renewables under NGERS**
  https://drive.google.com/file/d/1JwUkpe-AMX6xmhPydJFCB_veTurNaLQk/view?usp=sharing
- **2010 GreenPower Program Rules - Version 6**
  https://drive.google.com/file/d/1fezP3fN9NvgUsFD3B6kF83rdKTG_VBQd/view?usp=sharing

- **2008 Submission on the Mandatory Renewable Energy Target**
  https://drive.google.com/file/d/1VSzRYQ68_jrSekAJqmp12X2ihKa28PcH/view?usp=sharing
- **2006 A National System for Streamlined Greenhouse and Energy Reporting by Business -Draft Regulation Impact Statement**
  https://drive.google.com/file/d/1PEnWkUGxfgFSmXsO5IZRaMclm9ysTPLF/view?usp=sharing

Hello AASB,

Attached are comments from the ABS with regards to AASBs Exposure Draft 321. We have also met with AASB on 20 July (See Patricia Au/Siobhan Hammond) to discuss some of our concerns around the potential use of the SICS classification.

For more information on this submission please contact me or Afroza Rahman.

regards

Shane Johnston

Assistant Director (a/g)

Economic Standards | Statistical Standards and Infrastructure Section

Data Strategy, Integration & Services | CDSG

(P) (03) 9615 7323 (E) shane.johnston@abs.gov.au (W) www.abs.gov.au

The ABS Privacy Policy outlines how the ABS handles any personal information that you provide.

Afroza Rahman

Director (a/g)

Economic Standards | Statistical Standards and Infrastructure Section

Data Strategy, Integration & Services | CDSG

(P) (02) 6252 6652

(E) afroza.rahman@abs.gov.au
(W) www.abs.gov.au

AASB Specific Matters for Comment on Exposure Draft 321:

Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

The AASB would particularly value comments on the following:

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1
A1. Exposure Draft on [Draft] IFRS S1 is proposing that entities be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. Is focusing on an entity's enterprise value the most appropriate approach when considering sustainability-related financial reporting? If not, what approach do you suggest and why?
The Australian and New Zealand Standard Industrial Classification (ANZSIC) is the industrial classification that underpins ABS's and Statistics New Zealand's industry statistics. ANZSIC is widely used by government agencies, industry organisations and researchers for various administrative, regulatory, taxation and research purposes throughout Australia and New Zealand. In Australia, businesses are first assigned an ANZSIC class through the business registration process, with the Australian Bureau of Statistics (ABS) further quality assuring the assigned ANZSIC for large businesses.

From an Industry classification perspective, ANZSIC does not use the concept of enterprise value. ANZSIC uses the concept of Value Added to determine the predominant activity of a business. Industry value added is a fundamental concept used in compiling macroeconomic statistics. In the Australian System of National Accounts: Concepts, Sources and Methods, 2020-21, value added of an industry is defined as the total value of gross outputs at basic prices less the total intermediate consumption at purchasers' prices. Following is an explanation of these terms.

- Gross output of the industry refers to the value of goods and services produced by the industry in the accounting period, including production that remains incomplete at the end of that accounting period.

- Intermediate inputs of the industry include the value of goods and services consumed as inputs into the production process.
- The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service, minus any tax payable (including deductible value added taxes) plus any subsidy receivable, because of production or sale of the unit.
- The purchaser's price is the amount paid by the purchaser to take delivery of goods or services and include any taxes payable (less any subsidies receivable) on production and imports, and any transport charges paid separately by the purchaser to take delivery.

For further details on these concepts please refer to Chapter 9 Gross Domestic Product - Production approach (GDP(P)) | Australian Bureau of Statistics (abs.gov.au)

Enterprise value appears to be analogous to Net Worth (e.g., Total Asset – Total Liabilities). Disclosures related to impact on enterprise value/net worth are broadly consistent with disclosures in the accounting world so there is some merit to this. However, we think there may need to be some consideration for further disclosures on externalities which may not be included in the value of the enterprise. This may only apply to certain types of activities, perhaps those that use natural resources which may not be fully captured on a balance sheet (e.g., mining, agriculture, forestry). Some examples of externalities may be production activities that might be riskier from a climate change perspective include.

- Mines may need to be remediated in future, and this may not be reflected in the company's net worth depending on who is responsible for remediation.
- Electricity generation or heavy industry (e.g., steel making) may be very GHG intensive and pose greater climate risk, regardless of the value of the net worth of the enterprise.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions?
If not, what changes do you suggest and why?

ABS do not directly report on GHG emissions as this is undertaken by GHG inventory colleagues in the Dept of Climate Change, Energy, the Environment and Water (DCCEEW). We do utilise this information in the energy account as a source of information on energy generation and could see some value in this information if it were systematically captured (particularly scope 2 emissions). That said, it may be difficult to measure by businesses and verify through independent assessment and require additional guidance such as GHG factors for some inputs into the production process. These questions would be better answered by colleagues who manage the National Greenhouse and Energy Scheme reporting.

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)?

In general, ABS always promotes the standardisation of classifications/standards, including making standards comparable internationally. The department of Climate Change, Energy, the Environment and Water (DCCEEW) who have international reporting responsibility for emissions and manage the NGER will be in the best position to respond to this question. We also note that multiple reporting frameworks may place undue reporting burden on businesses and should be considered in any future proposal.

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?

The list of industries (based on Sustainability Industry Classification System i.e., SICS) as described in the industry-based disclosure requirement in Appendix B has the following issues as outlined below.

- The industries described do not follow definition of industry as well as the concept used in classifying industry as outlined in the Australian and New Zealand Standard Industrial Classification (ANZSIC), that underpins ABS and Statistics NZ industry statistics. In Australia, ANZSIC is used in business registration process and is widely used by government agencies, industry organisations and researchers for various administrative, regulatory, taxation and research purposes, including industry analysis for policy development and program delivery. Following the guidance on the International Standard Industry Classification (ISIC), in ANZSIC, business units engaged in similar productive activities are grouped together with each resultant group referred

to as “an industry”. Units in an industry therefore exhibit similar production functions (a term used to describe the transformation of intermediate inputs) through the application of labour and capital to produce outputs.

- The industries as defined in the exposure draft (i.e., on a SICS basis) will align to multiple ANZSIC Classes, Groups, Subdivision or Divisions (i.e., the categories within the ANZSIC’s hierarchical classification structure). The industries described represent what could be considered as an “alternate view of the economy" such as green economy and digital economy, which can result from aggregation of many industries within the ANZSIC, if they are constructed using the same conceptual basis as ANZSIC.

- The conceptual basis of the industry grouping of SICS as provided in Appendix B is not clear to ABS. We understand that under SICS, grouping of businesses is based on business models and underlying activities both upstream and downstream, from production of raw materials all the way through to transformed products where they share a common supply chain. Business models are described as an entities system of transforming inputs through its activities into outputs and outcomes. This is not the conceptual basis of ANZSIC for grouping businesses. In ANZSIC, units or businesses in an industry have similar production functions i.e., business units in a particular ANZSIC class will use similar inputs and apply similar transformation processes to produce similar outputs.

- As the industry description in SICS as described in Appendix B includes multiple industries and processes, it is not clear how a particular business will understand which industry to report under. Is AASB planning to give businesses any guidelines on this when asking to complete the matrix? When a business has multiple activities in ANZSIC, that business is classified according to the predominant activity of the business. As provided in international industry classification guidelines, ANZSIC uses the concept of “Value Added” to determine the predominant activity of a business undertaking multiple activities; that is, the activity with the highest value added is the predominant activity. As mentioned previously In the *Australian System of National Accounts, Concepts sources and methods 2020-21*, value added of an industry is defined as the total value of gross outputs at basic prices less the total intermediate consumption at purchasers' prices. Here, Gross output of the industry refers to the value of goods and services produced by the industry in the accounting period, including production that remains incomplete at the end of that accounting period. Intermediate inputs of the industry include the value of goods and services consumed as inputs into the production process. Where it is difficult to determine the predominant activity of a business based on value added due to lack of the necessary data, a proxy for value added is estimated. The proxy items for value added are sales of goods and services, wages and salaries, or number of employees. If we understand correctly, under the exposure draft when there are multiple business activities, business will determine which industry to report based on assessment of enterprise value, where enterprise value is the sum of the value of an entity’s equity (market capitalisation) and value of an entity’s net debt. So, this conceptual basis for identifying which industry a business will categorised or grouped in SICS is different to how a business will be categorised or grouped in ANZSIC that uses the concept of value added.

- Implementing SICS in Australia will be problematic due to Australia's business registration process. In Australia, businesses are first assigned an ANZSIC class through the business registration process when applying for an ABN. For large businesses with multiple ABNs, the ABS sends a questionnaire to determine whether the business has assigned the correct ANZSIC to an ABN. From an implementation perspective, using SICS can be also problematic as it will be difficult to disaggregate or aggregate the industries on SICS for statistical and analytical purposes when the conceptual basis of SICS is not same as ANZSIC. ABS will not be able to provide any guidance to businesses for aggregating ANZSIC based data on SICS basis. From a business reporting perspective, it would also be a provider burden issue for a business to apply different classifications for their financial and statistical reporting. Reducing provider burden is currently a priority for ABS.

- Climate related risks and opportunities will have an impact on revenue and expenditure of a business. From an industry analysis perspective, it will be difficult to analyse data or assess any flow on impact of climate related risks or opportunities if a business reports climate related risks using SICS classification and financial data using ANZSIC.

- From a business reporting perspective, collecting data on SICS basis will be problematic for the industry listed such as "E-commerce". In SICS, the scope of E-Commerce includes

  > *Firms that provide an online marketplace for other firms or individuals to sell their goods and services, as well as retailers and wholesalers that provide an exclusively web-based platform for consumers to buy goods and services. Firms in this industry sell to consumers as well as to other businesses.*

  Although ANZSIC has a class called non-store retailing, it is hard for business to report data on online retailing vs brick & mortal retailing as many businesses do both online retailing and retailing through shop front and/or

physical retailing. Currently, the International Standard Industrial Classification of All Economic Activities (ISIC) is going through a review process where a separate industry for online retailing is not recommended. For industries such as "Oil and Gas refining and marketing" as included in SICS classification, a business might not be able to distinguish the marketing side of the operation from other parts of their refining business based on how the business is structured.

- The SICS classification does not meet criteria of good classification such as being well structured. Some of the criteria for a good classification is that the categories at each level of the classification structure must be mutually exclusive and jointly exhaustive of all the units that it intends to cover. The scope of the SICS classification does not include many industries as identified in ANZSIC. Examples include Media & Entertainment, Professional & Commercial Service, Advertising & Marketing, Education, Biotechnology & Pharmaceuticals, Security & Commodity Exchanges, and Toys & Sporting Goods. One example in SICS where a business could be covered under multiple classifications is Commercial Banks and Mortgage Finance that both provide mortgages.

- Comparability over time is important from a statistical perspective, so it is important to consider how fluid SICS will be with regards to reclassification of industries or maintaining relevance. ABS has back-casting and concordance processes in place to address revision and at many times we have noted structural change with industry classification review.

Some other problems that we see include

- In the industry-based disclosure requirement it is mentioned that for each industry, there are separate disclosure topics/requirements related to climate related risks and opportunities. From an implementation perspective, this can cause a provider burden issue when a business must report for multiple activities. This is also the case for vertically integrated businesses.

- From the reporting perspective, the concept of materiality provides a bit of flexibility in whether items are reported or not (i.e., it is up to business to consider whether a risk is material), which can cause inconsistencies in the data being reported between different businesses.

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 that there are proposals to develop frameworks to consider nature related disclosures. Where possible, these should be considered complementary to climate related disclosures and have a consistent approach. The Task Force for Nature related Financial Disclosures has created a beta framework which is currently being tested.

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?

As the scope of macroeconomic statistics includes all For-Profit entities, from industry analysis and statistical compilation and consistency in business reporting perspective, it is important to have a standard applied to all For-Profit entities in Australia. However, we also recognise that capacity of small Not-For-Profit entities might be a limiting factor on what they can report compared with a large For-Profit business.

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?
Feedback from DCCEEW on future regulatory issues would be appropriate.

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?
ABS is not involved with the day-to-day preparation of financial statements so no comment in general on S1 or S2. Our main aim is to understand what or if there will be any data impacts to our statistical collections based on any

changed reporting requirements by businesses or impacts on their income, expenses or inventories that flow from changes to financial disclosures.

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?
ABS has limited use of general-purpose financial reports. Information provided through disclosures are beneficial for data confrontation purposes. While not a primary user of general-purpose reports, information that can be incorporated into NGER scheme reporting may be of use, particularly if it improves the quality of reporting.

C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?
We don't audit or assure financial statements for businesses, although we do peruse financial statements at times to confront data.

C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?
ABS has no position on when these EDs should be made effective. Our comment would be that it should be made effective when it can be consistently applied by businesses, so it does not cause undue noise in data movements if there are impacts on reporting by entities to the ABS.

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?
ABS has no comment on this.

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?
ABS has no comment on this.

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?
ABS has no comment on this.

Part D: Matters for comment relating to the AASB's proposed approach
D1. Do you agree with the AASB's proposed approach to developing sustainability related financial reporting requirements as a separate suite of standards?
As an alternative model, the AASB would value comments as to whether sustainability related financial reporting requirements should be developed as part of existing Australian Accounting Standards. The alternative model would result in sustainability related financial disclosures forming part of an entity's general purpose financial statements.
ABS has no comment on this.

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?
We have some concern with the list of industries (based on SICS) described in the industry-based disclosure requirement in Appendix B of IFRS S2. In terms of disclosures, more information is always better from a data confrontation perspective. Our interest is also that when there is more information made available through financial/annual statements, the reporting of that information is done in a manner that is consistent and uniform across all businesses and consistent with other reporting requirements and there are mechanisms to collect and aggregate data that minimises the burden placed on businesses.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 2 9322 7000
Fax: +61 2 9322 7001

21 July 2022

The Chair
Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne VIC 3000

Dear Dr Kendall

Invitation to Comment Exposure Draft 321: Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures.

Deloitte Touche Tohmatsu is pleased to respond to the Australian Accounting Standards Board's (AASB) Invitation to Comment - ED 321: Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures.

Deloitte commends the AASB for its work to improve adoptability, consistency, and comparability of disclosed sustainability-related financial information. We especially commend the AASB for recognising the urgency of addressing climate change and other sustainability matters and taking preliminary steps to develop an internationally aligned sustainability standard for Australia.

Deloitte welcomes the creation of an International Sustainability Standards Board (ISSB) by the International Financial Reporting Standards (IFRS) Trustees, and its proposals for the creation of global standards for sustainability reporting. The issuance of IFRS Sustainability Disclosure Standards by the ISSB will be integral to driving system change necessary to create a global baseline of sustainability information that addresses the needs of global capital markets. To be effective, the standards need to be accepted as the global baseline, and therefore brought into use by jurisdictions around the world.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organisation"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organisation") serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

Deloitte Asia Pacific
Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Deloitte Australia
The Australian partnership of Deloitte Touche Tohmatsu is a member of Deloitte Asia Pacific Limited and the Deloitte organisation. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, risk advisory, and financial advisory services through approximately 8000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at https://www2.deloitte.com/au/en.html.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte organisation.
© 2022 Deloitte Touche Tohmatsu.

The most effective disclosures are those that are clear, concise, and focused on matters that are both material to investors and stakeholders and are specific to the entity. To this end, we welcome the ISSB's inclusion of industry-specific requirements, based on the work of the Sustainability Accounting Standards Board (SASB), into the exposure drafts, alongside the cross-sector standards. We recognise that globally, SASB Standards metrics have been found to be of value to investors.

While we consider that the SASB Standards provide a good starting point for industry-based content within the architecture of ISSB standards, in Australia they are less widely adopted. We recommend that further work is undertaken to ensure that the SASB Standards are appropriately internationalised and suggest testing outside of the U.S. environment. We also highlight that the industry specific metrics set out in the SASB standards may not be complete, as the relevance of those metrics to a particular industry will change over time.

Whilst a number of Australian entities already prepare some form of sustainability reporting that includes some of the information required under the proposed industry-based requirements, for many entities, and particularly those not in the ASX 200, the impact of adopting these proposals is likely to be significant. Education, tools and guidance will be required to upskill Australian report preparers on the use of SASB guidelines and further guidance for industries not currently reflected in the guidelines.

We further support the use of the four pillars of governance; strategy; risk management; metrics and targets, used in the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the basis for the core content of IFRS Sustainability Disclosure Standards. Australian entities are already a strong adopter, on a voluntary basis, of the TCFD recommendations (and other voluntary sustainability reporting).

According to the TCFD 2021 Status Report Australian entities are leading supporters of TCFD, ranking number four in the top five countries per Figure A1 of that report. Therefore, many Australian entities are already developing resources and skills, and experience in advance of the Standards being finalised.

We note that AASB is seeking comments on:

a) Any of the proposals in the attached ISSB Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2, including the specific questions on the proposals as listed in the Invitation to Comment sections of the attached ISSB Exposure Drafts; and

b) The 'AASB Specific Matters for Comment'

For part (a) Deloitte's response is provided to the ISSB on behalf of our global network of member firms. This is enclosed in Appendix A.

Our responses to part (b) the 'AASB Specific Matters for Comment' can be found in Appendix B.

A summary of Deloitte's key feedback to the AASB is provided below:

Application of the ISSB Standard and materiality

We support the overall aim of the two standards in setting out principles for disclosure of relevant sustainability-related information. Given the focus of the ISSB Standards on the capital markets, we encourage the AASB to adopt a phase-in period, starting with publicly accountable entities as the information from these disclosures is relevant to a wide range of investors and other stakeholders.

The standards should initially be applied by entities that satisfy the definition in AASB 1053 of public accountability. We believe large private entities could voluntarily adopt, either all or part (noting if the latter they would not be able to state compliance). This would exclude not-for-profit and government entities. A voluntary phase-in period will also give entities time to prepare, upskill and adequately resource their teams, where necessary. Over time, disclosure by publicly accountable entities should become mandatory and require external assurance, initially limited assurance and subsequently reasonable assurance.

We agree with the general principle behind use of 'significant' and 'material' in the exposure draft. However, distinction between 'significant sustainability risks and opportunities' and 'disclosure of material information' would benefit from further explanation to ensure the most important information is disclosed. We understand that the ISSB will be developing a suite of standards to accompany IFRS S1 and IFRS S2, for example potentially addressing matters such as biodiversity and social capital topics. We therefore consider it important that the materiality principles are well understood by preparers, regulators and auditors to avoid a proliferation of reported information such that the needs of capital markets are no longer met.

Connected information

We believe the concept of connected information is important and welcome the emphasis in the Standards for entities to report in an integrated way. It is essential to avoid 'reporting silos', which could reduce understandability and lead to lengthy, duplicative disclosures. More fundamentally, integrating sustainability information into the overall content of corporate reporting encourages entities to explain how it relates to their strategy and business model.

We also support the requirement to link sustainability information to the financial statements, which we view as essential in meeting investor demand.

Timing and location of information

We agree with the proposal that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. We acknowledge that this may be challenging for some Australian entities, as they will need to ensure they have the necessary systems, processes, and resources in place to achieve this and may also currently rely on National Greenhouse and Energy Reporting (NGER) data, for example, that may not be aligned with annual reporting. However, we consider that aligning financial and sustainability reporting, as set out in the proposals, is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information. It will also further support the full integration of sustainability matters into the entity's governance, strategy, and operations.

We believe it is important that the standards specify that sustainability information should be presented within general purpose financial reporting but provide flexibility in the location.

Reporting of greenhouse gas (GHG) emissions

Most businesses have global value chains, face global risks and access capital from global investors. Therefore, to assist Australian entities in transitioning and remaining competitive in a low carbon economy, we believe that Australian publicly accountable entities, and large private entities should be required to disclose Scope 3 GHG emissions, taking into consideration appropriate transition provisions.

Requiring entities to report on Scope 3 GHG emissions (and potentially other relevant sustainability matters, in the future) will lead to more information being requested from suppliers and other stakeholders in reporting entities value chains. One entity's Scope 3 is another entity's Scope 1 emissions. Therefore, collaboration will be needed across the value chain.

In calculating Scope 3 emissions, there can be significant challenges in sourcing reliable data, a high degree of estimation and lack of controls, and gaps in methodologies. We suggest additional guidance, resources, and tools to assist Australian entities in preparing, calculating, and disclosing their Scope 3 emissions be considered. Case studies and examples of how entities have then presented this information in their financial statements would also be beneficial.

We also note that there are a number of inconsistencies between what the ISSB is proposing, and what is currently required under the National Greenhouse Emissions Reporting (NGER) Act. For example, the NGER Act applies the Greenhouse Gas Protocol, and businesses must only report their Scope 1 and 2 emissions for corporations in their direct operational control (or financial control if a Voluntary Reporting Transfer Certificate has been approved). We would encourage the Clean Energy Regulator (CER), who determine the NGER Act reporting obligations, to consider increasing alignment with the ISSB proposed terminology, industry classifications, emission reporting requirements and reporting boundaries. As a first step, the CER could consider providing guidance on the differences, with a view to harmonising requirements over time. We recommend that the AASB work collaboratively with the CER and the ISSB to further develop best practice reporting requirements for Scope 1, 2 and 3 emissions reporting, reflecting Australia's strength in such reporting.

Attestation

We agree that the requirements proposed in the Exposure Drafts should provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals but encourage the ISSB to continue consulting further with these groups. To be able to audit and provide assurance of the proposals in the Exposure Drafts additional guidance and examples are required.

We believe that assurance over sustainability-related disclosures should become mandatory in time, starting with limited assurance and then moving to reasonable assurance. Such an approach would be consistent with proposals in the US and the European Union (EU) and helps build further trust in and credibility of the disclosure.

Some sustainability-related disclosures may be more easily assured than others. For instance, metrics and targets are typically subject to clearer measurement protocols which provide suitable criteria for assurance, whilst qualitative disclosures may be more subjective, particularly those of a forward-looking nature. Reporting systems, processes and internal controls over sustainability-related data are also often less mature than those for financial data. We understand that the AASB is working closely with the Australian Auditing and Assurance Standards Board in respect of developing further guidance on assurance of sustainability reporting and we strongly encourage this continued collaboration and with the global International Auditing and Assurance Standards Board.

Further we do not support the incorporation of sustainability-related reporting requirements into Australian Accounting Standards. We support the establishment of a separate Australian Sustainability Standards Board under the oversight of the Financial Reporting Council, consistent with the arrangements currently in place for the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board.

Deloitte.

Economic Competitiveness

Deloitte believes that ISSB Standards are in the best interest of Australia and participants in our economy and that having a global baseline of sustainability disclosures will aid Australian entities' economic competitiveness, particularly given moves by many other jurisdictions including the United States, the EU, New Zealand, Singapore and the United Kingdom who are in the process of introducing mandatory sustainability related reporting. Timelines for making the proposals effective should align with major markets and allow voluntary early adoption, to ensure that Australia keeps in-step and at pace, with global developments particularly given the urgent need for global action on climate change and other sustainability-related issues.

In summary, we applaud the AASB for your involvement to date in the IFRS Sustainability Disclosure Standards process. Deloitte encourages the avoidance of any additional reporting requirements for Australian entities to reduce the burden of reporting and to help facilitate the creation of a global baseline of sustainability information so that capital markets have consistent, comparable sustainability information on a timely basis.

Should you wish to discuss our responses in this cover letter or appendices 'A' or 'B', please reach out to me on jogorton@deloitte.com.au or email sjansz@deloitte.com.au.

Yours sincerely,

Joanne Gorton
Managing Partner, Audit & Assurance
Deloitte Touche Tohmatsu

Steve Jansz
Managing Partner, Risk Advisory
Deloitte Touche Tohmatsu

APPENDIX A

DETAILED RESPONSES TO THE AASB SPECIFIC MATTERS FOR COMMENT IN ED 321

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 agree with an entity's enterprise value being the most appropriate approach when considering sustainability-related financial reporting for publicly accountable entities and for profit entities. We do not believe that the underlying focus on enterprise value would necessarily be fully appropriate to not-for-profit entities, whether public sector/ government agencies or those in the private sector (charities) and we believe that further research be performed for such entities in this respect. We do not believe it is practical to develop sustainability reporting standards in the Australian context that address the needs of the users for both for-profit and not-for-profit entities, and certainly not in the short term. The reference to enterprise value is helpful for setting the boundary of sustainability information for the purpose of these standards assuming that they are to be applied by for profit entities, and provision of information to capital markets, covering matters across the value chain.

We recommend that the proposal further clarify the interaction between a company's impacts on people, the planet and the economy and on enterprise value. We consider this was more explicit in the prototype developed by the TRWG. Allied to this, we recommend that the Illustrative Guidance is expanded to be clearer on how a company might go about identifying material information about significant sustainability-related matters. For example, a company may start by considering the relevant sustainability matters and its related impacts in relation to people, planet and the economy. It might then identify those matters that are relevant to enterprise value and the related material information. The prototype included content on 'nested and dynamic' materiality, following the work of the 'Group of 5', and this could be re-instated and elaborated in these proposals.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

Businesses have global value chains, face global risks and access capital from global investors. Therefore, to assist Australian entities in transitioning and remaining competitive in a low carbon economy, we agree than Australian entities should be required to disclose Scope 3 GHG emissions, subject to an appropriate transition period, guidance and safeguards.

Deloitte believes that Australian publicly accountable entities, and large privately held entities should, with appropriate transition provisions, be required to disclose Scope 3 GHG emissions, with relevant considerations such as materiality and published emissions targets. This will lead to the need for more information from suppliers and other stakeholders in the reporting entities value chain/s. Over time,

the ISSB should consider preparing a reduced disclosure standard for small and medium enterprises (SMEs), like the IFRS for SMEs. We believe that this would increase the capacity for smaller entities to meet the requirements.

These proposed requirements in respect of disclosure of Scope 3 emissions reflect moves internationally by other regulators including the US Securities Exchange Commission (SEC) to require a registrant to disclose information about its direct greenhouse gas (GHG) emissions (Scope 1), indirect emissions from purchased electricity or other forms of energy (Scope 2), and disclose GHG emissions from upstream and downstream activities in its value chain (Scope 3) if material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions[1].

However, there can be significant challenges in sourcing reliable data, a high degree of estimation and lack of controls, and gaps in methodologies for calculating Scope 3 emissions. Currently the usefulness to investors could be impacted by implementation challenges faced by entities, especially given the level of detail and timeframe contemplated in the proposal. In the proposed SEC rules, safe harbour for liability from Scope 3 emissions disclosure requirement for smaller reporting entities is given. [2] Australia should consider adopting similar provisions.

Additional guidance, resources, and tools would be needed to assist Australian companies in preparing, calculating, and disclosing their Scope 3 emissions. Case studies and examples of how companies have then presented this information in their financial statements would also be beneficial.

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)?

Investors, corporations, and other stakeholders benefit from a common language in ESG standards and methodologies, making comparisons easier. Therefore, there is a need for GHG emissions disclosures to be comparable and standardised. We agree that Australian entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions as it is a well-established and internationally recognised framework. However, we recommend that the ISSB review work with the organisation developing the GHG Protocol to resolve the known conflicts with some financial reporting standards and encourage them to consider other examples of global best practice guidance (e.g. Australia) as part of future updates.

We agree that entities should be required to disclose Scope 1 and Scope 2 GHG emissions separately for the consolidated entity; and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. However, we note that there are a couple of areas of paragraph 21(a)(iii)(2) that would benefit from further clarity, for example: the meaning of unconsolidated subsidiaries or affiliates and whether this should instead be a reference to investments (noting that 'affiliates' is not a commonly used term in IFRS literature); and whether equity investments should be included.

[1] SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

[2] SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

As we noted in our response to question 5 of the General Requirements Exposure Draft, the approach set out in this requirement is inconsistent with the way reporting entity is defined in [draft] IFRS S1. However, we think that a flexible approach is helpful to preparers at this stage, when their current practice is to use the definitions of reporting boundary as set out in the GHG Protocol. The requirements at paragraph 21(a)(iii)-(iv) go some way to enhance transparency and consistency. However, they do not offer a solution for the long term. We therefore encourage the ISSB to work with the GHG Protocol organisation to better align GHG Protocol concepts with the requirements in IFRS, such as establishing the reporting boundary for associates, joint ventures and investments.

As the NGER Act and the NGER (Measurement) Determination 2008 is regularly updated there is an opportunity for the Clean Energy Regulator (CER) to further align Australia's GHG disclosure requirements with the proposed ISSB Standards, and reassess reporting requirements, industry classifications and boundaries. This would also allow for minimal duplication in effort and reporting and facilitate increased comparability. We would encourage the Clean Energy Regulator (CER), who determine the NGER Act reporting obligations, to consider increasing alignment with the ISSB proposed terminology, industry classifications, emission reporting requirements and reporting boundaries. As a first step, the CER could consider providing guidance on the differences, with a view to harmonising requirements over time. We also recommend that the AASB work collaboratively with the CER and the ISSB to further develop best practice reporting requirements for Scope 1, 2 and 3 emissions reporting reflecting Australia's strength in such reporting.

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 welcome the ISSB's inclusion of industry-specific disclosure requirements (as detailed in Appendix B) using the Sustainability Accounting Standards Board (SASB) Standards as a starting point. Use of the SASB Standards will allow for increased consistency and alignment globally.

We agree with the sources of guidance, set out in paragraph 51 of IFRS S1, to identify sustainability related risks and opportunities and related disclosures. We consider these to be a useful point of reference in the absence of a specific IFRS Sustainability Disclosure Standard and whilst a suite of thematic standards are developed by the ISSB.

The most effective disclosures are those that are clear, concise, and focused on matters that are both material to investors and stakeholders and are specific to the entity. To this end, we welcome the ISSB's inclusion of industry-specific requirements, based on the work of the Sustainability Accounting Standards Board (SASB), into the exposure drafts, alongside the cross-sector standards. We recognise that globally, SASB Standards metrics have been found to be of value to investors.

While we consider that the SASB Standards provide a good starting point for industry-based content within the architecture of ISSB standards, in Australia they are less widely adopted. We recommend that further work is undertaken to ensure that the SASB Standards are appropriately internationalised and suggest testing outside of the U.S. environment. We also highlight that the industry specific metrics set out in the SASB standards may not be complete, as the relevance of those metrics to a particular industry will change over time.

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 not currently identified any Australian-specific climate-related matters that require addressing. We recommend that the ISSB standards are implemented without supplementation to allow for creation of a global baseline of sustainability information so that capital markets have consistent and comparable sustainability information on a timely basis.

We believe that any supplementation of the ISSB standards for Australian specific matters should only be performed after the completion of a post-implementation review of the implementation of the baseline standards, to consider all real and genuine issues that emerge.

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

Given the focus of the ISSB standards to the capital markets and investors, we encourage the AASB to adopt a phase-in period, starting with publicly accountable entities, as the information from these disclosures is relevant to a wide range of investors and stakeholders. The standards should be applied by entities that satisfy the definition of AASB 1053 of public accountability. We believe large private companies could voluntarily adopt, either all or part (noting they would not be able to state compliance). This would exclude non-for-profit and government entities.

A voluntary phase-in approach, will give entities time to prepare, upskill and adequately resource their teams, where necessary. Over time, disclosure by publicly accountable entities and large private entities should become mandatory and require external assurance.

We note that under the proposals, entities would be required to report on Scope 3 GHG emissions, and in the future, other relevant matters across their value chains. This will lead to the need for more information from suppliers and other stakeholders in the reporting entities value chain/s. Over time, the ISSB should consider preparing a reduced disclosure Standard or 'light' Standard for Small and Medium enterprises (SMEs), like the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements.

It would also be beneficial for ASSB to clarify the standards relevance to not-for-profits in Australia.

(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?

We support the intent of the ISSB to create a global baseline of sustainability information so that capital markets have consistent, comparable sustainability information on a timely basis. We note

that under the proposals, entities would be required to report on relevant matters across their value chains, starting with climate but that additional supplementary standards will follow.

Specifically on Scope 3 emissions - Businesses have global value chains, face global risks and access capital from global investors. One entity's Scope 3 is another entity's Scope 1 emissions. Therefore, collaboration across value chains is needed.

However, there can be significant challenges in sourcing reliable data, a high degree of estimation and lack of controls, and gaps in methodologies for calculating Scope 3 emissions. Therefore, we suggest a phase-in period for Australian publicly accountable entities, followed by large private entities having to report on Scope 3 emissions and in time, smaller. Please also refer to our response in B1 of this document, in terms of Australian adopting similar provisions to SEC in terms of Scope 3 materiality or whether an entity has adopted a target or goal that includes Scope 3.

Australian entities who are mature in their reporting approach and / or Climate Action 100+ focus companies and / or have an approved Science Based Targets commitment are likely reporting some aspects of their Scope 3 emissions. Over time, the ISSB may consider the need for a reduced disclosure standard or 'light' standard for SMEs, similar to the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and in turn, help large entities with greater visibility of their Scope 3 emissions. No entity can reduce their scope 3 emissions alone, it will require partnership across supply chains. For example, entities will need to access primary data from value chain partners to calculate scope 3 emissions rather than using proxies. For this to be done in a streamlined manner will require trust and sharing data and tools through a community of practice.

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?

As previously stated, we strongly welcome the ISSB's proposals for global standards for sustainability reporting. We do not believe there are any significant regulatory issues that would prevent Australian entities from adopting the ISSB Standards.

We recommend that the AASB should work with the Clean Energy Regulator in aligning the National Greenhouse and Energy Reporting (NGER) Act in terms of reporting periods, methodology used and definitions (for example on operational control and boundaries).

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.

Refer to comments made in B2 and B3.

(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

As stated in our C1 (a) response, we recommend that the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 are phased-in starting with publicly accountable entities and large private entities and that the building block approach of ISSB, starting with IFRS S1 and S2, is clearly articulated.

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?

The proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 would result in useful information for primary users of general-purpose financial reports. The information will provide insight on changes to the entity's business model over time and could reasonably be expected to influence decisions and assist users in assessing enterprise value.

The manner the information is presented is an important aspect of how useful the information will be. We believe the concept of connected information is important and welcome the emphasis in the exposure draft on the need for entities to report in an integrated way. We support the requirement to link sustainability information to the financial statements, as it is useful for the primary user. We recommend that the ISSB emphasise the linkage of information to management commentary or an equivalent framework including the Corporations Act, Operating and Financial Review (OFR) requirements and the ASX principles, which provides essential context, for example, greater connections between sustainability information and its impact on an entity's business model.

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

We agree that the requirements proposed in the ED should provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals but encourage the ISSB to consult further with these groups. To be able to audit and provide high quality assurance of the proposals in the Exposure Drafts additional guidance and examples are required. We understand that the AASB is already collaborating with the Australian Auditing and Assurance Standards Board and encourage the ISSB to work with the International Auditing and Assurance Standards Board in the latter's efforts to consider and develop appropriate standards and guidance for assuring sustainability reporting. Such collaboration is necessary to ensure that the standards issued are capable of being subject to assurance.

In addition to consistent reporting standards there should be a clear expectation for consistent application of an assurance standard. Today, the most commonly used assurance standard is ASAE 3000, however we believe that certain elements of ASAE 3000 will need to be periodically updated in line with leading practices and the development of new sustainability reporting standards. This could include enhancing requirements in ASAE 3000 on risk of fraud, controls and management estimates.

We believe that assurance over sustainability-related disclosures should become mandatory in time, starting with limited assurance and then moving to reasonable assurance. Such an approach would be consistent with proposals in the US and the EU, and helps build further trust and credibility in the disclosure.

Some sustainability-related disclosures may be more easily assured than others. For instance, metrics and targets are typically subject to clearer measurement protocols which provide suitable criteria for assurance, however assurance over forward-looking and narrative information which by its nature is more subjective would not necessarily be straightforward, being associated with high degrees of uncertainty, assumptions and judgement. Reporting systems, processes and internal controls over sustainability-related data are also often less mature than those for financial data.

Appropriate expertise may be required for assurance in the form of subject matter experts, to cover the topic specific disclosures, especially when more thematic standards are issued, for example nature and biodiversity and standards in respect of social matters such as workforce and

communities. There is a need to educate and upskill assurance professionals in the Australian market on some of the sustainability related topics to provide high quality assurance. We encourage the Australian Auditing and Assurance Standards Board (AUASB), professional bodies and universities to develop education material and conduct training to bridge the gap in addition to considering macro-economic measures. We also encourage the AASB to consult with the Clean Energy Regulator who has developed a greenhouse gas assurance standard (NGER Audit Determination) and register of Greenhouse and Energy Auditors as part of the NGERs schemes and look to leverage and integrate this into any proposals.

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

The timelines for making the proposals effective should align with other major markets and allow voluntary early adoption, to ensure that Australia keeps in-step with global developments. This is important for Australia's competitiveness acknowledging that entities have global value chains, face global risks and access capital from global investors.

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?

Refer to comments made in C6.

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?

Overall, we commend the ISSB for the concise drafting in the ED. However, we encourage the ISSB to use plain language when finalising the standards recognising that the preparers of the front-end of annual reports are not necessarily those in the finance team.

Materiality

We agree with the general principle behind the use of the terms 'significant' and 'material'. We understand this as being a two-step process whereby the entity identifies significant sustainability-related risks and opportunities (for example, those matters that the entity's board has assessed as significant) and then considers the aspects of those matters that are material to enterprise value for the purposes of disclosure. However, we consider that further explanation of the distinction between 'significant sustainability-related risks and opportunities' and 'disclosure of material information' would be helpful to ensure the most important information is disclosed.

We also consider that it would be helpful to clarify how preparers might comply with the standard when they have yet to address a matter through any aspect of their governance, strategy, risk management, or metrics or targets. For example, emphasising that material information about a significant sustainability-related matter could include a statement that a policy or measure on a matter assessed as significant by the entity is not yet developed, along with a timeframe in which the entity will prepare and report on it.

C9. Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

We consider that the benefits, which may be difficult to quantify, will substantially outweigh the costs of the proposals. There is an urgent need to address climate change (and other sustainability matters) and the creation of a global baseline for sustainability information may help direct capital to organisations who are investing in transitioning their entities for a low-carbon and sustainable future.

There is also an urgent demand from investors for consistent, comparable sustainability related financial information and a need for entities to have clarity over which standards they should apply for reporting this information. This clarity should enable entities to invest with certainty in implementing or updating appropriate systems and controls, as they do today in respect of financial reporting.

When considering the costs of implementing the proposals, it is important for the AASB to consider that there will be a different journey for different entities. In Australia, many listed and private companies are already using a framework for sustainability reporting such as Global Reporting Initiative (GRI), the Task Force on Climate-related Financial Disclosure (TCFD) recommendations (with Australia ranking in the top four countries globally for adoption) and the International Integrated Reporting Framework. For these preparers, who are relatively advanced in adopting the existing approaches, the ISSB's proposals should be incremental.

We acknowledge that there will be additional costs for entities who are yet to progress or are at an early stage in their ESG reporting maturity. As with the introduction of any new standard, we would expect costs to be higher in the first couple of years, as entities put in place the necessary systems and familiarise themselves with the standards.

Part D: Matters for comment relating to the AASB's proposed approach

D1. Do you agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards? As an alternative model, the AASB would value comments as to whether sustainability-related financial reporting requirements should be developed as part of existing Australian Accounting Standards. The alternative model would result in sustainability-related financial disclosures forming part of an entity's general purpose financial statements.

We agree with the exposure drafts' proposal that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. We acknowledge that this may be challenging for entities, as they will need to ensure they have the necessary systems, processes, and resources in place to achieve this and may currently disclose sustainability information in a separate sustainability report, published later. However, we consider that aligning financial and sustainability reporting, as set out in the proposals, is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information and will further support the full integration of sustainability matters into the entity's governance, strategy, and operations.

We believe it is important that the exposure draft specifies that sustainability information should be included within general purpose financial reporting, but provides flexibility in the location, as it helps to minimise duplication and accommodates different jurisdictional requirements.

We do not support the incorporation of sustainability-related reporting requirements into Australian Accounting Standards. We support the establishment of a separate Australian Sustainability Standards Board under the oversight of the Financial Reporting Council, consistent with the arrangements

Deloitte.

currently in place for the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board. We note the IFRS Foundation Trustees' deliberations on the establishment of a separate International Sustainability Standards Board within the IFRS Foundation and believe that much of their reasoning and conclusions for forming separate standard setting boards also holds true in the Australian context. We acknowledge that this would require changes in legislation, however, we believe that it is in the best interest of the Australian economy. Notwithstanding that the sustainability reporting standards are part of general purpose financial reporting we do not believe that the proposed ISSB sustainability standards are in the nature of 'accounting standards', and to incorporate them into Australian Accounting Standards as it would likely create confusion and have significant unintended consequences.

Further, the Australian Accounting Standards are currently underpinned by a concept of transaction neutrality[3]. The AASB For-Profit Entity Standard-Setting Framework explains transaction neutrality as meaning "that like transactions and events are accounted for in a like manner by all types of entities, reflecting their economic substance, unless there is a justifiable reason not to do so. The AASB Not-for-Profit Entity Standard-Setting Framework sets out circumstances where it may be appropriate to use a different approach for not-for-profit entities versus for-profit entities." The ISSB standards are expected to identify investors as the primary users of the proposed sustainability disclosures. We believe it is implicit in the development of such standards that they are being developed for implementation by for-profit entities. To incorporate essentially what are for-profit standards into Australian Accounting Standards which currently apply to a very wide range of entities, including for-profits and not-for-profits (including government bodies, charities and associations etc) is likely to require a significant process of review, outreach, constituent consultation, modification and amendment and would inevitably result in significant delay in the Australian standard setting process. There is an urgent need for standard-setting for sustainability related disclosures and the establishment of a separate standard-setting board is, in our view, a more practical and pragmatic response.

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

Deloitte believes that ISSB standards are in the best interest of the Australia and the participants in its economy and will aid Australian entities' economic competitiveness. Australian businesses have global value chains, face global risks and access capital from global investors.

As outlined in C6, the timelines for making the proposals effective should align with major markets and allow voluntary early adoption, to ensure that Australia keeps in-step and at pace, with global developments particularly given the urgent need for global action on climate change and other sustainability-related issues as highlighted by the United Nations Sustainable Development Goals.

[3] https://www.aasb.gov.au/about-the-aasb/standard-setting-policies-processes/

APPENDIX B

Deloitte Touche Tohmatsu Limited
2 New Street Square
London
EC4A 3BZ

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 1198
www.deloitte.com/about

Direct phone: +44 20 7007 0884
vepoole@deloitte.co.uk

20 July 2022

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

Dear Mr Faber

ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Sustainability Standards Board's ('the ISSB') Exposure Draft (ED) *General Requirements for Disclosure of Sustainability-related Financial Information ('General Requirements')*.

We strongly welcome the ISSB's proposals for global standards for sustainability reporting. This should facilitate consistent, comparable and timely sustainability information for the capital markets. Given the urgency of addressing climate change and other sustainability matters, we encourage the ISSB to finalise and issue its first standards at the earliest opportunity.

We support the creation of a comprehensive global system for corporate reporting with the ISSB standards establishing a global baseline of requirements for reporting on sustainability matters relevant to enterprise value and allowing for interoperability with jurisdictional sustainability disclosure requirements. We welcome the establishment of the Jurisdictional Working Group and encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the U.S. Securities and Exchange Commission (SEC). As the ISSB, EFRAG and SEC proposals have yet to be finalised, we consider that there is a window of opportunity to achieve a global baseline of sustainability reporting standards. Ongoing collaboration with the jurisdictions will also support the objective of maintaining high quality standards by acting as an additional mechanism for the provision of timely feedback to the ISSB on any challenges in practical application of the standards and contributing to timely post-implementation reviews.

We welcome the ISSB's overall approach to standard-setting, which, in line with the direction set by the IFRS Foundation Trustees and consistent with the recommendations of the Technical Readiness Working Group (TRWG), builds on existing standards and frameworks and should allow for progress to be made at pace. Furthermore, this approach recognises that many companies have adopted or based their current disclosures on the existing frameworks and standards, including the TCFD recommendations which are already mandatory, or about to become mandatory, in some jurisdictions. In that regard, the explicit provision in the proposals that preparers may use other recognised standards as the basis for disclosures

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is 1 New Street Square, London, EC4A 3HQ, United Kingdom.

© 2022 . For information, contact Deloitte Touche Tohmatsu Limited.

when there is not currently an IFRS Sustainability Disclosure Standard (SDS) is helpful and will facilitate adoption. We also believe that building on frameworks and standards which are already familiar to users will enable them more readily to understand the ISSB disclosures and incorporate them into their existing systems for analysis.

We support the ISSB's inclusion of industry-specific requirements, based on the Sustainability Accounting Standards Board (SASB) Standards, into the proposals alongside the cross-sector standards. The SASB Standards have been found to be of particular value to investors. We therefore consider that they provide a good starting point for industry-based content within the architecture of the ISSB standards. However, we recognise that not all jurisdictions or entities are familiar with the SASB Standards and believe that there is a need for further education on the use and application of the requirements. We also recommend that further work is undertaken to ensure that the SASB metrics are appropriately internationalised through further testing outside of the U.S. environment.

We also highlight that the industry-specific metrics set out in the SASB Standards may not be complete in their coverage as the relevance of those metrics to a particular industry will change over time. We therefore encourage the ISSB to build on the established SASB Standards practice of including sufficient industry expertise in the standard-setting process.

We support the use of the four pillars set out in the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the basis for the core content of IFRS SDS. The pillars, governance, strategy, risk management, and metrics and targets, were selected by the TCFD for climate-related disclosures on the basis that they reflect how a business is run. We consider that this approach facilitates integration of consideration of sustainability matters into core business practices and will foster market acceptance.

Our further overarching comments are provided below with detailed responses to the consultation questions set out in the Appendix to this letter.

Approach to General Requirements Standard

We support the overall aim of the ED, setting out principles for disclosure of all relevant sustainability-related financial information. In our view, drawing on the relevant principles of the IASB's *Conceptual Framework,* IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides an appropriate foundation for identifying and reporting on sustainability matters. Further, it supports connectivity with financial information, which is a priority for investors.

Hierarchy

We support the proposed 'hierarchy' in paragraph 51 of the ED, which guides preparers to use other frameworks and standards in the absence of a specific IFRS SDS and whilst the ISSB develops other standards. However, we consider that this should be positioned as directional guidance rather than being a mandatory consideration, as currently proposed.

Materiality

We support the ISSB's focus on enterprise value and the objective of the proposals to provide information relevant to the needs of the capital markets and welcome the alignment with the definition in the IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1, which should help to facilitate connectivity between sustainability and financial information.

We note the use of the terms 'significant' and 'material' and understand this as being a two-step process whereby the entity identifies significant sustainability-related risks and opportunities (for example, those matters that the entity's board has assessed as significant) and then considers the information relating to those matters that is material to enterprise value. However, we consider that further explanation of the distinction between 'significant sustainability-related risks and opportunities' and 'disclosure of material information' is necessary to facilitate consistent understanding and application of these terms in practice. More generally, additional guidance on the application of materiality in the context of sustainability information would be helpful.

We also consider that it would be helpful to clarify within the standard how preparers can comply with the standard when they do not have all elements of their governance, strategy, risk management, or metrics or targets in place for a particular matter and recommend that the wording in BC85 in the Basis for Conclusions is included. For example, the proposals could emphasise that an entity could make a statement that a policy or measure on a matter assessed as significant by the entity is not yet developed, along with a timeframe in which the entity will prepare and report on it.

We recommend that the proposals further clarify the interaction between an entity's impacts on people, the planet and the economy and enterprise value. We consider this was more explicit in the prototype developed by the TRWG and recommend that the Illustrative Guidance is expanded to be clearer on how an entity might go about identifying material information about significant sustainability-related matters, starting with considering the relevant sustainability matters and related impacts on people, planet and the economy, and then identifying a subset of matters that are relevant to enterprise value. The TRWG prototype included content on 'nested and dynamic' materiality, following the work of the 'Group of 5', and this could be re-instated and elaborated in these proposals.

Boundaries of information to be reported

We believe that the ISSB should provide more clarity on the boundaries of information to be reported when applying these standards. This manifests itself in a number of areas of the ED as set out below:

- Definition of sustainability-related financial information – we believe it would be helpful for the ISSB to explain the types of information that may be covered;
- Materiality – we consider that there is a need for clarification on the use of the word 'all' in reference to 'significant' sustainability risks and opportunities. Our understanding is that this is constrained by the word 'significant' and therefore does not require entities to make an assessment of the entire universe of potential sustainability risks and opportunities that may affect the entity; and
- Value chain – we note that the proposals require entities to report on relevant matters across their value chains. The value chain is a very broad concept, going beyond the reporting entity, and therefore we believe that there should be more guidance to help entities to understand how far up and down the value chain they need to look to identify relevant information, for example, how many tiers of suppliers an entity should consider in order to meet the requirement. This should include consideration of the level and availability of information needed from suppliers, customers and others which could be challenging to obtain, especially within the proposed reporting timeline.

Disclosure of financial effects

We support the principle of quantifying the financial effects of sustainability matters but recommend that the ISSB should clarify what this means in practice and further set out its reporting expectations. We highlight that quantification can be difficult to achieve as there are currently no commonly used

methodologies for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information. We believe further evolution of measurement methodologies will be needed before further standard-setting activity could be undertaken in this regard.

Connected information

We believe the concept of connected information is highly important and welcome the emphasis in the ED on the need for entities to report in an integrated way. It is essential to avoid 'reporting silos', which could reduce understandability and lead to lengthy, duplicative disclosures. More fundamentally, integrating sustainability information into the overall content of corporate reporting encourages entities to explain how it relates to their strategy and business model. This has been the aim of the many entities who have adopted integrated reporting and who are using this approach to enhance integrated thinking.

We support the requirement to link sustainability disclosure to the information included in the financial statements, which we view as essential. However, we also recommend that the ISSB emphasise the linkage of information to management commentary or an equivalent framework which provides essential context, for example, greater connections between sustainability information and their impact on an entity's business model.

Reporting timing and location

We agree that aligning financial and sustainability reporting is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information, and will further support the full integration of sustainability matters into the entity's governance, strategy and operations. Therefore, we agree that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. However, we note that this will be challenging for many entities that currently disclose sustainability information in a separate sustainability report, published at a later date, as they will need to ensure they have the necessary systems, processes and resources in place to achieve this objective and meet the proposed requirement. These practical challenges should be considered in the transition provisions and in setting the effective date for the standard.

We believe it is important that the ED specifies that sustainability information should be included within general purpose financial reporting, but provides flexibility in the location, as it helps to minimise duplication and accommodates different jurisdictional requirements.

Understandability of standards

We commend the ISSB for the concise drafting in the ED. However, we encourage the ISSB to use plain language when finalising the standard, recognising that the preparers of the front-end of annual reports are not necessarily those in the finance team. We also encourage the ISSB to provide educational material over time for those that may not be familiar with IFRS terms; and ensure that terms used in the glossary, where relevant, are and continue to be consistent with IFRS Accounting Standards.

Sustainability themes beyond climate

We note that the ISSB has committed to issuing an agenda consultation to inform its future priorities and we encourage the ISSB to move towards publication of this quickly. We therefore welcome the ISSB

considering possible topics for its agenda consultation at its inaugural meeting. Whilst climate should be the priority, we consider that there are other sustainability matters that also need to be addressed, for example, social, water and biodiversity. A starting point for identifying some of those themes could be the sustainability disclosure topics within the SASB Standards, GRI, or the themes identified by the WEF International Business Council's Stakeholder Capitalism Metrics.

Proportionality

Over time, the ISSB may consider the need for a reduced disclosure standard similar to the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and help jurisdictions with scoping discussions relating to the adoption of IFRS SDS.

Finally, we congratulate the ISSB for its ambition and swift progress in developing these standards. We encourage the ISSB to continue to maintain good pace and issue this and other standards without delay, given the urgency of responding to climate and other sustainability issues. Furthermore, early publication of the standards will provide clarity on the disclosure requirements that comprise the global baseline, and on which jurisdictions can add further requirements as needed, to promote the closest possible global alignment.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader
Deloitte Touche Tohmatsu Limited

Appendix— ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

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

(a) We believe that the ED clearly states that an entity would be required to identify and disclose material information about all the significant sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS SDS. However, we recommend further clarity and guidance is provided in relation to 'significant' sustainability-related matters. The proposals do not give sufficient information to help preparers understand exactly what 'significant' means in this context, how they would go about identifying all significant matters, and what level of due diligence to apply in that process. Given that there is some confusion between the terms 'significant' and 'material', we recommend that the ISSB considers an alternative term such as 'principal' in relation to the identification of risks and opportunities.

In addition, we consider that there is a need for clarification of the use of the word 'all' in reference to 'significant' sustainability risks and opportunities. Our understanding is that this is constrained by the word 'significant' and therefore does not require entities to make an assessment of the entire universe of potential sustainability risks and opportunities that may affect the entity. We understand that the intent of the proposals is to encompass sustainability-related matters such as those that would be on the agenda of the board and its committees, including consideration of matters across the value chain and impacts that could affect enterprise value over time, including in the long term.

(b) We agree that the proposed requirements set out in the ED meet its proposed objective.

(c) In our view, while it is relatively clear how the proposed requirements in the ED would be applied together with the proposed IFRS S2, the interaction between this ED and other IFRS SDS could be made more explicit. For example, clarifying sentences could be added to paragraph 51, which currently directs preparers to reference other IFRS SDS. This could provide more guidance to preparers as to what consideration they should give to those other standards when determining

relevant information, including clarifying the interaction between cross-industry and industry-specific requirements.

(d) We agree that the requirements proposed in the ED should provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals but encourage the ISSB to collaborate further with the International Auditing and Assurance Standards Board (IAASB) noting its project on Sustainability Assurance. This will enable both organisations to identify processes, procedures and controls that should underlie the preparation and disclosure of sustainability information.

We consider that there are areas of the EDs which could be challenging for assurance. These include:

- Forward-looking information, including the proposal to report on anticipated effects on financial performance, position and cash flows which is akin to forecasts;
- Identifying criteria used by management to measure and prepare sustainability-related financial information; and
- Scope of value chain.

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.

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

(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?

(a) Overall, we believe that the objective as set out in paragraph 1 of the ED is clear and helpful as it is structured in the same way as the IASB's Conceptual Framework. The focus on the primary users of general purpose financial reporting along with the clarity on the objective to provide information that would enable users to assess enterprise value provide a clear boundary for the information to be reported.

We have some specific drafting comments:

- Paragraph 5 – the last sentence states "information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information". We recommend that this also refers to information provided in management commentary or an equivalent framework.
- Paragraph 6(d) refers to "knowledge-based assets" We consider this would be better positioned as an example or expanded to include other types of intangible assets.

(b) In our view, there is benefit in providing additional guidance on "sustainability-related financial information". The reference to enterprise value is helpful for setting the boundary of sustainability information for the purpose of these standards. However, it would be helpful if the ISSB could provide examples of the types of information that could be material from an enterprise value perspective on a cross-industry basis. For example, impacts on people could be one such category. The SASB Standards sustainability disclosure topics provide some guidance, however, we consider that it would be helpful for the ISSB to set some parameters on what should be included within the definition.

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).

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 agree that IFRS SDS should be permitted for use alongside local GAAP financial statements provided this is compatible with local regulations. We consider that the proposal in the ED would be beneficial as jurisdictions may not have local sustainability reporting standards or may wish to make use of the ISSB standards for private entities that apply local GAAP.

While we consider that it is important for IFRS SDS to be available for use with local GAAP financial statements, we note that ISSB standards are designed for use with IFRS Accounting Standards and, as the ED highlights, connectivity between sustainability-related financial information and the financial statements is important. In instances where IFRS SDS are being used with local GAAP, this may diminish consistency and comparability between sustainability-related financial information and information in the financial statements where local GAAP is not based on IFRS Accounting Standards. However, we believe this can be mitigated by transparency on the basis of preparation of the financial statements and disclosure where the accounting basis is substantially different from IFRS.

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

(a) We consider that the disclosure objectives for governance, strategy, risk management, and metrics and targets are clear and appropriately defined. As noted in our cover letter, we support the use of the four pillars set out in the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) as the basis for the core content of IFRS SDS. The pillars, governance, strategy, risk management, and metrics and targets, were selected by the TCFD for climate-related disclosures on the basis that they reflect how a business is run. We consider that this approach facilitates integration of consideration of sustainability matters into the core business practices and will foster market acceptance.

We also highlight that a number of entities and investors are familiar with the pillars and the resulting information from TCFD, which would facilitate transition to the ISSB standards.

However, we note that [draft] IFRS S1 and S2 have overlapping content in the governance, strategy and risk management requirements. Consideration should be given to streamlining that content so that general requirements reside only in IFRS S1.

(b) We broadly agree that the disclosure requirements for governance, strategy, risk management, and metrics and targets are appropriate to their stated disclosure objective and are well explained.

Governance

The drafting in paragraph 13 could be improved. Paragraph 13(a) refers to both governance bodies or individuals responsible for the oversight of climate-related risks and opportunities. However, 13(b)-(g) only refer to bodies. Smaller entities may not have complex governance

structures, and these matters may therefore be subject to the oversight of particular individuals. Therefore, we recommend referring both to bodies and individuals throughout the requirements.

Time-horizons

We welcome that the ISSB is providing flexibility to entities in determining the short-, medium-, and long-term time horizons. However, we recommend that the ISSB expands on the guidance in this area, potentially through the use of examples.

Financial position, financial performance and cash flows

We support the principle of quantifying the financial effects of sustainability matters but recommend that the ISSB should clarify what this means in practice and further sets out its reporting expectations. We highlight that quantification can be difficult to achieve as there are currently no commonly used methodologies for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information. We believe further evolution of measurement methodologies will be needed before further standard-setting activity could be undertaken in this regard.

We consider that paragraph 22 would benefit from further application guidance and/or examples to help preparers understand what disclosures are intended. Parts (c) and (d) of paragraph 22 use the phrase “how it expects its financial position [financial performance] to change over time”. We recommend that an entity be required to disclose what timeframe it has applied in making this disclosure, linking it to the short-, medium- and long-term horizons. We also recommend that the ISSB clarify the circumstances under which an entity might appropriately state that it is unable to make quantitative disclosures (for example, there is insufficient capacity in the entity to perform the exercise) and consideration given to a requirement to provide a timeframe in which those disclosures could be made.

Metrics and targets

Paragraph 31 relates to metrics. There is a drafting error in paragraph 31(c) which should use the word ‘metrics’ instead of “targets”.

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.

(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?

(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?

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

(a) We agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. This is essential to enhance comparability and connectivity. However, we note that the ED on Climate-related Disclosures ('Climate') refers to the GHG Protocol, which includes approaches for reporting boundaries that could differ from the reporting entity concept for the financial statements. This could lead to inconsistent disclosures in respect of the reporting entity on GHG emissions (see our response to [draft] IFRS S2, question 9(e)).

(b) The value chain is a very broad concept, going beyond the reporting entity, and therefore we believe that there should be more guidance to help entities to understand how far up and down the value chain they need to look to identify relevant information, for example, how many tiers of suppliers an entity should consider in order to meet the requirement. This should include consideration of the level and availability of information needed from suppliers, customers and others which could be challenging to obtain, especially within the proposed reporting timeline.

In addition, we recommend amendments are made to paragraph 40(c) in respect of associates and joint ventures as follows:

- As currently drafted, the use of the word 'control' for associates and joint ventures seems to go further than IFRS Accounting Standards where associates and joint ventures are not consolidated;
- Further clarity or guidance is needed around the information expected in respect of associates and joint ventures; and
- For joint ventures and other financed investments, it should be clarified whether the approach should be consistent with the preparation of the financial statements and if this is practicable. We note that there could also be challenges with accessing data from joint ventures and associates and it may be helpful for the ISSB to provide guidance on the approach in these circumstances.

(c) We agree with the proposed requirement for identifying the related financial statements.

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) 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?

Deloitte.

(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 believe the concept of connected information is highly important and welcome the emphasis in the ED on the need for entities to report in an integrated way. It is essential to avoid 'reporting silos', which could reduce understandability and lead to lengthy, duplicative disclosures. More fundamentally, integrating sustainability information into the overall content of corporate reporting encourages entities to explain how it relates to their strategy and business model. This has been the aim of the many entities who have adopted integrated reporting and who are using this approach to enhance integrated thinking.

(a) Whilst we agree that the requirement is clear on the need for connectivity between various sustainability-related risks and opportunities, we believe that information on sustainability-related risks and opportunities should also be connected to information in management commentary or an equivalent framework (for example, the Management Report, Strategic Report or Integrated Report). For example, sustainability-related risks and opportunities should be linked to and considered in the context of an entity's business model and other areas of strategy covered in management commentary. Similarly, risks and opportunities could also be connected to broader corporate targets, actions and plans. We therefore recommend that this linkage is emphasised in paragraph 43 and that consideration is given to a further example highlighting this aspect of connected information in paragraph 44. We also consider that there is scope to provide further examples here to enhance users' understanding and recommend that the examples in BC57 of the Basis for Conclusions are brought forward.

    This observation is also relevant in the context of the agenda of both the ISSB and the IASB. Consideration should be given as to how these proposals relate to the future direction of the International Integrated Reporting Framework under the IFRS Foundation, the IASB's project on Management Commentary and the IASB's newly-added project on climate-related risks.

    We also consider that the ISSB should be cognisant of jurisdictional requirements in respect of management commentary or similar. Guidance on connectivity should cater for jurisdictional reporting structures which are not fully based on IFRS. For example, a jurisdiction may require an entity to prepare its financial statements under IFRS Accounting Standards and apply ISSB SDS, but may have a pre-existing local framework for reporting on management commentary.

(b) We 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.

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

Deloitte.

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?

(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

(a) We believe that the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed is clear. In particular, we consider the inclusion of the principle in paragraph 47(b) which is the same as the concept to present fairly in IAS 1 to be helpful.

(b) We agree with the sources of guidance, set out in paragraph 51, to identify sustainability-related risks and opportunities and related disclosures. We consider these to be a useful point of reference in the absence of a specific IFRS SDS and whilst a suite of standards are developed by the ISSB.

We support the proposed 'hierarchy' in paragraph 51 which includes important provisions on the use of other standards and frameworks such as the SASB Standards, which we welcome. However, we believe that this provision should be positioned as directional guidance rather than being a mandatory consideration. We recommend that instead of saying an entity "**shall** consider" the disclosure topics in the listed standards, the wording should be amended to "**could** consider".

This approach recognises that many companies have adopted or based their current disclosures on the existing frameworks and standards, including the TCFD recommendations which are already mandatory, or about to become mandatory, in some jurisdictions. In that regard, the explicit provision in the proposals that preparers may use other recognised standards as the basis for disclosures when there is not currently an IFRS SDS is helpful and will facilitate adoption. We also believe that building on frameworks and standards which are already familiar to users will enable them more readily to understand the ISSB disclosures and incorporate them into their existing systems for analysis.

We note that the ISSB is in the process of consolidating some of the leading voluntary frameworks and therefore recommend that the integration of other sources of guidance is kept under review as standard-setting convergence takes place. Following transition of the SASB Standards into the IFRS Foundation, it may also be appropriate to change the wording to reflect how the SASB Standards content and materials will be part of the IFRS Foundation literature.

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

Deloitte.

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?

(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?

(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?

(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?

(a) We support the ISSB's focus on enterprise value and the objective of the proposals to provide information relevant to the needs of capital markets and welcome the alignment with the definition in IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1 which should help to facilitate connectivity between sustainability and financial information.

We note the use of the terms 'significant' and 'material' and understand this as being a two-step process whereby the entity identifies significant sustainability-related risks and opportunities (for example, those matters that the entity's board has assessed as significant) and then considers the information relating to those matters that is material to enterprise value. However, we consider that further explanation of the distinction between 'significant sustainability-related risks and opportunities' and 'disclosure of material information' is necessary to facilitate consistent understanding and application of these terms in practice. More generally, additional guidance on the application of materiality in the context of sustainability information would be helpful.

We also welcome the inclusion of some of the key principles in IAS 1 such as paragraph 60 which highlights that disclosures are only required when material; and, at times, disclosure of additional information may be needed in the absence of a specific disclosure requirement, as stated in paragraph 61 which can be linked to the fair presentation concept.

However, we consider that it would be helpful to clarify within the standard how preparers can comply with the standard when they do not have all elements of their governance, strategy, risk management, or metrics or targets in place for a particular matter and recommend that the wording in BC85 of the Basis for Conclusions is included. For example, the proposals could emphasise that an entity could make a statement that a policy or measure on a matter assessed as significant by the entity is not yet developed, along with a timeframe in which the entity will prepare and report on it.

(b) We believe the proposed definition should capture the breadth of sustainability risks and opportunities relevant to enterprise value.

(c) We recommend that the proposals further clarify the interaction between an entity's impacts on people, the planet and the economy and enterprise value. We consider this was more explicit in the prototype developed by the TRWG. In particular, we believe it would be worth clarifying that material sustainability-related financial disclosure for users may include information about the entity's impacts on people, planet and economy when those impacts affect its cash flow over the short, medium and long term or the value attributed by users to those cash flows.

    We further suggest that the Illustrative Guidance is expanded to be clearer on how an entity might approach identifying material information about significant sustainability-related matters. For example, an entity may start by considering the relevant sustainability matters and its related impacts on people, the planet and the economy. It might then identify the information on those matters that is material to enterprise value. The prototype included content on 'nested and dynamic' materiality in Appendix C: Guidance on Implementing Materiality, following the work of the 'Group of 5', and this could be re-instated and elaborated in these proposals. In time, the ISSB could consider whether a Practice Statement on Materiality for sustainability-related financial information, similar to that published by the IASB, would be helpful. In addition, we recommend that the ISSB could consider whether disclosure of an entity's assessment of materiality could be useful.

(d) We agree with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information as it will avoid jurisdictions needing to make amendments to ISSB standards to comply with legal requirements.

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.

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 that aligning financial and sustainability reporting is an important ambition that responds to the expectations of investors to understand the connections between sustainability and financial information, and will further support the full integration of sustainability matters into the entity's governance, strategy and operations. Therefore, we agree that sustainability information should be provided at the same time and as part of the same reporting package as the financial statements. However, we note that this will be challenging for many entities that currently disclose sustainability information in a separate sustainability report, published at a later date, as they will need to ensure they have the necessary systems, processes and resources in place to achieve this objective and meet the proposed requirement. These practical challenges should be considered in the transition provisions and in setting the effective date for the standard.

Paragraph 71 requires disclosure of material information after the end of the reporting period. We recommend that the ISSB amends the drafting in this paragraph to link it to IAS 10 *Events after the reporting period* and clarify whether disclosure is required for adjusting and/or non-adjusting events.

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.

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

(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?

(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?

(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?

(a) We believe it is important that the ED specifies that sustainability information should be included within general purpose financial reporting, but provides flexibility in the location, as it helps to minimise duplication and accommodates different jurisdictional requirements.

(b) We are not aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the ED.

(c) We support the proposals on the use of cross-referencing. We consider that paragraph 77 is helpful for enforcement purposes. However, we believe that further clarity should be provided as to whether cross-referencing is permitted outside the reporting package (for example, to a sustainability report). If this is permitted, we consider that it is necessary for the information to be easily accessible and clearly identifiable and suggest that the ISSB should work closely with the IAASB to understand the implications of this approach for assurance.

(d) We agree that paragraph 78 is clear that entities are encouraged to integrate information and avoid duplication.

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.

(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?

(a) In our view, the concepts in IAS 1 and IAS 8 have been appropriately adapted in the proposals.

We believe that the guidance on estimation and outcome uncertainty is particularly helpful given the subjective nature of sustainability information and the degree of uncertainty such as in respect of the measurement of Scope 3 GHG emissions.

We have a concern that the wording in paragraph 63 - "the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial disclosures" - could result in clutter and confuse current year narrative. As an alternative, the entity could be required to provide analysis, similar to the business review, of changes in sustainability risks and opportunities.

We also recommend that paragraph 88 of the ED should be better aligned with IAS 8 with an error being restated from the beginning of the reporting period rather than 'from the earliest date practicable'.

(b) We disagree with this approach as we are concerned that the requirement to restate prior period metrics if estimates change may lead to too frequent restatements. We would prefer an approach similar to IAS 8. We also suggest that the ISSB provides clarification on whether an update to the methodologies underpinning Scope 3 GHG emissions metrics would trigger a restatement or whether this would be treated as a change in estimates as for IFRS Accounting Standards.

It would be helpful for the drafting to be made more explicit in respect of estimate changes from the prior year.

(c) We agree with the proposal that financial data and assumptions within sustainability-related financial disclosures should be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible.

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.

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

We agree with the proposal as it is consistent with the approach taken for IFRS Accounting Standards.

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.

(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?

(a) We consider that the standards should be made available as soon as possible with early adoption permitted. With regard to the effective date, we encourage the ISSB to consider the practical implications of these proposals and the different degrees of readiness across jurisdictions, and allow for regulators to decide appropriate timescales for mandating standards through local regulations.

(b) We agree with this proposal, which is consistent with the approach taken for IFRS Accounting Standards.

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?

We support the creation of a comprehensive global system for corporate reporting with the ISSB standards establishing a global baseline of requirements for reporting on sustainability matters relevant to enterprise value and allowing for interoperability with jurisdictional sustainability disclosure requirements.

We do not consider there any particular aspects of the ED that would limit the ability of IFRS SDS to be used as a global baseline for sustainability reporting on matters relevant to enterprise value to capital markets. We welcome the principles-based and neutral approach to standard-setting that is being taken by the ISSB. We expect this will support the ability of jurisdictions to strive for global consistency and add requirements or further specificity where needed. In that regard, we welcome the establishment of the Jurisdictional Working Group and encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the U.S. Securities and Exchange Commission (SEC). In particular, we encourage further collaboration in areas such as the structure of the standards, concepts, including materiality, and definitions. As the ISSB, EFRAG and

SEC proposals have yet to be finalised, we consider that there is a window of opportunity to achieve a global baseline of sustainability reporting standards.

Ongoing collaboration with the jurisdictions will also support the objective of maintaining high quality standards by acting as an additional mechanism for the provision of timely feedback to the ISSB on any challenges in practical application of the standards and contributing to timely post-implementation reviews.

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)?

We welcome that the ISSB is considering digital consumption alongside the development of its standards. We note that the ISSB has recently published a Staff Request for Feedback on the Staff Draft of the IFRS Sustainability Disclosure Taxonomy.

Question 16—Costs, benefits and 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?

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

(a) We consider that the benefits, which may be difficult to quantify, should significantly outweigh the costs of the proposals. There is an urgent demand from investors for consistent, comparable and timely sustainability-related financial information and a need for entities to have clarity over which standards they should apply for reporting this information. This clarity should enable entities to invest with certainty in appropriate systems and controls, as they do today in respect of financial reporting.

When considering the costs of implementing the proposals, it is important for the ISSB to consider that there will be a different journey for different jurisdictions and entities. Some jurisdictions are already using frameworks for sustainability reporting.

The approach adopted by the ISSB recognises that many companies have adopted or based their current disclosures on the existing frameworks and standards, including the TCFD recommendations which are already mandatory, or about to become mandatory, in some jurisdictions. For entities that are already applying standards and frameworks such as TCFD, GRI, CDSB, the SASB Standards and integrated reporting, the costs of transition should be lower.

As with the introduction of any new standard, we would expect costs to be higher in the first year as entities put in place the necessary systems and familiarise themselves with the standards.

We also consider that there are considerable benefits for all stakeholders in increased transparency and greater insight into the risk and value drivers of an entity.

(b) There will be costs relating to resourcing including maintaining the information as well as ensuring that sustainability-related risks and opportunities are embedded in the management process and appropriately measured.

Question 17— Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

Sustainability themes beyond climate

We note that the ISSB has committed to issuing an agenda consultation to inform its future priorities and we encourage the ISSB to move towards publication of this quickly. We therefore welcome the ISSB considering possible topics for its agenda consultation at its inaugural meeting. Whilst climate should be the priority, we consider that there are other sustainability matters that also need to be addressed, for example, social, water and biodiversity. A starting point for identifying some of those themes could be the sustainability disclosure topics within the SASB Standards, GRI or the themes identified by the WEF International Business Council's Stakeholder Capitalism Metrics.

Proportionality

Over time, the ISSB may consider the need for a reduced disclosure standard similar to the IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and help jurisdictions with scoping discussions relating to the adoption of IFRS SDS.

Deloitte Touche Tohmatsu Limited
2 New Street Square
London
EC4A 3BZ

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 1198
www.deloitte.com/about

Direct phone: +44 20 7007 0884
vepoole@deloitte.co.uk

20 July 2022

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

Dear Mr Faber

ED/2022/S2 *Climate-related Disclosures*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Sustainability Standards Board's ('the ISSB') Exposure Draft (ED) Climate-related Disclosures ('Climate').

We strongly support the proposals in the ED. In particular, we welcome that they build on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. This builds on the success of the TCFD, leverages the SASB Standards to incorporate industry-specific disclosure requirements and responds to the investors' call for standards that facilitate consistent and comparable information on climate-related risks and opportunities.

We welcome the ISSB prioritising a climate standard given the urgency of this issue and recommend that the ISSB moves towards finalising the standard as soon as possible, whilst respecting its due process.

Our overarching comments are provided below with detailed responses to the consultation questions set out in the Appendix to this letter. This response should also be read in conjunction with our response to ED/2022/S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ('General Requirements').

Approach to the Climate standard

We agree with the approach taken to the development of the standard which builds on the TCFD recommendations, including the organising approach to core content of governance, strategy, risk management, and metrics and targets. This approach is well understood by entities and users globally: the TCFD recommendations have been adopted by many organisations voluntarily and it is mandated in some jurisdictions.

We also welcome the ED's proposals to promote consistent and comparable reporting on climate-related matters, while making accommodations that respond to the degree of uncertainty inherent in measuring and reporting on them. In particular, we welcome the proposals for providing quantitative information while allowing for qualitative information to be provided when quantitative is not practicable.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is 1 New Street Square, London, EC4A 3HQ, United Kingdom.

© 2022 . For information, contact Deloitte Touche Tohmatsu Limited.

We support the ED's ambition for scenario analysis to become mainstream since users have emphasised the importance of understanding the resilience of the entity under different scenarios. As an interim step, we agree with the proposal that alternative techniques may be used when an entity is unable to use climate-related scenario analysis. This provides preparers, including those in smaller entities, with relief, recognising that formal scenario analysis and related disclosure can be resource intensive, necessitate an iterative learning process, and may take multiple planning cycles to achieve. However, we disagree with the level of detail that is proposed for the disclosure of alternative techniques. In particular, disclosing 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 will require significant resources that smaller entities (which would likely apply an alternative approach) may not have. This also goes beyond the disclosures that would be required for financial reporting.

Metrics

We support the proposed cross-sector metric categories. We note that these categories have already been found to be relevant by many users of climate-related reporting, as evidenced by responses to the TCFD's 2021 consultation[1].

We support the disclosure of Scope 3 greenhouse gas (GHG) emissions, recognising that they often form the largest part of an entity's carbon footprint. We also note that a number of jurisdictions have proposed or already require partial or full disclosure of Scope 3 GHG emissions. We acknowledge the many challenges of measuring Scope 3 GHG emissions, including the difficulties in obtaining the data, the methodology for calculating these emissions being based on estimates which are inherently uncertain and applying materiality. We welcome the helpful provisions in the proposals that support preparers, for example, guidance on estimation uncertainty. However, we encourage the ISSB to take account of the readiness of entities to provide this information, including availability and quality of data, the complexities of accounting, and available resources and processes, including technology solutions, and consider the need for further support for companies, such as transition arrangements. We also encourage the ISSB to work with the GHG Protocol to better align GHG Protocol concepts with the requirements in IFRS such as establishing the reporting boundary for associates, joint ventures and investments.

We also support the approach taken by the ISSB to include industry-specific metrics as a core part of the standard. Industry-specific metrics have been found to be important to users of sustainability information. However, we believe that the guidance currently included in the proposals on how cross-sector standards are intended to work together with industry-specific metrics is not sufficient and a better explanation should be provided on the relationship between cross-sector and industry-specific metrics, including in relation to presentation of the metrics.

In our view, more guidance is needed to assist entities to help them navigate the industry-specific topics in Appendix B, including how entities with activities that span more than one industry could readily identify the industries or disclosures that are relevant to their business. In addition, the industry-specific requirements should be supplemented with educational material that would be particularly useful for those entities and jurisdictions that may not be familiar with the SASB Standards. Furthermore, we recommend a detailed review of Appendix B before the ISSB finalises its standard to ensure that the metrics included therein are relevant.

[1] TCFD: Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans: Summary of Responses (October 2021) TCFD: Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans: Summary of Responses (October 2021)

Deloitte.

Current and anticipated financial effects

We recommend that the ISSB clarify what it means by the terms 'current and anticipated' financial effects. We note that disclosing current and anticipated effects may be difficult to achieve in practice. There is no commonly used methodology for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change, and therefore to assess the precise financial effects). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information.

Global alignment

We welcome the establishment of the Jurisdictional Working Group and encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the U.S. Securities and Exchange Commission (SEC). We believe that the interoperability of the climate standards is essential and recommend that the ISSB together with the Jurisdictional Working Group consider how compatibility between the different climate standards can be enhanced. As the ISSB, EFRAG and SEC proposals have yet to be finalised, we consider that there is a window of opportunity to achieve a global baseline of sustainability reporting standards, including on climate-related matters.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix 1—ED/2022/S2 *Climate-related Disclosures*

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?

(a) We agree with the objective that is set out in paragraph 1 of the ED with one exception. The objective uses the words "significant climate related risks and opportunities". [Draft] IFRS S1 requires the specification of significant sustainability-related risks and opportunities. [Draft] IFRS S2 then requires the specification of significant climate-related risks and opportunities. This implies that those specific risks identified by thematic standards are by default significant risks.

We recommend that the ISSB deletes the word 'significant' in the Climate ED. In our view, if an entity determines that climate is a significant risk or opportunity then it should assess what information about climate is material.

(b) We agree 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.

(c) We agree that the disclosure requirements set out in the ED meet the objectives described in paragraph 1.

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?

We broadly agree with the proposed requirements related to governance as we believe that these would provide users of general purpose financial reporting with an understanding of the entity's internal structures and processes for the identification, assessment and oversight of climate-related risks and opportunities.

The drafting in paragraph 5 could be improved. Paragraph 5(a) refers to both governance bodies or individuals responsible for the oversight of climate-related risks and opportunities. However, 5(b)-(g) only refer to bodies. Smaller entities may not have complex governance structures, and these matters may therefore be subject to the oversight of particular individuals. Therefore, we recommend referring to both bodies and individuals throughout the requirements.

We welcome the flexibility that is provided in paragraph 6 of the ED for governance disclosures to be provided on an integrated basis when an entity's oversight of sustainability-related risks and opportunities is managed in this way. In practice, a board is likely to manage its principal risks and uncertainties in the round taking into consideration both financial and sustainability matters. In this regard, we also support the flexibility provided in the General Requirements ED of being able to provide disclosures as part of general purpose financial reporting without specifying the exact location. In the context of governance disclosure, a number of jurisdictions have corporate governance codes which contain provisions for governance reporting so the approach that is proposed would avoid duplication.

As an overall comment, we note that paragraphs 4 and 5 of the Climate ED replicate the requirements in paragraphs 12-13 of [draft] IFRS S1. We suggest that [draft] IFRS S2 could be simplified by including a reference to the relevant paragraphs in [draft] IFRS S1. In addition, we believe that paragraph 5 in [draft} IFRS S2 should be re-written to state that an entity must disclose the information required by paragraphs 25 and 26 in [draft] IFRS S1 as it relates to the governance of climate-related risks and opportunities. We also recommend moving paragraph 6 in [draft] IFRS S2 after paragraph 13 in [draft] IFRS S1 and moving paragraph 6 in [draft] IFRS S2 to after paragraph 26 in [draft] IFRS S1 in the section on risk management.

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) Whilst we believe that the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities are sufficiently clear, we recommend that the word 'significant' is removed from paragraph 9 as noted in our response to question 1(a) above.

We welcome the inclusion of time horizons as determined by the entity; and the differentiation between transition and physical risks.

(b) We agree with the disclosure topics identified in the industry-based requirements as they are a useful starting point for an entity to consider the specific risks and opportunities it may need to address. We note that an entity could fall into more than one industry through its breadth of activities and some guidance on how an entity navigates this would be helpful.

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?

(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?

(a) Overall, we agree with the proposed disclosure requirements about the effects of climate-related risks and opportunities on an entity's business model and value chain. However, we consider that the value chain is a complex concept and further guidance may be needed to help entities determine what to include. See our response to the General Requirements ED for further information.

(b) We agree that the starting point for disclosure about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative as this approach balances the measurement challenges with the information that users of general purpose financial reporting need. We also note that it is difficult for entities to determine the exact proportion of a risk that can be attributed to climate (for example, the proportion of flooding risk, and resulting financial impacts).

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?

(a) We agree with the proposed disclosure requirements: the disclosure of an entity's transition plan towards a lower-carbon economy is important to enable users of general purpose financial reporting to assess the entity's current and planned responses to the risks and opportunities related to decarbonisation that can reasonably be expected to affect its enterprise value. In our view, the disclosures address the concerns of users to understand specific plans and commitments.

However, we have some specific comments on areas where we consider Paragraph 13 could be strengthened.

- The focus of the information regarding climate-related targets for transition plans in paragraphs 13(b)(ii)-(iii) only discusses emissions. We recommend including other climate measures (e.g., use of energy, water, etc.) but only to the extent that these have a clear link to the entity's response to climate-related risks and opportunities. Examples from the industry-specific metrics could usefully be included here; and

- There is further scope for linking 'legacy assets' in Paragraph 13(a)(i)(1) with financial reporting disclosures including those on property, plant and equipment and decommissioning obligations. We also note that the proposed definition of legacy assets currently includes "or has lost nearly all of its initial value" and could be read as including all heavily depreciated long-lived assets near the end of their useful economic life which we do not believe was the intention.

(b) We do not consider that any additional disclosures related to transition plans are necessary.

(c) In our view, the proposed carbon offset disclosures are sufficient to enable users of general purpose financial reporting to gain insight into an entity's approach to reducing emissions, including the role played by carbon offsets and the quality of those offsets. The proposals promote greater transparency. Offsets are a complex area and therefore it is important that disclosures are clear on the reliance placed on offsets and arrangements used. That said, we consider that there are few areas which could be strengthened.

- We think a further requirement could be added to specify that the disclosures should not mask gross emissions. To achieve this, we suggest there is a requirement to provide separate disclosures on carbon credits, carbon offsets or avoided emissions;
- To enhance connectivity, we recommend the ISSB work closely with the IASB on its project on carbon credits; and
- In paragraph 13 (b)(iii)(3), we encourage the ISSB to consider including some wording for carbon offsets that are not yet known.

(d) We consider that the proposed carbon offset requirements appropriately balance the cost for preparers with the need to disclose enough information to enable users of general purpose financial reporting to gain insight into the entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets. This is a good example of where jurisdictional requirements could be added to allow for more specific disclosures relating to carbon schemes and refer to other regulations that are in force.

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?

(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?

(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?

(a) We agree with the principle 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. However, for clarity, we suggest that the phrase "unless it is unable to do so" is replaced with wording similar to paragraph 18 in IFRS 8 *Operating Segments* "unless the necessary information is not available and the cost to develop it would be excessive", in order to provide more clarity as to the circumstances when an entity may state it is unable to make the required quantitative disclosures.

We support the ISSB's ambition in moving towards more quantitative disclosure but recognise that modelling techniques for quantitative disclosures are still developing and data systems within entities need to evolve further. For example, quantitative information may be easier to provide over the short or medium term whereas qualitative information may be appropriate for the longer term. We consider that the ED is consistent with this position but believe it would be helpful to clarify this point further.

(b) We 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.

We recommend that the ISSB clarify what it means by the terms 'current and anticipated' financial effects. We note that disclosing current and anticipated effects may be difficult to achieve in practice. There is no commonly used methodology for measurement in this area, and, in our experience, it can be a matter of significant judgement to determine what proportion of a risk or opportunity could be attributed to any one sustainability-related matter (for example, what proportion of a flooding risk could be attributed to climate change, and therefore to assess the precise financial effects). We therefore welcome that the ED allows for entities to provide estimates and ranges in their disclosures, and for the provision of qualitative information when entities are unable to provide quantitative information.

(c) We welcome the reference to 'short, medium and long term' in respect of current and anticipated effects. These timeframes will be different depending on the type of entity and its industry. Therefore, we recommend that paragraph 14(c) and (d), which refer to how an entity's financial position and performance will 'change over time', are amended to require entities to disclose the timeframes that they are using. In our view, this will enhance comparability of the information.

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?

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

(a) The likelihood, magnitude and timing of climate-related risks affecting an entity are often complex and uncertain and, therefore, users of general purpose financial reporting seek to understand the resilience of an entity's strategy (including its business model) to climate change, factoring in the associated uncertainties. We welcome the emphasis on resilience in the ED and agree that the items listed in paragraph 15(a) should help meet users' needs to understand the climate resilience of an entity's strategy. As this is a developing area, it may be helpful for the ISSB to provide further guidance by way of practical examples.

(b)

i. We support the proposal, which reflects an appropriate ambition for scenario analysis to become mainstream. As an interim step, we agree with the proposal that alternative techniques may be used when an entity is unable to use climate-related scenario analysis. This provides preparers, including those in 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.

   Paragraph 15 states that "the entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so". As outlined in our response to question 6(a), we recommend alternative wording for the phrase "unable to do so".

ii. We agree with the 'comply or explain' approach as we believe that entities should be encouraged to use scenario analysis.

iii. N/a, see our response to Question 7(b)(i).

(c) We agree with the proposed disclosures about an entity's climate-related scenario analysis.

(d) We disagree with the level of detail that is proposed for the disclosure of alternative techniques. In particular, disclosing 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 will require significant resources that smaller entities (which would likely apply an alternative approach) may not have. This also goes beyond the disclosures that would be required for financial reporting.

(e) We agree that the proposals appropriately balance the need for better information on climate resilience with the need to allow entities to select approaches appropriate to their facts and circumstances.

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?

We agree with the proposed disclosure requirements as their application should provide information that enables users to understand the process, or processes, that an entity uses to identify, assess and manage climate-related risks and opportunities. The inclusion of opportunities in this requirement acknowledges that both risks and opportunities can relate to or result from the same source of uncertainty. It also reflects an increasingly common practice to include opportunities in risk management techniques and processes.

As noted in our response to Question 2, we consider that there is an opportunity to simplify [draft] IFRS S2 where requirements replicate those in [draft] IFRS S1. In respect of the risk management disclosures, paragraph 17 of the climate ED replicates the requirement in paragraph 26 of [draft] IFRS S1.

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

Deloitte.

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 nonmandatory 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 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 (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) We agree with the seven proposed cross-industry metric categories and note that these categories were already found to be relevant by many users of climate-related reporting in the consultation by TCFD in 2021.

However, we believe that the interaction between cross-industry metrics and industry-specific metrics is not sufficiently clear in the proposals. Paragraph IG1 of the Illustrative Guidance could be incorporated into the main body of the standard to provide this clarity. We are concerned that entities may see Appendix B as a requirement to provide a significant number of metrics. We would welcome further guidance on how industry-specific metrics could satisfy cross-industry requirements.

We observe that metrics categories addressing financial impacts currently lack detailed methodologies to enable fully consistent and comparable disclosures, although we recognise that industry-specific requirements may help entities to measure these categories with more precision. We note the complexity of measuring financial impacts and that there are no commonly-used approaches that can be readily adopted within global sustainability standards today. We therefore believe that, whilst greater comparability may be desirable in respect of metrics addressing financial impacts, further evolution and field-testing of methodologies will be needed before further standard-setting can be possible.

(b) We do not propose any additional disclosures.

(c) We agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 GHG emissions as it is a well-established and internationally-recognised framework. However, we encourage the ISSB to work with the GHG Protocol to better align GHG Protocol concepts with the requirements in IFRS such as establishing the reporting boundary for associates, joint ventures and investments. We also recommend including a specific reference to the Greenhouse Gas Protocol Corporate Value Chain Accounting and Reporting Standard for guidance on measuring Scope 3 GHG emissions. As a general observation, we consider that there is an inherent risk associated with the ISSB's approach of referring to third-party documents in its standards as these could be changed and result in inconsistencies with the standard. This practice could also lead to complications in adoption by jurisdictions who may not be able, through legal considerations, to bring into laws or regulations third party content by reference.

(d) We 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.

(e) We agree that entities should be required to disclose Scope 1 and Scope 2 GHG emissions separately for the consolidated entity; and for any associates, joint ventures, unconsolidated subsidiaries and affiliates. However, we note that there are a couple of areas of paragraph 21(a)(iii)(2) that would benefit from further clarity, for example: the meaning of unconsolidated subsidiaries or affiliates and whether this should instead be a reference to investments (noting

that 'affiliates' is not a commonly used term in IFRS literature); and whether equity investments should be included.

As we noted in our response to question 5 of the General Requirements ED, the approach set out in this requirement is inconsistent with the way reporting entity is defined in [draft] IFRS S1. However, we think that a flexible approach is helpful to preparers at this stage, when their current practice is to use the definitions of reporting boundary as set out in the GHG Protocol. The requirements at paragraph 21(a)(iii)-(iv) go some way to enhance transparency and consistency. However, they do not offer a solution for the long term. We therefore encourage the ISSB to work with the GHG Protocol organisation to better align GHG Protocol concepts with the requirements in IFRS, such as establishing the reporting boundary for associates, joint ventures and investments.

(f) We support the inclusion of Scope 3 GHG emissions. They are an important component of investment risk analysis because, for many entities, they represent by far the largest portion of their carbon footprint. Scope 3 emissions data can help users of general purpose financial reporting to evaluate the degree to which an entity is making a transition to lower-carbon business models and products and services. Thus, the measurement and disclosure of Scope 3 GHG emissions enables an entity and its investors to identify the most significant GHG reduction opportunities across the entire value chain, thereby informing strategic and operational decisions as well as an entity's risk assessment.

We also note that a number of jurisdictions already require disclosure on aspects of Scope 3 GHG emissions or are proposing full disclosure in this area. We acknowledge the challenges of measuring Scope 3, which include difficulties in obtaining the data, and the methodology for calculating these emissions being based on estimates which are inherently uncertain. These challenges, combined with the uncertainty around the nature and timing of climate-related impacts on a company's business, may make materiality assessments much more difficult than materiality assessments that have traditionally been made in the context of a company's financial disclosures.

We welcome the helpful provisions in the proposals that support preparers, for example, guidance on estimation uncertainty. However, we encourage the ISSB to take account of the readiness of entities to provide this information, including availability and quality of data, the complexities of accounting, and available resources and processes, including technology solutions, and consider the need for further support for companies, such as transition arrangements.

We propose some detailed drafting points on aspects of paragraph 21:

- Paragraph 21(a)(vi)(1) mandates downstream and upstream emissions which seems arbitrary. We suggest mandating material categories of Scope 3 instead as some entities at either end of a value chain do not have significant upstream or downstream emissions; and
- Paragraph 21(b): We encourage the ISSB to clarify what is meant by 'amount' – is this cash value or revenue? We also consider that this requirement may be challenging to quantify and therefore suggest adding the words 'where practicable' to alleviate this.

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?

(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?

(a) We agree with the proposed disclosure about climate-related targets. We agree that the ED should not define 'science-based' targets in a manner that locks in current approaches or initiatives that could be subject to change.

(b) The definition of the latest international agreement on climate change is clear (and that currently this references the Paris Agreement). We agree that an entity should be required to reference the targets set out in the latest such agreement (here, the Paris Agreement) when disclosing whether or to what extent its own targets compare to the targets in that agreement.

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?

(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?

(a) We agree with the approach but consider that there is scope for this to be further refined in time. Not all jurisdictions are familiar with the SASB Standards, therefore more educational material will be needed to support application.

As noted in our response to 9(a) above, the interaction between cross-industry metrics and industry-specific metrics would benefit from further clarification.

In addition, in paragraph 20(b), we recommend that there is a cross reference to paragraph B9 and the Illustrative Guidance to assist entities with the approach they should take if operating in multiple industries.

We also recommend a review of the metrics in Appendix B to remove any requirements that duplicate cross-sector metric category requirements (e.g., Scope 1) as well as cross-industry metrics that have been included within a sector; and for matters that are not relevant to climate but may be relevant to other IFRS Sustainability Disclosure Standards (SDS). In our view, there needs to be a review to verify that certain metrics are genuinely climate-related, for example, the percentage of eggs that originated from a cage-free environment, pork that was produced without the use of gestation crates and antibiotics in meat proteins. We are also concerned that for some industries there are apparently no requirements on climate-related metrics. It should be clarified that in the absence of a particular set of industry-specific requirements that address the activities of an entity, the cross-industry metrics still apply.

(b) We agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements as these are based on metrics that are already being used by some entities.

(c) We 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 as most of the industry-based requirements included in the ED are unchanged from those in the SASB Standards. Therefore, entities that are using the SASB Standards voluntarily can continue to provide information that would be consistent with prior periods.

(d) We agree with the proposed industry-based disclosure requirements for financed and facilitated emissions as this is consistent with the emphasis placed on these disclosures by TCFD and responds to investor calls for transparency on this area. However, we note that entities may need more guidance on facilitated emissions as there is no explicit reference to a framework in the ED. The Partnership for Carbon Accounting Financials has undertaken some work in this area which could be incorporated into the GHG Protocol and referenced in application guidance.

(e) We agree with the industries classified as 'carbon-related' in the proposals.

(f) We agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions. In our view, a 'total assets under management' approach to disclosure provides a useful indicator of the emissions and therefore the environmental impact associated with client portfolios. It may also serve as a broad indicator of potential risks to the asset manager.

(g) We agree with the proposals to require disclosure of the methodology used to calculate financed emissions.

(h) We agree that the measurement of financed emissions should build on the GHG Protocol Corporate Value Chain (Scope 3) Standard which includes guidance on calculating indirect emissions resulting from Category 15 (investments).

(i) We agree that a 'total assets under management' approach to disclosure provides a useful indicator of the emissions and therefore the environmental impact associated with client

portfolios. This may also serve as a broad indicator of potential risks to the asset manager and consequently, we support the requirement for entities participating in this industry to disclose the percentage of their assets under management for which financed emissions are calculated.

(j) We agree with the proposed industry-based requirements.

(k) We consider that the industry-based requirements, whilst comprehensive, will need to be reviewed as the ISSB standard is finalised, as what is relevant for a particular industry will change over time. For example, one omission we have identified is environmental matters for entities with activities in biotech and pharmaceuticals.

(l) We do not have any additional comments.

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.

(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?

(a) We consider that the benefits, which may be difficult to quantify, should significantly outweigh the costs of the proposals. There is an urgent demand from investors for consistent, comparable sustainability-related financial information and a need for entities to have clarity over which standards they should apply for reporting this information. This clarity should enable entities to invest with certainty in appropriate systems and controls, as they do today in respect of financial reporting.

When considering the costs of implementing the proposals, it is important for the ISSB to consider that there will be a different journey for different jurisdictions and entities. Some jurisdictions are already requiring TCFD reporting which are aligned to the Climate ED and some entities are also applying TCFD on a voluntary basis, and therefore, the costs of transition for those entities should be lower.

As with the introduction of any new standard, we would expect costs to be higher in the first year as entities put in place the necessary systems and familiarise themselves with the standards.

We also consider that there are considerable benefits for all stakeholders in increased transparency and greater insight into the risk and value drivers of an entity.

(b) There will be costs to maintain the information as well as ensuring that climate-related risks and opportunities are embedded in the management process and appropriately measured.

(c) None identified.

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.

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.

Overall, we consider that the proposals provide a suitable basis for verification and enforcement. However, assurance of forward-looking and narrative information, which, by its nature, is more subjective than information in the financial statements, would not necessarily be straightforward. We encourage the ISSB to continue working with the International Auditing and Assurance Standards Board (IAASB) and the audit profession to ensure assurability of the standards. There may also be an opportunity to learn from those jurisdictions that already require reporting in line with TCFD which auditors and regulators are familiar with.

Specific areas that we have identified in this ED which would be challenging for auditors include the boundaries used for the GHG Protocol as these are different from those used for financial reporting; as well as providing assurance over anticipated effects of climate-related risks and opportunities which are akin to forecasts. As noted in our response to question 6(c), we request further clarity from the ISSB on the expectations for reporting on anticipated effects.

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.

(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?

(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.

(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?

(a) In our view, the effective date of this ED should be the same as [draft] IFRS S1 as tackling climate change is an urgent issue and there is a need for consistent, comparable climate-related information to be available on a timely basis.

(b) When determining the effective date, we encourage the ISSB to consider the practical implications of these proposals, the different degrees of readiness across jurisdictions and allow for regulators to decide appropriate timescales to mandate standards through local regulations. However, we believe that the standard should be made available without delay and early application should be permitted.

(c) Although we consider that some disclosure requirements could be applied earlier than others, we encourage the ISSB to balance considerations around phasing in against the need for ensuring that the information provided by companies is comparable - which could be compromised by patchy application of the standard with a phased approach. As the proposals in the ED are consistent with TCFD, this should facilitate effective adoption of the standard as a whole for those entities that are already applying TCFD. We consider that further outreach will be needed by the ISSB to build consensus on areas where phasing may be appropriate.

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.

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 welcome that the ISSB is considering digital consumption alongside the development of its standards. We note that the ISSB has recently published a Staff Request for Feedback on the Staff Draft of the IFRS Sustainability Disclosure Taxonomy and that an ED will follow.

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.

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 do not consider there any particular aspects of the ED that would limit the ability of IFRSSDS to be used as a global baseline for sustainability reporting on matters relevant to enterprise value to capital markets. We welcome the principles-based and neutral approach to standard setting that is being taken by the ISSB. We expect this will support the ability of jurisdictions to strive for global consistency and add requirements or further specificity where needed.

We welcome the various working groups and consultative bodies being established by the ISSB to promote dialogue between other sustainability standard-setters and encourage the ISSB to use those to achieve the closest possible global alignment on the baseline. In particular, we encourage the ISSB to intensify its collaboration with jurisdictions, most notably the European Commission, the European Financial Reporting Advisory Group and the U.S. Securities and Exchange Commission. We believe that the interoperability of the climate standards is essential and recommend that the ISSB together with the Jurisdictional Working Group consider how compatibility between the different climate standards can be enhanced.

Question 17—Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

We have no further comments.

To:
International Sustainability Standards Board
Columbus Building 7 Westferry Circus, Canary Wharf
London, E14 4HD
commentletters@ifrs.org

From:
Dr Michael Vardon
Associate Professor of Environmental Acounting
Fenner School of Environment and Society
Australian National University
Canberra ACT
Australia 0200
michael.vardon@anu.edu.au

Cc: Australian Accounting Standards Board
standard@aasb.gov.au

28 July 2022

Re: Consultation on Exposure Draft for Disclosure of Sustainability-related Financial Information

I welcome 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).

The views expressed in this submission are my own.

General comments

The development of standards for sustainability-related financial disclosures at a global level are urgently need. Aligning of concepts, terminology and metrics for sustainability reporting is needed for enterprises in all countries. Without this the users of sustainability reporting will continue to be confusion and there is the potential for the misunderstanding or misuse of information (or lack of information).

The ISSB is a suitable global body for developing sustainability disclosure standards at a global level. However, the expertise of the Board and the Technical Readiness Working Group needs to be extended in order to develop acceptable standards and in particular the concepts and metrics reported on within the standards.

The expertise needed to determine appropriate concepts and metrics to be included in the standard for sustainability reporting goes beyond traditional accounting, and a consultation process with environmental scientists and stakeholders is not enough to determine what

what is material and what is not, especially in terms of the scope (e.g. for paragraph BC25, what is complete?).

Environmental scientists are needed to help identify the concepts that need to be measured and the most appropriate metrics and methods for measurement. They are also needed for determining thresholds of environmental impact and calculating risks to enterprises of particular environmental dependancies. Not having environmental scientists on the Board and working group, hence part of the core decision making processes, risks a lack of acceptance of any sustainability reporting standards, proposed metrics and methods by the scientific community, which may in turn affect the credibility of the standards in the minds of investors or the general public. This would defeat at least part of the motivation for producing such standards.

Climate related disclosures are a suitable starting point, but disclosures related to other environmental risks and opportunities, and in particular biodiversity, need to be developed quickly.

Question 1. Overall approach

The approach needs an arching conceptual framework and scope.

The United Nations System of Environmental Economic Accounting provides a conceptual framework that could be used in the development of sustainability-related financial disclosures. This framework would put the sustainability related information into a broader context.

System of Environmental Economic Accounting is an international statistical standard providing a comprehensive framework for the recording of natural capital and ecosystem services, which represent the dependencies of enterprises on the environment. This system also covers, extraction of natural resources (timber, fossil fuels and minerals), use of inputs such as water and energy, air and water pollution and generation of solid wastes which are used or generated by enterprises and have impacts on the environment. As such the System of Environmental Economic Accounting is a ready made framework that can be adapted and scaled for enterprise level reporting of sustainability related financial disclosures

The System of Environmental Economic Accounting would help provide a practical guide to the definition of sustainability related financial information (i.e. the definition provided in paragraph BC26). The need for a broad definition is understandable but there is also a need to provide guidance for what needs to be considered for understanding the factors affecting enterprise value and environmental condition.

Alignment with the United Nations conceptual model would help determine within enterprises what is material. Alignment with concepts, definitions and metrics would also facilitate data comparison, enable independent industry and national benchmarking, and understand the cumulative impacts of economic activity and the associated risks to enterprise value.

Question 2. Objectives, paragraphs 1 to 7

Paragraph 2 begs the question what is significant? Without an overarching conceptual framework what is material and what is significant is difficult to determine. Material is the "what", while significant is a threshold. What is material and what is significant needs to be determined, probably by environmental scientists.

Similar questions occur in paragraph 3 in particular what is "complete" and what is "accurate"?

Question 3. Scope paragraphs, 8 to 10

A key point of interpretation is in paragraph 9: what is "reasonable"? An overarching conceptual framework would help determine what is reasonable or at least reasonably within scope, showing the dependencies of enterprises on the environment and the impact of enterprises on the environment. This would also enable guidance on what is reasonable be developed. Again scientists will be required to determine what is reasonable from an environmental perspective.

Including not for profit and public sector within the scope is logical.

Question 4 Core content (para 11-35)

For the governance, the expertise, knowledge and skills of the body and individuals needs to be disclosed. A broad range of knowledge and skills is required, and environmental science is a necessary part of this.

Again, for sustainably related risks and opportunities an overarching conceptual framework would help to identify the expertise needed. This will relate to identifying the impacts on the environment and the dependencies of the enterprise on the environment, hence the risks to enterprise value.

It would help if short medium and long term should at least have indicative indications. E.g short-term is less than 3 years; medium-term is 4-10 years and long-term greater than 10 years

For paragraph 26 environmental scientists will be needed to identify the likelihood of an impact and the severity of the impacts of particular events to individual enterprises and to identify thresholds. Paragraph 26 (c) mentions processes and the expertise necessary to undertake these processes should be identified.

The issue of metrics is paramount. In these comment I have taken that the world "metric" as shorthand as the measurement of a concept (see my response to Question 17 "Other comments"). If suitable metrics are not identified and defined and are left to individual enterprises to determine, then there is a high risk that users of sustainability reporting will be unable to compare between enterprises and those responsible for validating metrics will have enormous challenges. While the metrics need to be standardised, they should be some freedom with the methods used for their measurement to allow for changing technology and the evolution of data sources and methods.

With the standardisation of metrics, paragraph 34 becomes redundant.

Question 5. Reporting entity paragraphs 37 to 41

As environmental dependencies and impacts are all context specific, enterprises with multiple establishments should report risks related to each establishment. The aggregation of all the establishments into a single enterprise may make difficult the interpretation of information. For example they may be a particular risk in a particular area which is severe, but in the context of the overall enterprise the risk or dependency is not obvious. Some kind of spatial representation of risk is appropriate. My response to Question 7 is related.

For paragraph 40 the list of examples is not exhaustive, and this is indicated by the words "such as". Air pollution, water pollution, and land assets are examples which could be added.

Question 6 Connected information, paragraphs 42 to 44

And overarching conceptual framework for understanding the linkages between the environment and enterprises would help enormously with understanding the connections between the different risks and opportunities.

Graphical representations of the connections would help.

Questions 7. Fair presentation, paragraphs 45 to 55

Paragraph 49 relates to the reporting entity (Question 5) and is good to see acknowledgement of it here. There are many examples of where disaggregation is needed. For example, risks from sea level rise irrelevant in coastal areas but not in inland areas. If an enterprise has multiple centres of operation, then the enterprises needs to be disaggregated and the risks to each part of enterprises separately identified.

The risks and opportunities are all in particular spaces. An issue here is that the scope of the reporting becomes very large, particularly for large enterprises and if reporting extending into supply-chains. Some bounds will need to be set and how these bounds should be set is a question requiring further thought (and relates to Question 8).

Question 8. Materiality, paragraphs 56 to 62

The definition of material information is from previous IASB framework. 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*'.

This is a very general definition, open to interpretation.

Question 8 recognises that the primary users of general purpose financial reporting may not necessarily be the primary users of sustainability reporting. What is material to the users

interested in sustainability reporting may be broader in scope than the primary uses of general purpose financial reporting.

While it is true that what is material might change year-to-year, place-to-place, and enterprise-to-enterprise, there is almost certainly information that is material to virtually every enterprise. For example, water use, energy use, air pollution (including CO2 emissions), dependence on ecosystem services and natural capital assets and vulnerability of particular assets and income streams to particular environmental risks (floods, fires, drought). A list of these should be developed as part of the general requirements and not left entirely to individual enterprises to determine.

Such a list will make the application of materiality much clearer. At present the vague definition would allow the exclusion of information which many would consider material. A minimum set of information should be defined as material.

Without a minimum set of information it would be possible for an enterprise to claim that they are disclosing sustainably-related financial information in line with IFRS/ISSB standards by simply saying that nothing is material to their operations.

Question 9. Frequency of reporting, paragraphs 66 to 71

I agree that sustainably related financial discloses should be required at the same time is the financial statements to which they relate. The information is connected. If the information is reported at different times, then the information is not easily connected and would likely encourage siloed management and reporting of information.

Question 10. Location of information, paragraphs 72 to 78

No comment.

Question 11. Comparative information sources of estimation and outcome and certainty and errors, paragraph 63 to 65 79 to 83 in 84 to 90

Including information on the accuracy of reporting is sensible. If the methods are explained and the limitations are clear, then users are able to judge the usefulness of the information.

It would be useful to distinguish errors in estimation from differences due to changes to the methods of estimation.

Question 12 Statement of compliance

No comment.

Question 13. Effective date

The effective data should be as soon as possible, and one year would seem appropriate. If the effective date is longer then enterprises may unnecessarily prevaricate. If enterprises are unable to fully comply then I can report what they have done and explain the reasons for not fully complying.

Sustainability reporting should be compulsory in the long term. In the short term companies that choose not to report should explain why they are not reporting now and when such reporting is likely to commence. Comply or explain is an interim measure.

Question 14. Global Baseline

No comment

Question 15. Digital reporting

No comment.

Question 16. Costs benefits and likely impacts

No comment.

Question 17. Other comments

The lack of an overarching conceptual framework for sustainability related financial disclosures is a concern. This is mentioned in my general comments and in responses to various questions.

I'm also going to be pedantic. There are concepts, metrics and methods. For example, weight is a concept and a metric for weight is a kilogram. A scale (such as I have in my bathroom) is method used to measure my weight. How accurate are kilograms (the metric) is nonsense. How accurate are my scales (the method) that is used to measure my weight kilograms (the metric) is the real question.

The first thing that needs to be agreed are the concepts you then need to agree on the metric and finally on the method to measure the metric. I think the issue here is that the concepts to be measured or not yet fully agreed. For sustainability-related finiancial information you need to have common concepts, including a common conception of risk, or at least the factors contributing to risk, before you can start to measure risks. This is related to factors like the likelihood of an event occurring and the severity of impact should the event occur. This is risk management 101 and does not seem to have been considered explicitly in this reporting framework.

An overarching conceptual framework would help identify the concepts that need to be measured for sustainability reporting. Once these are established, then metrics and methods can be agreed and the accuracy of these can be assessed and reported.

PRI RESPONSE

AASB'S CONSULTATION ON DRAFT IFRS S1 – GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION & IFRS S2 – CLIMATE-REALTED DISCLOSURES

July 2022

The information contained in this briefing is provided for informational purposes only and should not be construed as legal advice on any subject matter. Except where expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed in this report are those of PRI Association, and do not necessarily represent the views of the contributors to the briefing or any signatories to the Principles for Responsible Investment (individually or as a whole).

INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI has published consultation responses on the International Sustainability Standards Board (ISSB) Exposure Drafts and previously provided views and recommendations on the Technical Readiness Working Group prototypes on climate and general disclosure requirement, as well as on international sustainability reporting standard setting through consultation responses and public statements. In addition, the PRI has submitted views and recommendations on corporate reporting developments in other major regional jurisdictions, including the US, UK, EU, and China.

The PRI welcomes the opportunity to respond to the Australian Accounting Standards Board's (AASB) call for feedback on the draft IFRS S1 general requirements for disclosure of sustainability-related and S2 climate-related disclosure standards.

ABOUT THIS CONSULTATION

The AASB is consulting on the International Sustainability Standards Board's Exposure Drafts on IFRS S1 and IFRS S2. It aims to gather feedback to provide input into the ongoing work of the ISSB and inform the AASB as to the appropriateness of and support for its proposed approach to sustainability-related financial reporting in Australia.

For more information, contact:

Daniel Wiseman

Head of APAC Policy

daniel.wiseman@unpri.org

Mayleah House

Senior Policy Analyst, Australia

mayleah.house@unpri.org

KEY RECOMMENDATIONS

The PRI welcomes the AASB's engagement with the International Sustainability Standards Board (ISSB) to enhance compatibility between a global baseline of sustainability reporting set by the ISSB and Australia.

The PRI strongly supports the ISSB's mission to deliver a high-quality global baseline of sustainability disclosures and encourages the AASB alongside Treasury, ASIC, APRA and the RBA to engage closely with the ISSB with the goal to develop a global baseline for corporate sustainability reporting.

The PRI's key recommendations are:

- The Government should develop and introduce legislation that requires all listed and large proprietary entities to disclose sustainability-related information in their annual reports on a mandatory basis, in accordance with sustainability reporting standards to be developed by the AASB, from 2024 onwards.
- The standards for mandatory sustainability reporting, to be developed by the AASB, should be based on the final IFRS standards as a minimum baseline, with modifications made as necessary to enable companies to report information reflecting Australian specific market dynamics and investor needs, which should not be limited by the concept of enterprise value (including any potential taxonomy-related disclosures that are required).
- The Government should develop and introduce legislation authorising the AASB (or a subsidiary body) to develop and issue such standards and ensure that the AASB is appropriately governed and resourced to do so.
- All Australian entities subject to such sustainability reporting requirements should be required to disclose Scope 3 emissions where they are a significant portion of an entity's overall emissions.
- All Australian entities should be required to calculate GHG emissions in line with the GHG Protocol methodology (including the Corporate Standard).
- All mandatory sustainability reports should be assured and included in the auditor's overall opinion on an entity's annual reports.

DETAILED RESPONSE

MATTERS CONCERNING PROPOSALS IN DRAFT IFRS 1

A1: 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 strongly support the ISSB's mission to deliver a high-quality global baseline of sustainability-related financial disclosures and welcome the standard's recognition that sustainability-related financial information captures all information that can result in changes to the entity's enterprise value in the short, medium, and long term; including from the entity's actions that result in impacts and dependencies on people, planet and the economy. With this, the standard will enable disclosure of information that captures elements of an entity's sustainability performance and its positive and negative contributions to sustainability outcomes.

However, disclosure focused on enterprise value alone will not serve the needs of all investors, particularly those that are looking for a broader understanding of an entity's sustainability performance and outcomes, and feedback from several signatories has indicated the need for impact-related information.

Therefore, the PRI supports the 'building blocks' approach to enable companies to report information that goes beyond the ISSB's focus on enterprise value. IFRS Sustainability Disclosure Standards should be used as a baseline, with flexibility for Australian-specific initiatives (including any potential taxonomy-related disclosures that may soon become standard practice) and/or the Global Reporting Initiative (GRI)[1] to implement reporting requirements that meets the information needs of all investors.

To implement this approach in practice, we suggest the ASSB and the Council for Financial Regulators work closely with the ISSB and the GRI to:

- Ensure their standards are consistent on: (i) reporting design/structure, such that investors are still able to extract comparable data (whether across issues or on specific issues) on governance, strategy, risk management and metrics/targets, even if not under the same headings; (ii) terminology and definitions, including common taxonomies; and (iii) reporting concepts underpinning the standards, such as the qualitative characteristics (relevance, faithful representation etc.).
- Ensure alignment in disclosures that can serve both reporting of information that is relevant to an entity's enterprise value and its sustainability performance and outcomes. This would include disclosure on relevant aspects of the entity's governance, strategy and risk management processes across issues and common indicators for metrics/targets on specific issues.

[1] See slide 6: https://www.ifrs.org/content/dam/ifrs/meetings/2022/june/cmac-gpf/ap6-issb-update-and-issb-exposure-drafts.pdf

MATTERS CONCERNING PROPOSALS IN DRAFT IFRS S2

B1: 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?

Yes – the PRI supports the disclosure of Scope 3 emissions where they are a significant portion of an entity's overall emissions profile.

While Scope 3 emissions are often more difficult to report, these are the most impactful kind of emissions for some industries such as Australia's thermal coal, oil and gas producers. Leaving them out could mean that a large share of actual emissions, where material, are not reported.

In our view, disclosures on Scope 3 emissions should be accompanied by an indication of what portion of an entity's total Scope 3 emissions have been captured in the figure provided. Note we are not recommending that entities disclose a precise percentage figure, but rather an approximative range that would provide investors with a better understanding of potential exposure to transition risk.

In addition, Scope 3 disclosures should be accompanied by robust methodological explanations of the underlying inputs, assumptions and calculation methodologies used – including organisational scope, emissions factors used and other information on the calculation approach

This would help investors verify reported GHG emissions, particularly if these have not been subject to third-party verification. Furthermore, it would allow for better global alignment as such reporting has also been suggested in both the US Securities and Exchange Commission's Proposed Rule on climate-related disclosures [page 471] and EFRAG Exposure Draft ESRS E1 on Climate change [page 31].

Finally, we recommend that reporting captures aggregated Scope 3 emissions as well as Scope 3 emissions from relevant categories where these are significant.

B2: Do you agree that Australian entities should be required to apply the Greenhouse Gas Corporate Standard given existing GHG emissions legislation and guidance in place for Australian entities?

Yes – Australian entities should be required to calculate GHG emissions in line with the GHG Protocol methodology (including the Corporate Standard) in line with the PRI's recommendation that IFRS S2 should likewise require GHG emissions to be calculated according to this methodology. The GHG Protocol methodology is the most widely used and recognised international standard for calculating GHG emissions. While we recognise outstanding methodological issues, this would allow for a standardisation of emissions data across jurisdictions, increasing comparability and facilitating aggregation for investors.

MATTERS CONCERNING BOTH DRAFT IFRS S1 AND S2

C1: Which Australian entities should be expected to apply the proposals in Exposure Drafts on IFRS S1 and IFRS S2 and why?

Initially, Australian entities that should be required to apply IFRS S1 and IFRS S2, as implemented by the AASB, include all listed and large proprietary entities.[2] Over time, this could be extended to all entities that have existing obligations to produce a financial report compliant with the IFRS accounting standards.[3]

Financial reporting obligations are imposed on these entities, in part, to provide relevant financial information to meet shareholders and members needs. Requiring the same entities to apply the final IFRS standards ensures that investors' data needs on relevant sustainability matters are met.

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 IFRS S1 and IFRS S2?

In order to ensure that the final IFRS S1 and S2 standards are appropriately implemented in Australia, legislative and regulatory action will be required.

AASB's current powers and functions are largely constrained to developing and implementing accounting standards.[4] The PRI notes that the AASB has broad powers to advance the main objectives of the *ASIC Act 2001* (Cth).[5] These objectives could be read broadly to include a distinct goal of maintaining investor confidence in the Australian economy and its capital markets.[6] In this case, the PRI considers the AASB could have the authority to develop standards in line with the final IFRS standards.[7] However, if a narrow interpretation of the *ASIC Act 2001* (Cth) s 224 is applied, the AASB's powers would be limited to maintaining investor confidence in Australia *only* by facilitating accounting standards. This could likely undermine AASB's ability to develop sustainability reporting standards aligned with IFRS S1 and S2.

Regardless, legislation will be required to ensure that Australian entities disclose information according to any sustainability reporting standards introduced by the AASB. There is currently no existing legislation or regulation in Australia that requires corporate sustainability reporting.[8] A voluntary approach to corporate sustainability reporting is not sufficient to ensure the consistent, high quality and comparable sustainability information that investors require for their decision-making.

---

[2] See Corporations Act 2001 (Cth) s 45A.

[3] *Corporations Act 2001* (Cth) ss 292; 296.

[4] ASIC Act 2001 (Cth) s 227; Corporations Act 2001 (Cth) s 334.

[5] *ASIC Act 2001* (Cth) s 227(1)(e).

[6] *ASIC Act 2001* (Cth) s 224(c).

[7] Noting that the purpose of the IFRS introducing the standards is to provide a comprehensive global baseline of sustainability related disclosure standards that provide investors with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

[8] The *Corporations Act 2001* (Cth) requires certain entities to disclose financial reports prepared in accordance with accounting standards. Yet that act does not explicitly compel Australian entities to disclose any form of sustainability information, let alone specific reports prepared in accordance with regulated sustainability reporting standards. Likewise, the ASX's Listing Rules does not require listed companies to publish sustainability reports to the market.

To avoid any doubt about AASB's authority and ensure the effective implementation of Australian standards that are consistent with the final IFRS standards, the PRI therefore recommends that:

- The Australian Government develop and introduce legislative amendments to the *Corporations Act 2001* (Cth) to explicitly require all listed and large proprietary entities to disclose sustainability-related information in their annual reports, prepared in accordance with sustainability reporting standards to be developed by AASB (or a subsidiary body).
- The Australian Government develop and introduce legislative amendments to the *ASIC Act 2001* (Cth) to explicitly authorise the AASB (or a subsidiary body) to develop and formulate sustainability reporting, for the purposes of meeting any new sustainability reporting requirement under the Corporations Act.
- The Australian Government ensure that the AASB is appropriately governed and resourced to enable it to implement sustainability reporting standards. Appropriate governance would require the AASB board to include directors with practical experience in environmental and social organisations and balance this sustainability experience alongside the extensive accounting, auditing, tax, financial, legal and governance experience that the board already holds. Alternatively, the AASB could set up a subsidiary board that is directly responsible for its work on sustainability reporting standards that is overseen by directors with relevant environmental, social, governance, and reporting experience.

C3: Do the proposals in Exposure Drafts IFRS S1 and IFRS S2 align with existing or anticipated requirements, guidance or practice in Australia?

Yes – existing and anticipated requirements, guidance and practice in Australia complements rather than conflicts with Exposure Drafts IFRS S1 and S2.

Currently certain Australian entities are required to disclose their greenhouse gas emissions.[9] These obligations have a distinctive purpose and their primary user (i.e., the Clean Energy Regulator) correlates reported data rather than disclosing individual entity reports. Reporting under Exposure Draft IFRS S1 and S2 is appropriately additive as it provides separate, decision-useful climate and sustainability information to investors.

The PRI also acknowledges that the current development of an Australian sustainable finance taxonomy could eventually lead to a requirement on or practice by certain Australian entities to disclose sustainability information at an activity level.[10] However, we consider that any anticipated taxonomy disclosures would not detract or conflict with disclosures under the IFRS S1 and S2.

Exposure Drafts IFRS S1 and S2 therefore provide an appropriate baseline for company-level sustainability reporting that the AASB could build upon as requirements for additional sustainability disclosures develop.

---

[9] National Greenhouse and Energy Reporting Act 2007 (Cth).

[10] For example, the EU Taxonomy regulation requires large, non-financial companies to disclose their capital and operating expenditure that is associated with environmentally sustainable economic activities.

C4: Would the proposals in Exposure Drafts IFRS S1 and IFRS S2 result in useful information for primary users of general purpose financial reports.

Yes - Exposure Drafts IFRS S1 and S2 would result in information about companies' significant sustainability-related risks and opportunities that is useful to primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to an entity.

The exposure drafts consistently focus on requirements in the Core content (i.e. on governance, strategy, risk management and metrics/targets) on sustainability-related risks and opportunities. They also focus on sustainability-related financial information that may directly/indirectly influence investors' assessment of enterprise value with:

- their focus on information that is material to primary users;
- their requirements to provide an integrated view on key elements of the business through insights on governance, strategy and risk management – core elements of sustainability-related disclosure widely recognised by investors, following the Taskforce on Climate-related Disclosure (TCFD) recommendations' four pillars; and
- connectivity with the financial performance through strategy, which signatories have identified as key to their investment process.

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

All mandatory sustainability reports should be assured and included in the auditor's overall opinion on an entity's financial reports.

Climate and sustainability information that is used for investment decision-making need to be accurate and reliable. They merit the same level of assurance and accountability currently provided to similarly considered financial information.

External auditing and assurance can play and important role in upholding the quality of reporting, providing comfort to users that the standards used have been satisfied. Lack of external audit and assurance allows firms with negative climate and sustainability impacts to conceal or convolute negative information, leading to incomplete or inaccurate disclosures from issuers and can "increase information processing costs of the recipient."[11]

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

The final IFRS standards should be made effective in Australia as soon as practical and feasible.

It is important that reporting according to these standards is made mandatory to provide investors with consistent and reliable information that enables them to fully understand related risks and opportunities and take investment and stewardship decisions aligned with their long-term investment

[11] Fabrizio, Kira R., and Eun-Hee Kim (2019), "Reluctant Disclosure and Transparency: Evidence from Environmental Disclosures", available at Organization Science 30 (6): 1207–31.

goals. It is important, therefore, that these disclosure requirements are introduced urgently to enable investors to act in their beneficiaries best financial interests.

The PRI suggests that mandatory IFRS S1 and S2 disclosures could be introduced on a staggered basis starting from 2024. Consistent with phase-in approaches in other jurisdictions, this staggered approach should be based on size and capacity of the company, allowing for gradual learning and competence building over time.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of AASB further to implement global sustainability disclosures in Australia.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org

15 July 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007
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.

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 2 9290 1344
W: charteredaccountantsanz.com
ABN 50 084 642 571

CPA Australia
Level 20, 28 Freshwater Place,
Southbank Victoria 3006
P: 1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

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.

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.

- 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.

Level 2 – 50 Margaret Street
Sydney NSW 2000 AUSTRALIA

www.group100.com.au
g100@group100.com.au

ABN: 83 398 391 246
ARBN: 633 645 708

Limited Liability of Members

International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
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

18 July 2022

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

By email: commentletters@ifrs.org

Copy to: Australian Accounting Standards Board by email: standard@aasb.gov.au

Dear Board Members

Consultation on Proposed Standards

We welcome 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).*

This submission collectively represents the voice of 20 peak professional, industry and investor bodies in Australia who have come together to prepare this joint response to the two exposure drafts.

The peak Australian bodies together represent more than 400 companies, approximately 300 investors with US$33 trillion assets under management, and 500,000 business and finance professionals. We consider clear, transparent, comprehensive and comparable disclosure of sustainability-related information to be part of the foundation of a well-functioning global financial system.

Comprehensive global baseline

We fully support a global approach to the development of sustainability disclosure standards and are supportive of the ISSB being the global body to issue these standards.

The overarching goal should be 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.

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 definitions, concepts, terminologies, and metrics on which disclosure requirements are built.

Collaboration and coordination between sustainability disclosure initiatives and financial accounting standard-setting is important. In our opinion the ISSB is best placed to achieve this given its connection to the International Accounting Standards Board (IASB).

Many of the peak Australian bodies 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 be able to collect data in an efficient manner and to 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. Many entities in Australia report under existing sustainability frameworks. We therefore 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 Global Reporting Initiative (GRI).

Climate first approach

Climate represents a first order risk to the Australian economy, the financial system and investors. We support the Paris Agreement and its objective to take into account the needs of a just transition while achieving a net zero emissions economy and resilient Australia.

To avoid large-scale financial risks from a disorderly transition to net zero emissions and the physical impacts of climate change, clear and comparable disclosure of sustainability-related and in particular climate related information is one of the foundational building blocks of a well-functioning global financial system.

We support the alignment of [Draft] IFRS S2 with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Scalable and practical implementation of best practice

There has been very significant and rapid development of climate-related disclosure schemes in other major markets. As a result, we consider that some Australian entities are reasonably mature and reasonably prepared for the introduction of these new disclosure standards, such as large globally connected listed entities and heavy emitters, whereas many others will require time to scale up their expertise and capacity.

Further, for certain disclosures, the current availability and reliability of data and methodologies may present short-term challenges. 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 will be required for certain specific disclosures.

We recommend consideration be given to a phased approach to adoption across entity types, sectors and/or sizes.

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 performed and the integrity of the information provided, similar to how they rely on audited 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 certain aspects of the current Exposure Drafts could be improved upon to better encapsulate suitable criteria that could underpin the appropriate use of limited and reasonable assurance engagements.

Domestic implementation considerations

In the domestic implementation of the ISSB standards, the local legal context needs 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 by the ISSB standards.

It will be important that liability risks do not undermine comprehensive and good faith implementation of the ISSB standards and appropriate accountability for disclosure.

Detailed responses to questions

Our detailed responses to key questions in the Exposure Drafts are included in this submission as follows:

Appendix A - [Draft] IFRS S1 on page 4

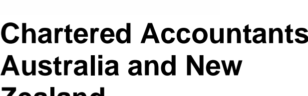
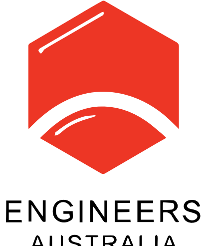
Appendix B - [Draft] IFRS S2 on page 12

Appendix C – AASB ED 321 on page 14

Many of the peak Australian bodies have also made separate submissions, addressing their specific stakeholder views and issues.

Thank you for the opportunity to respond to this consultation. We would be happy to discuss any of our comments in more detail with you. Please contact Emma Penzo on Emma.Penzo@ausbanking.org.au and Karen McWilliams on karen.mcwilliams@charteredaccountantsanz.com email if you have any questions.

The peak Australian bodies who are signatories to this submission (in alphabetical order).

Australian Banking Association	**Australian Council of Superannuation Investors**	AFMA **Australian Financial Management Association**	Australian Finance Industry Association **Australian Finance Industry Association**
Australian Institute of Company Directors **Australian Institute of Company Directors**	**Australasian Investor Relations Association**	**Australian Shareholders Association**	**Australian Sustainable Finance Institute**
 **Chartered Accountants Australia and New Zealand**	**CPA Australia**	**Customer Owned Banking Association**	 ENGINEERS AUSTRALIA **Engineers Australia**
Financial Services Council	**Governance Institute of Australia**	**The Group of 100**	**Institute of Public Accountants**
Insurance Council of Australia	**Investor Group on Climate Change**	**Responsible Investment Association Australasia**	**UN Global Compact Network Australia**

Appendix A

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

Question	Peak Australian Bodies Position
Overall approach	
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? Q1(b) Do you agree that the proposed requirements set out in the ED meet its proposed objective (para 1)? Why/why not? 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?	• 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. • In our opinion, the Exposure Draft (ED) 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 separated into separate documents if possible, alternatively that clarity between them is improved if 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 consider these issues with reference to its enterprise value and usefulness of information to primary users using IFRS Sustainability Disclosure Standards or alternative non-mandatory guidance if a specific one does not exist. • We consider the broad stakeholder engagement process to be critical as primary users are interested in sustainability 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.
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	• There is a critical role for independent external assurance to provide credibility to sustainability information.

Question	Peak Australian Bodies Position
with the proposal? If not, what approach do you suggest and why?	• In our view, the goal should be for investors and other stakeholders to rely on the assurance performed and the integrity of the information provided, in a similar way to how they rely on audited 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 certain aspects of the current draft of this ED could be improved upon 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 ED.
Objective	
Document reference: ED Para1-7, Appendix A	
Q2(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why/why not?	• 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. We recommend consideration be given to providing greater clarity of the definitions and differences between significant and material in [DRAFT] IFRS S1. It would be useful to provide illustrative guidance.
Q2(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why/why not? If not, do you have any suggestions for improving the definition to make it clearer?	• There is currently no definition of sustainability provided within the ED. Whilst we understand the ISSB may have reservations with providing a definition of sustainability, we consider a clear definition of sustainability is required for the specific context for the purposes of issuing sustainability disclosure standards. ISSB may need to reconsult on such definitions to ensure consistency.
Scope	
Document reference: ED Para8-9	
Q3. Do you agree that the proposals in the ED 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?	• As Australia already adopts IFRS Accounting Standards, we have no specific response to this question.

Question	Peak Australian Bodies Position
Core Content	
Document reference: 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?	• The disclosure objectives align with the TCFD and are considered appropriate.
Q4(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why/why not?	• In respect to the disclosure requirements for governance, strategy, risk management and metrics and targets, we consider the requirements to be broadly appropriate to their stated objectives. • However, in respect to the strategy disclosure requirement, we note that as climate change response matures, some elements of strategy related to opportunities will be commercially sensitive, and to some elements of risk. • To this end, the ISSB could consider making provision for the type of disclosure made under this pillar.
Reporting entity	
Document reference: 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 agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements.
Q5(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?	• No specific response
Q5(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	Peak Australian Bodies Position
Connected information	
Document references: 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? 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?	• We suggest the need for guidance to assist companies understand how to identify and achieve/demonstrate connectivity between the related risks and opportunities. • Additionally, we support the ISSB's Memorandum of Understanding with the Global Reporting Initiative (GRI) and encourage clarity 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 UN Global Compact Communication on Progress.
Fair presentation	
Document reference: ED para 45-55	
Q7(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 question 7 should be considered with reference to our earlier responses to questions 1 and 2. Paragraph 51 refers entities to IFRS sustainability 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 to disclosure standards, with disclosure topics in existing standards and frameworks instead used to confirm no major issues have been overlooked. • We consider the open-ended nature of paragraphs 51-54 will create challenges for compliance and assurance. We are particularly 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.
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?	• As noted above, the current drafting presents these 'sources of guidance' as a requirement for entities to be considered in their entirety, despite these not all being specified in full. • We do not consider this appropriate for the standard and instead recommend that they are 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	Peak Australian Bodies Position
Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the ED.	• We suggest that there may be some additional sources of guidance to assist entities in their stakeholder engagement process to determine the significant issues.
Materiality	
Document reference: ED Para 56-62	
8(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why/why not?	• As we have noted in our response to question 2, the definition and application of materiality lacks clarity. • Further, we note paragraph 58 stipulates that materiality will be entity specific. We also consider it important to clarify that it will also be specific to the particular sustainability matter.
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/why not?	• We consider the breadth of sustainability-related risks and opportunities should be identified through the stakeholder engagement process we suggest in our responses to questions 1 and 7. • This question highlights the need for clarification between the identification of significant sustainability-related risks and opportunities and the identification of information material to primary users.
8(c) Is the ED and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why/why not? If not, what additional guidance is needed and why?	• We consider the illustrative guidance document to be helpful. However, we note that the definition and application of materiality are dependent on the definition and application of significance in the context of sustainability-related risks and opportunities. • Likewise, paragraph IG6 could increase its emphasis on the importance of qualitative factors in the materiality assessment of sustainability-related financial information.
8(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information? Why/why not? If not, why?	• We consider the proposed exemption is reasonable.
Frequency of reporting	
Document reference: ED 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 agree in principle that sustainability-related financial disclosures are to be provided at the same time as the financial statement to which they relate.

Question	Peak Australian Bodies Position
	• However, this aim is restricted by the lack of available and timely data for certain disclosures. The market will drive progress to improve this, but it will take time for some entities to develop the necessary capability. • We suggest that time-bound transitional arrangements at the national level will need to be put in place until such a time when both reports can be released concurrently.
Comparative information, sources of estimation and outcome uncertainty, and errors	
Document reference: ED 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?	• The requirements to update comparative information in paragraphs 63 and 64 don't appear to distinguish between an 'error' and a 'better estimate'. • 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 the result of 'better' estimation methods. The rate of change will be significant in respect to methodology and modelling development and improvement as well as data acquisition, quality, and storage. These developments may enable more targeted scenario analysis or emissions factors in subsequent reporting periods and therefore 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 consider it may be reasonable to recalculate previous disclosures based on evolved techniques and data in some but not all circumstances.
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?	
Statement of compliance	
Document reference: ED Para 91-92	
PREAMBLE not replicated here refer to p19 ED Q12 Do you agree with this proposal? Why/why not? If not, what would you suggest and why?	• In the domestic implementation of the ISSB standards, the local legal context needs 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 by the ISSB standards. • It will be important that liability risks do not undermine comprehensive and good faith implementation of the ISSB standards and appropriate accountability for disclosure.

Question	Peak Australian Bodies Position
Effective Date	
Document Reference: 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.	• An effective date would need to consider the financial reporting cycle of entities; the nascency of the reporting and the need to build capability by preparers. • There has been very significant and rapid development of climate-related disclosure schemes in other major markets. As a result, we consider that whilst some Australian entities are reasonably mature and in a better state of preparedness for the introduction of these new disclosure standards, such as large globally connected listed entities and heavy emitters, whereas many others will require some time to scale up their expertise and capacity. • Further, for certain disclosures, the current availability and reliability of data and methodologies may present short-term challenges. 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 will be required for certain specific disclosures. • By way of example, we highlight the 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 beginning of the entity’s financial year. • We recommend consideration be given to a phased approach to adoption across entity types, sectors and/or sizes.
Global baseline	
Preamble: The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. 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 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, 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. • 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 between sustainability disclosure initiatives and financial accounting standard-setting is important. In our opinion the ISSB is best placed to achieve this given its connection to the International Accounting Standards Board.

Question	Peak Australian Bodies Position
	• Many of the peak Australian bodies 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 be able to efficiently collect data and to report in a way which meets both local and global requirements whilst avoiding duplication. • Consolidation and harmonisation of existing frameworks is a key objective of the ISSB. Many entities in Australia report under existing sustainability frameworks and therefore we consider it critical that the comprehensive global baseline also provides entities with clarity about how the ISSB standards interact and overlap with broader sustainability disclosure frameworks, such as the Global Reporting Initiative (GRI).
	• 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 statements before their inclusion within the standard.
Digital reporting	
Q15 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 support digital reporting enablement

Appendix B

Exposure Draft on IFRS S2 – Climate-related Disclosures (S2)

Question	AUS Voice Draft Position
Cross industry metric categories and GHG emissions	
Q9 (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.
Verifiability and enforceability	
Q13 – 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 the challenges with assurance related to scenario models and Scope 3 emissions, given the quantum of inputs, level of estimation and variability in assumptions. Clear disclosure of assumptions, limitations and uncertainties is particularly important to enable assurance to be undertaken, and for users to understand the information.
Effective Date	
Q14 (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 may be achievable.
Q14 (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 Q13 of [DRAFT] IFRS S1.

Question	AUS Voice Draft Position
Q14 (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?	• We suggest the need for transitional arrangements at the national level for metrics and targets given the challenges around data availability.
Global baseline	
Q16 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, 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. • 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. • Many of the peak Australian bodies are also affected by the development of mandatory climate-related financial reporting within New Zealand. We consider it crucial for entities to be able to efficiently collect data and to report in a way which meets both local and global requirements whilst avoiding duplication. • 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 statements before their inclusion within the standard.

Appendix C

AASB Exposure Draft 321

<table>
<tr><th>Question</th><th>AUS Voice Draft Position</th></tr>
<tr><td colspan="2">Scope</td></tr>
<tr><td>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</td><td>• 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 prepare. However, some entities will require some time to scale up their expertise and capacity.
• We note the ASFI Roadmap recommended the ASX 300 and financial institutions with more than $100 million in consolidated annual revenue to report in line with the TCFD recommendations.
• In New Zealand, financial institutions with assets of more than $1 billion and listed issuers with a market price or quoted debt in excess of $60 million are required to produce climate-related disclosures from 2023.</td></tr>
<tr><td>(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?</td><td>• 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 area. 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</td></tr>
<tr><td colspan="2">Australian implementation</td></tr>
<tr><td>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?</td><td>• In the domestic implementation of the ISSB standards, the local legal context needs 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 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 appropriate accountability for disclosure.</td></tr>
</table>

Question	AUS Voice Draft Position
	• It is important to note for domestic implementation that existing National Greenhouse and Energy Reporting (NGER) GHG emissions reporting requirements are for an Australian financial year, 30 June, which may not align with an entity's financial year.
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?	• We consider that directionally the ISSB's ED S2 broadly aligns with the current voluntary adoption of TCFD as encouraged by ASIC Regulatory Guidance RG 247 and the ASX Corporate governance principles and recommendations. • ISSB's ED S1 would be new to the Australian environment. Consideration would need to be given to how it and other subsequent standards would fit in.
AASB's proposed approach	
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.7	• Yes, we support a separate suite of standards for sustainability-related financial reporting.
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 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 submission has raised some key considerations in relation to the two ISSB Exposure Drafts that require resolution.

29 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

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
CIO
Cbus Super

CC:
Office of Australia Accounting Standards Board
E: standard@aasb.gov.au

29 July 2022

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

By email: commentletters@ifrs.org

Dear Board Members

Consultation on Proposed Standards

We welcome 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).*

We are an Australian superannuation fund and large global investor, with a commitment to managing investment risks on behalf of our 111,000 members. We identify climate change as a key investment risk, and are actively pursuing a target to be carbon neutral by 2030.

A lack of consistent and reliable emissions reporting is a key challenge in managing the efficient reduction of carbon and greenhouse emissions in our investment portfolio.

We welcome this proposal by the IFRS Board, and commend your acceleration of transparency that climate reporting will bring to investors and stakeholders in this critical transitionary period.

On behalf of NGS Super,

Dylan Nguyen Chartered Accountant
Senior Manager, Finance

Maryanne Jardine Chartered Accountant
Senior Manager, Investment Operations

Trustee office
Level 4, 14 Martin Place
Sydney NSW 2000
PO Box 21236
World Square NSW 2002
T (02) 9273 7900

Adelaide office
Level 1
431-439 King William St
Adelaide SA 5000
T (08) 8418 2400

Brisbane office
Level 6
157 Ann St
Brisbane QLD 4000
T (07) 3874 8300

Melbourne office
Level 5
737 Burwood Rd
Hawthorn VIC 3122
T (03) 9811 0502

NGS Super Pty Limited
ABN 46 003 491 487
AFS Licence No 233 154
The trustee of NGS Super
ABN 73 549 180 515

4458 (0720)

Appendix A

Feedback on Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (S1)

Question	NGS Super Position
Overall approach	
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? Q1(b) Do you agree that the proposed requirements set out in the ED meet its proposed objective (para 1)? Why/why not? 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?	(a) Yes (b) Yes (c) Yes
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?	• Yes. • It is imperative that there is a suitable basis for independent external assurance to determine if the entity has complied. • Investors need to be able to rely on the assurance performed, just as investors are able to rely on the audit and assurance performance in the annual audit of financial statements.

Trustee office
Level 4, 14 Martin Place
Sydney NSW 2000
PO Box 21236
World Square NSW 2002
T (02) 9273 7900

Adelaide office
Level 1
431-439 King William St
Adelaide SA 5000
T (08) 8418 2400

Brisbane office
Level 6
157 Ann St
Brisbane QLD 4000
T (07) 3874 8300

Melbourne office
Level 5
737 Burwood Rd
Hawthorn VIC 3122
T (03) 9811 0502

NGS Super Pty Limited
ABN 46 003 491 487
AFS Licence No 233 154
The trustee of NGS Super
ABN 73 549 180 515

4458 (0720)

Question	NGS Super Position
	• The impact of inaccurate or immature risk assessment and governance processes and data gathering, whether intentional or unintentional is a key risk to the value of these disclosures. • Auditors will also serve to standardise quality through experience and be vital in developing cross entity benchmarking around internal processes and maturity levels from engagements across clients and industry
Objective	
Document reference: ED Para1-7, Appendix A	
Q2(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why/why not?	• No. • The term "significant" is not consistently understood. We would propose that the term significant is replaced with "material" so that material sustainability-related risks and opportunities are in scope. • Guidance by way of examples on how "material sustainability-related risks and opportunities" are determined, would be a useful addition to the ED.
Q2(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why/why not? If not, do you have any suggestions for improving the definition to make it clearer?	• No. • There is currently no definition of sustainability provided within the ED. Whilst we understand the ISSB may have reservations with providing a definition of sustainability, we consider a clear definition of sustainability is required for the specific context of issuing sustainability disclosure standards. ISSB may need to reconsult on such definitions to ensure consistency.
Scope	
Document reference: ED Para8-9	
Q3. Do you agree that the proposals in the ED 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?	• As Australia already adopts IFRS Accounting Standards, we have no specific response to this question.
Core Content	
Document reference: ED Para11-35	

Question	NGS Super Position
Q4(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why/why not?	• The disclosure objectives align with the TCFD and are considered appropriate. It formalises the requirement to monitor and manage sustainability risk as a top down endeavour. • The listing of defined "resources" serves as a good starting point for areas of consideration and analysis. • We appreciate the specific guidance around metrics provided in the Climate ED. • We recognise that the risk that less mature, or more heavily impacted entities, industries and even countries may downplay the impacts and likelihood of sustainability risks either through lack of understanding or through bias. A consistent set of metrics that can be collated cross industry will improve transparency around reporting and allow comparability against norms through benchmarking.
Q4(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why/why not?	• Yes. • We understand the view that some elements of strategy relating to opportunities will be commercially sensitive. • We specifically challenge any suggestion that netting off risks relating to climate against opportunities relating to climate is appropriate. Disclosures of risks need to be made separately from disclosure of commercial opportunities. Netting is not an appropriate way to manage commercial sensitivities relating to climate risk opportunities.
Reporting entity	
Document reference: 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?	• Yes
Q5(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	• Yes

Question	NGS Super Position
further requirements or guidance would be necessary and why?	
Q5(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?	• Yes, and the requirement is critical for identifying climate risks alongside financial risks.
Connected information	
Document references: 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?	• Yes • The ability to report on opportunities of the path not taken is subjective and difficult to quantify. There will be a tendency to downplay the sustainability impacts on financial statements. Guidance on a format for disclosure would be helpful.
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?	
Fair presentation	
Document reference: ED para 45-55	
Q7(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?	No specific response.
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.	No specific response.
Materiality	
Document reference: ED Para 56-62	

Question	NGS Super Position
8(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why/why not?	• As we have noted in our response to question 2, the definition and application of materiality lacks clarity. • Further, we note paragraph 58 stipulates that materiality will be entity specific. We also consider it important to clarify that it will also be specific to the particular sustainability matter.
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/why not?	• We consider the breadth of sustainability-related risks and opportunities should be identified through the stakeholder engagement process we suggest in our responses to questions 1 and 7. • This question highlights the need for clarification between the identification of significant sustainability-related risks and opportunities and the identification of information material to primary users.
8(c) Is the ED and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why/why not? If not, what additional guidance is needed and why?	• We consider the illustrative guidance document to be helpful. However, we note that the definition and application of materiality are dependent on the definition and application of significance in the context of sustainability-related risks and opportunities. • Likewise, paragraph IG6 could increase its emphasis on the importance of qualitative factors in the materiality assessment of sustainability-related financial information.
8(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the ED if local laws or regulations prohibit the entity from disclosing that information? Why/why not? If not, why?	• We consider the proposed exemption is reasonable.
Frequency of reporting	
Document reference: ED 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?	• Yes. • We specifically challenge and refute the concerns raised by reporting entities that there is a lack of available and timely data for certain disclosures. • Climate risks can only truly be appraised when reporting entities prioritise the disclosure of the climate risks in full. The data can be prioritised if the willpower exists. • We challenge the suggestion of transitional arrangements. And we see such suggestions as genuine attempts to stall this process and to stall the delivery of transparent climate related information to stakeholders.
Comparative information, sources of estimation and outcome uncertainty, and errors	

Question	NGS Super Position
Document reference: ED 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? 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?	(b) We support the requirement to disclose the metric in comparative reports. (c) We believe that most of the differences will be the result of 'better' estimation methods. The rate of change will be significant in respect to methodology and modelling development and improvement as well as data acquisition, quality, and storage. These developments may enable more targeted scenario analysis or emissions factors in subsequent reporting periods and therefore could lead to a disconnect in metrics from one reporting period to the next. We acknowledge the premise that each annual disclosure is made with the best possible knowledge and tools available at the time. And we consider it appropriate to recalculate previous disclosures based on evolved techniques and data. Such recalculation would not constitute an error. The recalculation could be outlined in the disclosure and would provide real value to stakeholders for year on year comparison.
Statement of compliance	
Document reference: ED Para 91-92	
PREAMBLE not replicated here refer to p19 ED Q12 Do you agree with this proposal? Why/why not? If not, what would you suggest and why?	• In the domestic implementation of the ISSB standards, the local legal context needs 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 by the ISSB standards. • It will be important that liability risks do not undermine comprehensive and good faith implementation of the ISSB standards and appropriate accountability for disclosure.
Effective Date	
Document Reference: 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	• Three (3) months after the standard is finalised. eg If finalised 1 October 2022, commencement could occur for reporting periods commencing from 1 January 2023 onwards.

Question	NGS Super Position
required by entities applying the proposals, those using the sustainability-related financial disclosures and others.	• There has been significant development of climate related disclosures in other major markets, and as a result, it cannot be a surprise to Australian reporting entities that climate related disclosures are valuable to stakeholders. • Many Australian reporting entities are already reporting climate related information under US, NZ and European requirements. • It is expected that some reporting entities will advise of the difficulties, costs and complexities of such reporting. We empathise with these perspectives and equally identify those challenges views as being less significant that the climate related risks that stakeholders are experiencing now, and those risks are escalating quickly. • The value of these disclosures is significant to solving for climate related risks and implementation needs to be expedited. • We strongly believe that the reporting outlined in this draft standard is achievable now. • Reporting entities can choose to prioritise the collation of the data into the requirements set out in the standard. We strongly believe that the expertise and capacity to produce the reporting is available and that there is sufficient time to develop and implement the processes required to achieve reporting for a 1 January 2023 commencement (assuming comparatives are not required – as per our views expressed at Q13(b). • We view requests for structured transition periods as requests for denying stakeholders transparency into a reporting entity's climate risks. We ask the ISSB to assess such requests with professional scepticism.
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?	• Yes, this is critical to enabling an effective date for application to reporting periods commencing from 1 January 2023.
Global baseline	
Preamble: The ISSB intends that such requirements by others could build on the comprehensive global baseline established by the IFRS Sustainability Disclosure Standards. 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	• No • Differences may arise due to different domestic legislative rules however this should not be an the setting of a global baseline, or an impediment to collection and reporting.

Question	NGS Super Position
this manner? If so, what aspects and why? What would you suggest instead and why?	
Digital reporting	
Q15 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)?	• Digital reporting is valuable and we see no road blocks to implementation of this in Australia.

Appendix B

Feedback on ISSB ED S2 – climate related disclosures

Question	AUS Voice Draft Position
Cross industry metric categories and GHG emissions	
Q9 (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. This is extremely valuable to stakeholders and investors. •
Verifiability and enforceability	
Q13 – 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 the challenges with assurance related to scenario models and Scope 3 emissions, given the quantum of inputs, level of estimation and variability in assumptions. Clear disclosure of assumptions, limitations and uncertainties is particularly important to enable assurance to be undertaken, and for users to understand the information.
Effective Date	
Q14 (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?	• Both can be achieved at the same time.
Q14 (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 Q13 of [DRAFT] IFRS S1.
Q14 (c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could	• Scope 1 and 2 emissions data is available and able to reported now – if the willpower exists to do so.

Question	AUS Voice Draft Position
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?	• Scope 3 emissions reporting will inevitably require reporting entities to source data, make reasonable assumptions, and perform calculations to meet the disclosure requirements. This will require some capacity and willpower to prioritise, and we see adequate capacity and expertise available to enable a 1 January 2023 implementation. We view with skepticism concerns that are raised in relation to reporting entities needing long lead times to meet the disclosure requirements.
Global baseline	
Q16 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. • Industry specific metrics are valuable to investors and stakeholders and are important to managing climate risks. We feel that good corporate stewardship in 2022 requires this information to already be known to decision makers within reporting entities. And we therefore see the exposure draft as sharing key risk information with investors and stakeholders.

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235

29 July 2022

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

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

T (02) 9252 4244 | F (02) 9071 9877
share@asa.asn.au
asa.asn.au

AASB ED 321 Survey – Responses Summary

N = 17 (As at 18/7/22)

1. **Which of the following stakeholder groups best describes you or your organisation?**

- 7 auditors
- 3 preparers
- 2 standard setters
- 2 academics
- 2 users
- 1 consultant

2. **Which of the following industries best describes you or your organisation?**

- 7 from accountancy
- 3 from government
- 2 from education
- 2 from energy
- 1 from consulting
- 1 from finance
- 1 from insurance

3. **Do you agree with the approach of focussing on an entity's enterprise value when considering sustainability-related financial reporting?**

- Yes – 8 (80%)
- No – 2 (20%)
- Skipped – 7

- Additional comments:
  - There could be a significant burden to document sufficiently and for a smaller enterprise where the item is immaterial it would cause unnecessary cost with little value added **(answered yes)**
  - Would prefer a wider focus, looking at all the capitals from the IIRC **(answered no)**
  - All sustainability considerations have impacts on the long-term value of the enterprise. Current financial reporting is short-term focused – need a proper consideration of long-term factors including sustainability in determining a true enterprise value **(answered yes)**

4. **To what extent 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?**

- Strongly agree – 2 (28.6%)
- Agree – 2 (28.6%)
- No opinion – 3 (42.9%)
- Skipped – 8

- Additional comments:
    - In some industries this makes sense but should not be mandated in all cases **(answered no opinion)**
    - Downstream is not an issue - it needs to be considered as it represents the entity as a user of goods and services. Upstream is more problematic. Distribution channel impacts are a direct result of the impact, the disposal impacts of an entity products and services are also reasonable. However, a more problematic issue is the GHG emissions of the entity's products by the consumer. I'm not sure the extent to which these are expected to be included and, if they are, there is a strong argument to some extent that GHG emissions are not solely within the control of the entity. I do not agree that extending reporting of GHG throughout the value chain is inconsistent with the financial reporting view of the reporting entity as such emissions can be directly attributable decisions the entity has made in relation to its business model and enhances comparability i.e. where an entity has outsourced or offshored parts of its value chain versus an entity that directly operates all its value chain **(answered agree)**

5. Please indicate why you agree that entities should be required to disclose their Scope 3 GHG emissions:

- 'The data is relevant to primary users of general purpose financial reports' – 3 (100%)
- Skipped – 1

6. 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)?

- Yes – 2 (33.3%)
- Unsure/unclear on the differences between the NGER guidance and GHGC Standard – 4 (66.7%)
- Skipped – 11

- Additional comments:
    - International comparability needs to be a consideration unless the NGER measurement regime is clearly superior **(answered unsure/unclear)**

7. To what extent do you agree that the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 are relevant for Australian industries and sectors?

- Strongly agree – 2 (33.3%)
- Agree – 1 (16.7%)
- No opinion – 3 (50%)
- Skipped – 11

- Additional comments:

- o We should maintain compatibility with the global standards, and supplement with any additional Australian requirements in addition (but these should be kept to a minimum and focus on unique Australian issues) **(answered strongly agree)**

8. Are there any Australian-specific climate-related matters not addressed by Exposure Draft on [Draft] IFRS S2 that the AASB should consider incorporating into the proposals? If so, please specify what additional reporting requirements should be required and why.

- No – 6 (100%)
- Skipped – 11

9. Which of the following should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be intended to apply to?

- For-profit entities listed on the ASX – 1 (16.7%)
- For-profit entities listed on the ASX – 1 (16.7%)
- Large for-profit entities (listed or unlisted) – 1 (16.7%)
- Large and ASX listed companies – 1 (16.7%)
- Listed entities, CBC reporting entities under Income Tax Assessment Act and all significant entities in polluting industries (coal, oil, gas etc.) – 1 (16.7%)
- Public accountable entities including NFPs – 1 (16.7%)
- Skipped – 11

- Additional comments:
  - o Would result in greater accountability and lead to quicker action on climate change **(answered listed entities, CBC reporting entities and polluting industry entities)**
  - o Reporting should be for publicly accountable entities – not the current AASB definition but one that reflects economic, political and social accountability **(answered public accountable entities including NFPs)**

10. Should relief from specific aspects of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be permitted for some entities for which the proposals are deemed burdensome (for example, Scope 3 GHG emissions and scientific and scenario analyses)?

- Yes, relief from specific aspects of the proposals should be permitted – 2 (33.3%)
- No, entities should be required to disclose all aspects of the proposals – 4 (66.7%)
- Skipped – 11

- Additional comments:
  - o Unless mandated globally, we must stick with the global standard as the baseline **(answered no)**
  - o If the disclosures are valuable, there should be no carve-out for preparers – there needs to be appropriate accountability and transparency for all relevant entities **(answered no)**

11. Which aspects of the proposals do you think entities should be permitted relief for?

- Scope 3 GHG emissions and scientific and scenario analysis – 1 (50%)
- Scope 3 GHG emissions – 1 (50%)
- Skipped – 0

12. 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?

- Yes – 1 (16.7%) [Not specified]
- No – 3 (50%)
- Other – 2 (33.3%)
- Skipped – 11

- Additional comments:
  - Perhaps a lack of legislative mandate for implementation on a mandatory basis **(answered other)**
  - Unable to comment **(answered other)**

13. To what extent do you agree that 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?

- Strongly agree – 3 (50%)
- Agree – 2 (33.3%)
- No opinion – 1 (16.7%)
- Skipped – 11

- Additional comments:
  - Based on established standards, it is a global baseline for reporting to allow for comparability **(answered strongly agree)**
  - Sustainability information is important information required to offset the short-term bias of current financial reporting models **(answered strongly agree)**

14. Should the effective date of the proposals in Exposure Draft on [Draft] IFRS S1 be:

- Consistent with the effective date of [Draft] IFRS S2 proposals – 5 (83.3%)
- Set after the effective date of [Draft] IFRS S2 proposals – 1 (16.7%)
- Skipped – 11

- Additional comments:
  - We should be leaders as we were with IFRS **(answered consistent with IFRS S2)**
  - No relevant reason for a delayed start to S2 **(answered consistent with IFRS S2)**

15. **Do you agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards? Alternatively, would you be supportive of the AASB developing sustainability-related financial reporting requirements 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.**

- Agree with AASB's proposed approach – 4 (66.7%)
- Agree with proposed alternative approach – 2 (33.3%)
- Skipped – 11

- Additional comments:
  - Removes potential confusion between entities applying IFRS Standards and IFRS Sustainability Disclosure Standards **(answered agree with AASB proposed approach)**
  - Sustainability reporting should be part of GPFS **(answered agree with proposed alternative approach)**

16. **Do you consider the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 to be in the best interests of the Australian economy?**

- Yes – 6 (100%)
- Skipped – 11

- Additional comments:
  - Will provide global harmonisation, better access to capital and resources, transferability of skills – all the benefits of IFRS again **(answered yes)**
  - Long-term information available through sustainability reporting proposed by the EDs are essential information for users **(answered yes)**