



<b>Project:</b>	<b>Climate-related Financial Disclosure</b>	<b>Meeting</b>	AASB August 2023 (M197)
<b>Topic:</b>	<b>Approach to baseline of IFRS Sustainability Disclosure Standards—SASB Standards and industry-based guidance</b>	<b>Agenda Item:</b>	08.1
		<b>Date:</b>	24 July 2023
<b>Contact(s):</b>	Siobhan Hammond <a href="mailto:shammond@asb.gov.au">shammond@asb.gov.au</a>	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Development of an exposure draft

## Objective

- 1 The objective of this paper is to present staff analysis and recommendations on the Board’s proposed approach to:
  - (a) references and requirements relating to the Sustainability Accounting Standards Board (SASB) Standards in the baseline IFRS Sustainability Disclosure Standards; and
  - (b) requirements relating to industry-based metrics adapted from SASB Standards and included in accompanying industry-based guidance.

## Attachments

08.1.1 ISSB *Industry-based Guidance on Implementing IFRS S2* [Supporting Material - Board Only]

## Structure

- 2 This paper is structured as follows:
  - (a) Summary of staff recommendation (paragraphs 3-4);
  - (b) Background (paragraphs 5-12);
  - (c) Staff analysis and recommendations:
    - (i) ISSB—IFRS S1 and IFRS S2 (paragraphs 14-17);
    - (ii) ISSB—enhancing the international applicability of SASB Standards (paragraphs 18-**Error! Reference source not found.**);
    - (iii) Update on international alignment (paragraphs 20-26);
    - (iv) Staff recommendation and questions to Board (paragraphs 27-28); and
    - (v) Conflicts with existing Australian legislation (paragraphs 29-33);
  - (d) Appendix A Extracts from IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*; and
  - (e) Appendix B Extracts from IFRS S2 *Climate-related Disclosures*.

## Summary of staff recommendation

- 3 As the ISSB has yet to comprehensively internationalise the industry-based illustrative examples accompanying IFRS S2 *Climate-related Disclosures* and has also not yet undergone the AASB's due process in Australia, staff recommend that the Board maintain its preliminary decision. That is, consistent with its preliminary decision in March 2023 (M194), staff recommend the Board amend the baseline of IFRS Sustainability Disclosure Standards to remove:
- (a) references and requirements related to SASB Standards from IFRS S1 and IFRS S2; and
  - (b) references to the industry-based illustrative examples in IFRS S2 and not publish those illustrative examples in Australia.
- 4 To ensure that voluntary industry-based disclosures do not result in conflicts with existing Australian legislation, staff also recommend the Board add an Australian-specific paragraph to clarify that if an entity makes voluntary industry-based disclosures, the industrial classification system applied in identifying relevant industry-based metrics for disclosure must align with that required by the Australian Bureau of Statistics (that is, the industrial classification system applied in identifying relevant industry-based metrics for disclosure must be validated by the ABS).

## Background

### ISSB

- 5 In March 2022, the ISSB published two Exposure Drafts for public comment [\[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) and [\[Draft\] IFRS S2 Climate-related Financial Disclosures](#).
- 6 In the absence of an appropriate IFRS Sustainability Disclosure Standard, [Draft] IFRS S1 proposed requiring an entity to consider applying the disclosure topics in the industry-based SASB Standards when identifying significant sustainability-related risks and opportunities about which to disclose material information.
- 7 [Draft] IFRS S2 proposed requiring an entity to apply the industry-based metrics set out in Appendix B to [Draft] IFRS S2. That is, the industry-based metrics proposed in Appendix B to [Draft] IFRS S2 would form part of the authoritative body of [Draft] IFRS S2. These industry-based proposals were adapted from the SASB Standards and identify:
- (a) industries for which the ISSB has deemed climate-related risks and opportunities to be material; and
  - (b) metrics the ISSB has deemed material to each industry identified in (a).
- 8 In June 2023, the ISSB issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2. Staff note that both Standards still include references and requirements related to the application of SASB Standards (see Appendix A for relevant extracts from IFRS S1 and Appendix B for relevant extracts from IFRS S2).
- 9 However, staff note that as part of its redeliberation of [Draft] IFRS S2, in October 2022, the ISSB decided to remove the proposed industry-based metrics from Appendix B of [Draft]

IFRS S2 and instead issue these metrics as part of non-mandatory guidance that will accompany IFRS S2.<sup>1</sup>

## AASB

- 10 In the [joint response to the ISSB's Exposure Drafts on \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#), the AASB and AUASB strongly disagreed with the proposals related to the use or endorsement of SASB Standards in both [Draft] IFRS S1 and [Draft] IFRS S2, including the industry-based metrics proposed in Appendix B of [Draft] IFRS S2. While the AASB and AUASB acknowledged that stakeholders would find industry-specific disclosures useful, both the AASB and AUASB, and Australian stakeholders, concluded that the proposals related to SASB Standards would not be appropriate for use in the Australian market at this time because:
- (a) The ISSB's public consultation period was insufficient for Australian stakeholders to be able to appropriately consider the proposals in Appendix B to [Draft] IFRS S2 and for the AASB to appropriately apply its own due process;
  - (b) feedback indicated that the proposals are US-centric and not representative of the Australian or global market;
  - (c) of the cost burden to preparers and national standard-setters of keeping up to date with and maintaining the volume of the proposed content accompanying [Draft] IFRS S2 (this is without considering all industry-based content in all SASB Standards); and
  - (d) not all of the industry-based proposals accompanying [Draft] IFRS S2 are related to climate.
- 11 Based on the limited improvements made to references to SASB Standards and industry-based proposals by the ISSB during its redeliberations on [Draft] IFRS S1 and [Draft] IFRS S2 (see paragraph 9), at its March 2023 (M194) meeting the Board made a preliminary decision to remove references to SASB Standards from the baseline of IFRS Sustainability Disclosure Standards and not to publish industry-based guidance until:<sup>2</sup>
- (a) the content has been comprehensively internationalised by the ISSB; and
  - (b) the content has undergone the AASB's due process in Australia.
- 12 At that meeting, the Board also clarified that it would revisit its preliminary decision based on the final Standards issued by the ISSB. Consequently, this paper considers whether the Board should maintain or revisit the preliminary decision in paragraph 11.

## Staff analysis and recommendations

- 13 Staff have considered the following in developing the recommendation for the Board:
- (a) the issued IFRS S1 and IFRS S2 and the changes made to the proposals by the ISSB in developing the final Standards (see paragraphs 14-17);
  - (b) enhancing the international applicability of SASB Standards (see paragraphs 18-**Error! Reference source not found.**);

---

1 See [October 2022 ISSB Update](#).

2 See [March 2023 AASB Action Alert](#).

- (c) the international and jurisdictional approaches to considering industry-based requirements in sustainability reporting—including recent developments (see paragraphs 20-26); and
- (d) conflicts with existing Australian legislation (see paragraphs 29-33).

#### **ISSB—IFRS S1 and IFRS S2**

14 While the ISSB considered whether to change its approach to including references and requirements related to the SASB Standards, it ultimately decided to retain those references and requirements in the final Standards and instead expand the requirements to also permit an entity to refer to the most recent pronouncements of other standard-setters (see Appendix A and Appendix B for the relevant extracts from IFRS S1 and IFRS S2).<sup>3</sup> In particular, IFRS S1 and IFRS S2 require the use (or application) of SASB Standards:

- (a) to identify sustainability-related risks and opportunities on which to disclose material information in the absence of an appropriate IFRS Sustainability Disclosure Standard (IFRS S1); and
- (b) to identify material climate-related industry-based metrics (IFRS S2).

15 Per paragraph 9, as part of its redeliberation of [Draft] IFRS S2, the ISSB removed the proposed industry-based metrics from IFRS S2 and issue them as non-mandatory guidance accompanying IFRS S2 instead.<sup>4</sup> However, staff observe that in applying paragraphs 12, 23 and 32 of IFRS S2, an entity “shall refer to and consider the applicability” of the industry-based metrics in the accompanying guidance, making the use of the accompanying industry-based metrics in that guidance mandatory (see also Appendix B).

16 Furthermore, the ISSB did not publicly identify or discuss in detail the changes made to the industry-based metrics in the guidance accompanying IFRS S2 to improve their international applicability. Consequently, at this stage, it is unclear exactly what amendments have been made to the 600+ pages of industry-based metrics in the guidance accompanying IFRS S2 and whether those amendments improve the international applicability of the content.

17 Consequently, staff cannot conclude whether the climate-related industry-based metrics in the guidance accompanying IFRS S2 has been comprehensively internationalised.

#### **ISSB—enhancing the international applicability of SASB Standards**

18 In May 2023, the ISSB published for comment [Exposure Draft Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates](#) (Methodology Exposure Draft). The comment period closes on 9 August 2023.

19 At its June 2023 (M196) meeting, the Board considered the Methodology Exposure Draft and highlighted concerns that are consistent with the concerns raised in its joint submission with the AUASB (see paragraph 10). In particular, the Board decided to highlight in its submission to the ISSB that overall it considers that the methodology being consulted on is insufficient to support the international applicability of SASB Standards.<sup>5</sup>

---

3 See [February 2023 ISSB Update](#).

4 See [October 2022 ISSB Update](#).

5 See [June 2023 AASB Action Alert](#).

## Update on international alignment

- 20 At its March 2023 (M194) meeting, staff highlighted that applying SASB Standards or the proposed industry-based metrics accompanying [Draft] IFRS S2 would not achieve international alignment because both SASB Standards and the proposed industry-based metrics accompanying [Draft] IFRS S2 used an internally developed industrial classification system<sup>6</sup> that does not align with globally accepted systems, and the metrics themselves had not been appropriately internationalised.<sup>7</sup> This point was highlighted as part of the AASB and AUASB joint submission to the ISSB to Exposure Drafts [Draft] IFRS S1 and [Draft] IFRS S2 and will again be highlighted as part of the Board's submission to the Methodology Exposure Draft. The staff view on this matter remains unchanged from Board's March 2023 (M194) meeting.
- 21 The ISSB clarified in its Methodology Exposure Draft that it would not consider making changes to SASB Standards that would significantly alter the original intent or structure of the SASB Standards (and, as a result, the climate-related industry-based metrics accompanying IFRS S2). Consequently, staff cannot conclude that the content of the SASB Standards and industry-based guidance accompanying IFRS S2 have been comprehensively internationalised.

### *New Zealand Climate Standards*

- 22 Paragraph 21(b) of [Aotearoa New Zealand Climate Standard 1 Climate-related Disclosures \(NZ CS 1\)](#) states that an entity must disclose industry-based metrics relevant to its industry or business model used to measure and manage climate-related risks and opportunities. However, NZ CS 1 does not specify what industry-based metrics an entity must use. That is, NZ CS 1 permits entities to apply judgement in identifying which metrics are most relevant to them based on the industry in which they operate and the business model they use.

### *European Sustainability Reporting Standards (ESRS)<sup>8</sup>*

- 23 The first phase of ESRS relates only to overarching standards that include general requirements and topic standards that include disclosure requirements for sustainability-related topics such as climate change and pollution. Consistent with the structure of the Global Reporting Initiative (GRI) Standards (which the ESRS mirrors), the second phase of the ESRS intends to look towards developing industry-based guidance and requirements.<sup>9</sup>
- 24 Should the ESRS continue to maintain their overall alignment with the GRI Standards, it is likely that it will utilise the Global Industry Classification System (GICS) to which most jurisdictional and international industrial classification systems align (see also paragraphs 25-26).

---

6 The SASB developed and used the Sustainable Industry Classification System (SASB SICs).

7 See [March 2023 \(M194\) Agenda Paper 16.2 Climate-related Financial Disclosure—Approach to SASB Standards and the industry-based proposals in Appendix B to \[Draft\] IFRS S2](#).

8 Note that the ESRS have not yet been finalised or issued at the time this paper was prepared and as such the ESRS requirements referred to in this staff analysis are subject to change. However, staff note that the ISSB is working together with the European Financial Reporting Advisory Group to develop guidance on how an entity can meet both the requirements in the ESRS and the ISSB. Consequently, staff do not expect that there will be substantive changes to the related requirements in the ESRS such that they would conflict with the requirements in IFRS S2.

9 It should be noted that the European Financial Reporting Advisory Group (EFRAG) has been asked to delay their work on phase 2 of the ESRS.

### *GRI Standards*

- 25 The GRI are currently in the process of developing a full suite of industry (or sector) standards which:
- (a) provide guidance on which sustainability-related topics are likely to be material for each industry (i.e. which of the GRI Topic Standards would likely apply to an entity given the industry in which it operates); and
  - (b) provide additional industry-based metrics which can provide useful information to an entity's stakeholders.
- 26 The GRI use the GICS in identifying and classifying industries for standards development.

### **Staff recommendation and questions to Board members**

- 27 While staff acknowledge the significant improvements in the overall drafting of IFRS S1 and IFRS S2, based on the analysis in paragraphs 14-**Error! Reference source not found.** above, staff are of the view that the ISSB has still not sufficiently internationalised the content of the SASB Standards or the accompanying industry-based guidance to IFRS S2 for the Board to be able to consider them for use in Australia. Further, the Board has not had the opportunity to apply the AASB's due process to that content.
- 28 Consequently, staff recommend that the Board maintains its preliminary decision to remove references to SASB Standards from the baseline of IFRS Sustainability Disclosure Standards and not to publish the ISSB's industry-based guidance until:
- (a) the content has been comprehensively internationalised by the ISSB; and
  - (b) the content has undergone the AASB's due process.

#### **Questions to Board members**

Q1: Do Board members have any questions about the information provided in paragraphs 14-28?

Q2: Do Board members agree with the staff recommendation in paragraph 28 to maintain its preliminary decision to remove references to SASB Standards from the baseline of IFRS Sustainability Disclosure Standards and not to publish industry-based guidance until:

- (i) the content has been comprehensively internationalised by the ISSB; and
- (ii) the content has undergone the AASB's due process?

### **Conflicts with existing Australian legislation**

- 29 As staff highlighted in the March 2023 (M194) meeting, SASB Sustainable Industry Classification System (SASB SICS) and the Australia and New Zealand Standard Industrial Classification 2006 (ANZSIC) do not align. As a result, should use of the SASB SICS be mandated in Australia, this would increase the costs of compliance for preparers in Australia who are required to use ANZSIC for business registration purposes and report industry data for official economic statistics. In that meeting, staff also acknowledged that it could create significant costs for the Australian economy because:<sup>10</sup>

---

10 See [March 2023 Agenda Paper 16.2 Climate-related Financial Disclosure—Approach to SASB Standards and the industry-based proposals in Appendix B to \[Draft\] IFRS S2](#).

- (a) The Australian Bureau of Statistics (ABS) is the national statistical agency responsible for developing, issuing and maintaining the Australian industrial classification system. It is not within the Board's remit to develop, issue or maintain an industrial classification system. If compliance with the SASB SICS were required by an Australian sustainability-related reporting standard, the Board would need to maintain such a system independently, which would duplicate (and potentially conflict with) the work of the ABS.
- (b) The ABS and other government entities<sup>11</sup> (including other users of information classified using ANZSIC, such as academics and regulators) would be unable to collect or use the data due to the misalignment between SASB SICS and the ANZSIC.

30 While the ABS recently consulted on the future of Australia's industrial classification system,<sup>12</sup> at this stage, they are not considering alignment with the SASB SICS as it is not used by, or aligned with, other jurisdictional or international statistical bodies. Based on feedback received through public consultation, the ABS is considering adopting International Standard Industrial Classification (ISIC) Rev. 5 and customising the classification at the Class level to better reflect Australia's modern industrial economy. ISIC Rev. 5 has been developed as an international standard for classifying industries and is agreed by all National Statistics Offices through the United Nations Statistical Commission. Ideally any industry classification used to report 'industries' in the context of sustainability reporting should correspond to ISIC Rev 5. Currently, the ABS has no plan to do any correspondence between ISIC Rev 5. and SASB SICS.<sup>13</sup>

31 Consequently, staff are of the view that regardless of what industry-based metrics are used, the industrial classification system an Australian entity applies to identify material industry-based metrics for disclosure should align with the ANZSIC or the customised ISIC Rev. 5 when developed by the ABS. Such an approach would:

- (a) reduce the risk of unintended consequences that could arise from permitting the use of industrial classification systems not aligned with ANZSIC or the customised ISIC Rev. 5 that the ABS will adopt. For example, IFRS S2 requires entities to disclose the effects of climate-related risks and opportunities on their financial statements. If an entity made climate-related financial disclosures using the SASB SICS, this could conflict with how the related information in the financial statements has been classified and reported to the ABS and other government entities using the ANZSIC.
- (b) enable the collection and use of climate-related financial information by the ABS and other government entities (including the Clean Energy Regulator).

#### **Staff recommendation and questions to Board members**

32 Staff recommend the Board add an Australian-specific requirement to the baseline of IFRS S1 and IFRS S2 that, when identifying the material industry-based metrics against which to report, would require an entity to use an industrial classification system that aligns with the ANZSIC or the customised ISIC Rev 5. when developed by the ABS.

---

11 For example, the *National Greenhouse and Energy Reporting Act 2001* requires the use of the ANZSIC. As such, the Clean Energy Regulator also relies on its use to collect relevant information.

12 See [ABS June 2023 Help Shape the Future of Classification on Industries in Australia](#).

13 As the ABS does not currently maintain any correspondence between ANZSIC and SASB SICS, any guidance to entities on the use of the SASB SICS or its alignment to ANZSIC would not be able to be provided by the ABS.

33 Such an approach would ensure that:

- (a) the ABS retains the responsibility for developing, issuing and maintaining the industrial classification system (or systems) appropriate for use in Australia;
- (b) entities would use a comparable and consistent industrial classification system when reporting regardless of whether that information is financial statement information, climate-related financial information or other information (such as greenhouse gas information required under the National Greenhouse and Energy Reporting Act 2001); and
- (c) the ABS and other government entities will be able to collect and use information disclosed as a result of applying domestic climate-related financial disclosure requirements.

**Questions to Board members**

Q3: Do Board members have any questions about the information provided in paragraphs 29-31?

Q4: Do Board members agree with the staff recommendation in paragraph 32 to add an Australian-specific requirement to the IFRS S1 and IFRS S2 baseline that, when identifying material industry-based metrics against which to report, would require an entity to use an industrial classification system that aligns with the ANSZIC or the customised ISIC Rev 5. when developed by the ABS?



## Appendix A

### Extracts from IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

...

#### Sources of guidance

##### Identifying sustainability-related risks and opportunities

...

55 In addition to IFRS Sustainability Disclosure Standards:

- (a) an entity shall refer to and consider the applicability of the *disclosure topics* in the SASB Standards. An entity might conclude that the disclosure topics in the SASB Standards are not applicable in the entity's circumstances.
- (b) an entity may consider the applicability of:
  - (i) the CDSB Framework Application Guidance for Biodiversity-related Disclosures (collectively referred to as 'CDSB Framework Application Guidance');
  - (ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and
  - (iii) the sustainability-related risks and opportunities identified by entities that operate in the industry(s) or geographical region(s).

...

58 In making the judgement described in paragraph 57:

- (a) an entity shall refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards. An entity might conclude that the metrics specified in the SASB Standards are not applicable in the entity's circumstances.
- (b) an entity may—to the extent that these sources do not conflict with IFRS Sustainability Disclosure Standards—refer to and consider the applicability of:
  - (i) the CDSB Framework Application Guidance;
  - (ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and
  - (iii) the information, including metrics, disclosed by entities that operate in the same industry(s) or geographical region(s).

## Disclosure of information about sources of guidance

59 An entity shall identify:

- (a) the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its sustainability-related financial disclosures, including, if applicable, identifying the disclosure topics in the SASB Standards; and
- (b) the industry(s) specified in the IFRS Sustainability Disclosure Standards, the SASB Standards or other sources of guidance relating to a particular industry(s) that the entity has applied in preparing its sustainability-related financial disclosures, including in identifying applicable metrics.

...

## Appendix A Defined terms

...

**disclosure topic** A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an **IFRS Sustainability Disclosure Standard** or a SASB Standard.

...

**Appendix B**  
**Extracts from IFRS S2 *Climate-related Disclosures***

...

**Climate-related risks and opportunities**

...

- 12 In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity’s prospects, the entity shall refer to and consider the applicability of the industry-based *disclosure topics* defined in the *Industry-based Guidance on Implementing IFRS S2*.

...

**Climate resilience**

...

- 23 In preparing disclosures to meet the requirements in paragraphs 13–22, an entity shall refer to and consider the applicability of cross-industry metric categories, as described in paragraph 29, and industry-based metrics associated with disclosure topics defined in the *Industry-based Guidance on Implementing IFRS S2* as described in paragraph 32.

...

**Climate-related metrics**

...

- 32 An entity shall disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry. In determining the industry-based metrics that the entity discloses, the entity shall refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the *Industry-based Guidance on Implementing IFRS S2*.

...

**Climate-related targets**

- 37 In identifying and disclosing the metrics used to set and monitor progress towards reaching a target described in paragraphs 33–34, an entity shall refer to and consider the applicability of cross-industry metrics (see paragraph 29) and industry-based metrics (see paragraph 32), including those described in an applicable IFRS Sustainability Disclosure Standard, or metrics that otherwise satisfy the requirements in IFRS S1.

...

**Appendix A**  
**Defined terms**

...

**disclosure topic** A specific sustainability-related risk or opportunity based on the activities conducted by entities within a particular industry as set out in an **IFRS Sustainability Disclosure Standard** or a SASB Standard.

...

**Appendix B**  
**Application guidance**

...

**Cross-industry metric categories (paragraphs 29(b)-(g))**

...

B65 In preparing disclosures to fulfil the requirements in paragraph 29(b)-(g), an entity shall:

...

- (d) consider whether industry-based metrics, as described in paragraph 32— including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy the requirements in IFRS S1—could be used to satisfy the requirements in whole or in part.

...