



**Australian Government**  
**Australian Accounting  
Standards Board**

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Chair  
International Sustainability Standards Board  
IFRS Foundation  
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Canary Wharf, London E14 4HD  
UNITED KINGDOM

25 July 2023

Dear Mr Faber,

***ISSB Exposure Draft Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates***

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on the Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates* (Exposure Draft) published on 11 May 2023.

The AASB supports the ongoing work of the International Sustainability Standards Board (ISSB) and its efforts to address the globalisation of sustainability-related financial reporting requirements. We commend the ISSB's commitment to enhancing the international applicability of the SASB Standards and support the underlying intention of the Exposure Draft. We nevertheless have reservations as to whether the approach described in the methodology will truly enhance the international applicability of the SASB Standards. In particular, we have some significant concerns with the approach the ISSB is taking in enhancing the international applicability of SASB Standards as noted below.

*Proposed approach to internationalisation*

The proposed approach to internationalisation described in the Exposure Draft excludes any amendments that would significantly change the structure or original intent of the SASB Standards. This approach is premised on the view that the core features of the existing SASB Standards are fit-for-purpose and meet the needs of international stakeholders. Given that the SASB Standards were not subject to the same, or equivalent, due process as IFRS Accounting and Sustainability Disclosure Standards, any assumption concerning the international decision-usefulness of the SASB Standards appear to lack a clear evidentiary basis.

We are of the view that the narrow-scope approach to internationalisation described in the Exposure Draft will, at best, make only marginal improvements to the international relevance of SASB Standards. We encourage the ISSB to first establish and evidence whether the intent and structure of the existing SASB Standards is a suitable starting point for developing industry-based

disclosure requirements for an international audience. Without such evidence, we hold concerns that any minor improvements to the SASB Standards will be insufficient to ensure these industry-based disclosure requirements have been comprehensively internationalised and are appropriate for use globally.

#### *Industry-based descriptions and classifications*

The Exposure Draft does not consider the internationalisation of the SASB Sustainable Industry Classification System<sup>®</sup> (SICS<sup>®</sup>). As such, there remains a substantial misalignment between the SASB SICS<sup>®</sup> and the Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC), which is required to be applied by all Australian entities. This issue has previously been identified as a key concern by our domestic stakeholders and communicated to the ISSB as part of the AASB and Auditing and Assurance Standards Board's (AUASB) joint submission on [Draft] IFRS S1 and [Draft] IFRS S2.<sup>1</sup>

In summary, Australian stakeholders raised significant concerns that the conceptual foundation underpinning ANZSIC—which is aligned with the International Standard Industrial Classification of All Economic Activities (ISIC)—does not align with SASB's SICS<sup>®</sup>. Australian stakeholders also observed that the industry-based descriptions contained in the SICS<sup>®</sup> were characteristic of the United States market and not suited to the Australian market. We therefore encourage the ISSB to undertake a process for internationalising the SICS<sup>®</sup> so it aligns with internationally accepted industrial classification systems.

#### *Lack of opportunity to comment on revised content*

The Exposure Draft does not disclose the non-climate-related metrics that were identified as requiring amendment, nor does it contain the amendments to non-climate-related metrics themselves. Instead, it only describes the proposed process and methodology that will be used to amend non-climate-related metrics.<sup>2</sup> This approach creates significant barriers to analysing the revised non-climate-related metrics because our commentary and analysis is limited to the process and methodology, rather than a detailed examination of the revised metrics themselves. The incomplete nature of the information provided in the Exposure Draft therefore restricts any assessment of whether the internationalisation has been comprehensive enough to meet the needs of Australian stakeholders. We consider this to be a significant limitation of the Exposure Draft in its present form. Consequently, we strongly encourage the ISSB expose the amended content in full and provide stakeholders with the necessary time to comment on these prior to their finalisation.

#### *Exclusion of climate-related content*

We note that the scope of the Exposure Draft is limited to non-climate-related metrics exclusively. It does not consider climate-related metrics that were exposed for public comment as part of Appendix B of [Draft] IFRS S2. Therefore, the industry-based climate-related metrics that were exposed as part of Appendix B to [Draft] IFRS S2 will not be re-exposed prior to being amended in the SASB Standards. Instead, the climate-related metrics in SASB Standards will be automatically amended without further public consultation. We consider this to be an important issue because Australian stakeholders raised the lack of internationalisation for the climate-related metrics

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<sup>1</sup> See [AASB and AUASB joint submission on \[Draft\] IFRS S1 and IFRS S2](#)

<sup>2</sup> We acknowledge that the ISSB intends to publish a separate fatal flaw draft containing all of the revised non-climate-related SASB Standards metrics for further public consultation at a later date.

included in [Draft] IFRS S2—even in their amended form—as a significant consideration in our domestic outreach.<sup>3</sup> Given that the methodology applied to Appendix B of [Draft] IFRS S2 is comparable to that being proposed in the Exposure Draft, we hold concerns that any amended climate-related industry-based metrics will not go far enough to support their international applicability.

*Industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards*

We are of the view that the maintenance of a separate suite of industry-based disclosure requirements via the SASB Standards creates unnecessary complexities and challenges to sustainability reporting. We strongly encourage the ISSB to focus its efforts on developing internationally accepted industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards. The incorporation of industry-based disclosure requirements into the IFRS Sustainability Disclosure Standards would help to enhance the international appeal of this content by offering a streamlined and efficient approach to sustainability reporting. While we acknowledge that this matter goes beyond the scope of the current project, we nevertheless consider this to be a vital step in progressing the sustainability reporting agenda globally and helping to ensure that IFRS Sustainability Disclosure Standards are considered the global baseline for sustainability-related financial reporting.

*Comments on specific questions*

We have provided our detailed responses to the specific questions for respondents in the Appendix to this letter.

If you have any questions regarding this letter, please contact Lachlan McDonald-Kerr, Senior Manager, AASB Sustainability Reporting ([lmcdonald-kerr@asb.gov.au](mailto:lmcdonald-kerr@asb.gov.au)) or Siobhan Hammond, Director, AASB Sustainability Reporting ([shammond@asb.gov.au](mailto:shammond@asb.gov.au)).

Yours sincerely,



**Dr Keith Kendall**

Chair

Australian Accounting Standards Board

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<sup>3</sup> This matter also formed part of the AASB and AUASB's joint submission to the ISSB on [Draft] IFRS S1 and [Draft] IFRS S2.

**Appendix A—AASB response to the Exposure Draft****Question 1—Methodology objective**

This Exposure Draft describes the proposed methodology to amend non-climate-related SASB Standards metrics to enhance their international applicability when they contain a jurisdiction-specific reference.

- (a) Are the scope of the intended enhancements and the objective of the proposed methodology stated clearly in paragraph 9? If not, why not?
- (b) Are the constraints of the objective as listed in paragraph 9 (preserving structure and intent, decision-usefulness and cost-effectiveness) appropriate? Why or why not?
- (c) Should any other objective(s) or constraint(s) be included in the proposed methodology? If so, what alternative or additional objective(s) or constraint(s) would you suggest? How would these add value to the proposed methodology?

The AASB agrees that the scope of the intended enhancements and the objective of the proposed methodology are clearly stated in the Exposure Draft. However, we disagree with the scope and objective identified.

We consider there to be a tension between the objective of seeking to enhance the international applicability of the SASB Standards while, at the same time, seeking to avoid any substantial changes to their original structure or intent of these materials. Such an approach is premised on the fact that the core elements of the SASB Standards are already fit-for-purpose for an international stakeholder base in their present form. We are of the view that the assumption concerning the international decision-usefulness of the existing SASB Standards lacks a clear evidentiary basis.

*Industry-based descriptions and classification*

One of the key reasons as to why the SASB Standards are problematic in the Australian context concerns the use of the SASB Sustainable Industry Classification System<sup>®</sup> (SICS<sup>®</sup>). It is our understanding that the SICS<sup>®</sup> is a fundamental component of reporting applying SASB Standards as it facilitates the selection of the particular SASB Standard (or Standards) that an entity should apply, as well as the identification of material topics and the associated metrics. However, as raised in the AASB and AUASB's joint submission to ISSB Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2, the SICS<sup>®</sup> does not align with the Australian and New Zealand Standard Industrial Classification 2006<sup>4</sup> (ANZSIC), which must be applied by all Australian entities. As a result, Australian stakeholders identified significant challenges associated with the implementation of SASB's SICS<sup>®</sup> in the Australian context.

Stakeholders noted that implementing SASB's SICS<sup>®</sup> in Australia would be particularly difficult because the conceptual basis that underpins ANZSIC—which is aligned with the International Standard Industrial Classification of All Economic Activities (ISIC)—does not align with SASB's SICS<sup>®</sup>.

<sup>4</sup> ANZSIC is the industrial classification that underpins Australian Bureau of Statistics' 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. For further information, see <https://www.abs.gov.au/statistics/classifications/australian-and-new-zealand-standard-industrial-classification-anzsic/latest-release>

Our stakeholders also noted that the industry descriptions contained in the SICs<sup>®</sup> were representative of the United States market and not necessarily suited to the Australian or global market. The implementation of the SICs<sup>®</sup> in the Australian context would therefore likely create confusion, necessitate duplicate forms of reporting, and require significant resource expenditure and expertise.

### *Methodology*

In our outreach with Australian stakeholders, concerns were also raised that the revised climate-related metrics incorporated into Appendix B of [Draft] IFRS S2—which we note were subjected to a methodology consistent with what is being proposed in the Exposure Draft—lacked relevance and suitability for the Australian market. We therefore have concerns that attempts to enhance the international applicability of the SASB Standards via a methodology that is consistent with that applied to the proposed metrics in Appendix B to [Draft] IFRS S2 will likely mean that any revised non-climate-related content will also be of limited utility for the Australian market.

Consequently, we view the scope of the intended enhancements and the objective of the proposed methodology to be unnecessarily constrained. Their narrowly-defined nature means that only incremental improvements will be made to the international utility of the SASB Standards and amendments are unlikely to result in decision-useful industry-based disclosure requirements for Australian and international stakeholders. The first step for internationalisation should involve a comprehensive, transparent and evidence-informed analysis to determine whether the original structure and intent of the SASB Standards presents a suitable starting point for the development of international industry-based disclosure requirements. Without such evidence, we continue to hold concerns that any minor improvements to the SASB Standards will not be sufficient to ensure these industry-based disclosure requirements are suitable for stakeholders internationally. That is, we do not consider amendments to the wording or metrics alone to be sufficient for achieving the internationalisation of the SASB Standards.

Our recommendations for developing international industry-based disclosure requirements are further detailed in our responses to Questions 2 and 5.

### **Question 2— Overall methodology**

This Exposure Draft explains the proposed methodology to amend the SASB Standards metrics to enhance their international applicability when they contain jurisdiction-specific references.

- (a)** Do you agree that the proposed methodology would improve the international applicability of the SASB Standards metrics? If not, what alternative approach do you suggest and why?

The AASB is of the view that the proposed methodology will only provide limited improvement to the international applicability of the SASB Standards. In addition to those reasons discussed in our response to Question 1, we have the following additional concerns:

#### *Identification of metrics in SASB Standards that require amendment*

The Exposure Draft notes that 20% of the approximately 1,000 metrics in the SASB Standards were identified as requiring amendments, however, there is no clear explanation as to how this process was undertaken or the criteria used. Given the significance of shortlisting to any decision-making process, the lack of detail concerning how metrics were initially selected as requiring internationalisation—and disclosure of these metrics—presents an important limitation of the

Exposure Draft. We are of the view that any decision-making process like this requires high levels of transparency and visibility to provide confidence in the methodology and the amendments that would be proposed.

*Lack of opportunity to comment on revised content*

We note that the Exposure Draft describes only the proposed methodology that will be applied to amend non-climate-related metrics and does not identify or disclose the proposed amendments. While we understand that this will later be done as part of a fatal flaw review, such an approach creates particularly significant barriers to meaningful scrutiny as stakeholder analysis will be limited to a high-level examination of the methodology, rather than a detailed consideration of the revised metrics themselves. The incomplete nature of the information contained in the Exposure Draft thus restricts any assessment as to whether the internationalisation process has been comprehensive enough to meet the needs of Australian and international stakeholders.<sup>5</sup>

*International applicability of SASB Standards*

Before a more complete and wide-ranging analysis of the SASB Standards has taken place, any assumptions concerning the international decision-usefulness of the existing SASB Standards and their ability to be internationalised via the proposed methodology lacks a clear and transparent evidentiary basis. We are of the view that this evidence could, at least partly, be obtained by subjecting the SASB Standards to the same, or equivalent, due process as IFRS Accounting and Sustainability Disclosure Standards.

*IFRS Sustainability Disclosure Standards*

We encourage the ISSB to pursue a more holistic approach to internationalisation of industry-based disclosure requirements. Such an approach:

- (a) should recognise and address the diversity in legal and regulatory settings, industry structures, stakeholder expectations and cultural factors that exist in jurisdictions globally; and
- (b) be developed within the IFRS Sustainability Disclosure Standards rather than as an independent exercise outside the scope of the IFRS Foundation's due process.

Such an approach could involve utilising the SASB Standards and SICs<sup>®</sup> as a starting point (subject to evidentiary confirmation that the original intent and structure of the SASB Standards and SICs<sup>®</sup> is suitable for an international audience) and modifying them as required, or developing entirely new industry-based disclosure requirements and industrial classification. Irrespective of the preferred approach, we consider there to be a strong impetus to bring any industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards. This would help to enhance the international appeal of the content by offering a simple, consolidated, efficient approach to sustainability reporting.

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<sup>5</sup> For example, the *Workforce Health & Safety* amendments outlined in paragraph 4.1 of Appendix C to the Exposure Draft describe a quantitative input that assumes an employee ordinarily completes 2,000 working hours annually (i.e. 40 hours per week for 50 weeks per year). These assumed working hours are not necessarily universal and would be considered unsuitable for the Australian marketplace, where the jurisdictional norm for working hours is 1,824 working hours per annum (i.e. 38 hours per week for 48 weeks per year).

**Question 3—Revision approaches**

This Exposure Draft explains five revision approaches to enhance the international applicability of non-climate-related SASB Standards metrics. Every disclosure topic, metric and technical protocol amended using the methodology will apply these five revision approaches, either individually or in combination. The methodology begins with Revision Approach 1, which uses internationally recognised frameworks and guidance to define relevant terms of reference.

- (a) Do you agree that replacing jurisdiction-specific references with internationally recognised frameworks and guidance—if identified—should be the first course of action? If not, why not?
- (b) If Revision Approach 1 is not feasible, do you agree that using the remaining four revision approaches would enhance the international applicability of the SASB Standards? Why or why not?
- (c) Could the revised metrics resulting from any specific revision approaches or combination of approaches pose problems for the preparers applying them? Why or why not?
- (d) Do you agree with the criteria for determining which of the proposed revision approaches applies in different circumstances? Why or why not? What changes to the criteria would you recommend and why?

The AASB agrees that replacing jurisdiction-specific references contained in the SASB Standards with more internationally recognised references is a positive step towards enhancing the international applicability of these materials. Notwithstanding, we are of the view that entities should be permitted optionality in any revised SASB Standards, whereby they can apply jurisdictional frameworks and guidance relevant to their operations where these are broadly equivalent to any internationally recognised frameworks and guidance contained in the revised content.

We note that the incorporation of international frameworks and guidance into revised SASB Standards would not eliminate an entity's obligations to report under jurisdictional legislation or regulation like Australia's National Greenhouse and Energy Reporting Act 2001. In theory, this could mean that an entity would be required to unnecessarily duplicate the accounting and reporting of the same information using different frameworks that depends on where the disclosures are being made. This would impose substantial compliance costs on an entity for limited benefits.

A concern we have regarding Revision Approach 1 also relates to the notion of ratification. Ratification is central to the relevance of any international references to an individual jurisdiction. We note that it is unlikely that all jurisdictions will have ratified all the international references that will be incorporated into the revised SASB Standards. Therefore, we are of the view that the ISSB should provide an optionality approach that allows for jurisdictions to utilise alternative reference points when jurisdictions have not ratified international references (or existing jurisdictional content is broadly comparable). This approach would allow the ISSB to limit ongoing revisions to SASB Standards when, for example, the ratification status of individual jurisdictions changes over time.

We generally agree that the proposed Revision Approaches 2 to 5 described in the Exposure Draft (and the associated criteria) would help to enhance the international applicability of the SASB Standards in circumstances whereby Revision Approach 1 was seen to be unsuitable for achieving

this end. We consider any activity aimed towards removing existing jurisdictional references incorporated into the SASB Standards a positive step. We would nevertheless prefer an approach to internationalisation that permitted the application of jurisdictional content where this was equivalent to an international framework and/or guidance incorporated into the revised SASB Standards.

**Question 4—SASB Standards Taxonomy Update objective**

This Exposure Draft describes the proposed approach to updating the SASB Standards Taxonomy to reflect amendments to the SASB Standards.

- (a) Do you agree with the proposed methodology to update the SASB Standards Taxonomy to reflect changes to the SASB Standards? Why or why not? If you do not agree, what alternative approach would you recommend and why?

The AASB supports necessary updates to the SASB Standards Taxonomy to reflect changes to the SASB Standards. We acknowledge that any changes to the SASB Standards may require corresponding updates to the SASB Standards Taxonomy. In the case that the methodological approach to the internationalisation of the SASB Standards described in the Exposure Draft remains unchanged in its final form, we agree that the corresponding proposed methodology for updating the SASB Standards Taxonomy is logical.

Like our support for globally consistent and comparable sustainability-related financial reporting standards, we strongly encourage the prioritisation of alignment, harmonisation and interoperability between any revised SASB Taxonomy and those being developed by the ISSB and other jurisdictions, standard-setters and framework providers. We view consistency in electronic tagging as a key factor in helping to ensure the success and widespread international adoption of digital reporting and taxonomies for sustainability-related financial reporting.

**Question 5— Future SASB Standards refinements**

This Exposure Draft focuses specifically on this first phase of narrow-scope work to amend the SASB Standards metrics in accordance with the proposed methodology to improve their international applicability when they contain jurisdiction-specific references. In subsequent phases, the ISSB will consider further enhancements to the SASB Standards to improve their decision-usefulness, balance their cost-effectiveness for preparers and ensure their international relevance.

- (a) What other methods, considerations or specific amendments would be useful to guide the ISSB's future work of refining the SASB Standards to support S1 application? Why would they be useful?
- (b) Do you have any specific comments or suggestions for the ISSB to consider in planning future enhancements to the SASB Standards?

The proposed changes offer only marginal improvements to the international applicability of the SASB Standards. The AASB does not consider these sufficiently comprehensive to make this content suitable for an international audience. Considering the pace of developments in sustainability reporting globally, marginal improvements alone may be insufficient to secure widespread international support for these industry-based disclosure requirements. The AASB considers a narrow approach to the internationalisation of industry-based disclosure requirements a risk to



achieving global consensus on sustainability-related financial disclosures through IFRS Sustainability Disclosure Standards.

The AASB recommends pursuing an internationalisation process that starts by evaluating whether the SASB Standards are suitable for an international audience. This is an essential first step in the internationalisation process that could be achieved by subjecting the SASB Standards to the same, or equivalent, due process requirements as IFRS Accounting and Sustainability Disclosure Standards. This approach would provide evidence whether the SASB Standards are an appropriate foundation for developing international industry-based disclosure requirements and serve to enhance transparency and confidence in the relevance of the SASB Standards to the global market.

If the SASB Standards undergo the IFRS Foundation's complete due process requirements, it is possible the intent and structure may be—wholly or partly—considered unsuitable for an international audience. In such circumstances, we recommend that the ISSB adopts a systematic, collaborative and transparent approach to developing industry-based disclosure requirements. This would enable a comprehensive evaluation of international stakeholder needs and help ensure the creation of genuinely internationalised industry-based requirements.

Lastly, we strongly encourage the ISSB to develop industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards. This would enhance the international appeal of this content by offering a simple, consolidated and efficient approach to sustainability reporting. While this may be beyond the scope of the current project, we nevertheless consider the development of industry-based disclosure requirements within the IFRS Sustainability Disclosure Standards an essential next step in progressing the sustainability reporting agenda globally.