

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