Environment Institute of Australia and New Zealand Inc.

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.