

The background of the slide features a close-up, high-angle shot of numerous aluminum beverage can lids scattered across a dark surface. The lids are metallic and show signs of use, with some pull tabs visible. Overlaid on the left side of the image is a dark blue diagonal band. Within this band, the title text is written in white. Additionally, there are decorative elements consisting of three parallel diagonal lines in white, light blue, and yellow, running from the top right towards the bottom left, crossing the blue band.

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

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*

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.