15 July 2022

Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne, VIC 3000
Australia

By email to standard@aasb.gov.au

Dear Sir or Madam

Thank you for the opportunity to provide feedback on *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*, and especially to Siobhan Hammond and her team for facilitating a meeting on 7th July. Please find below the key areas for consideration raised at the meeting as well as some additional comments mapped to the questions raised in ED 321.

#	Question	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?	The move of the AASB into sustainability reporting is a good one given the critical importance of sustainability issues not only to current stakeholders but also to future generations. Much academic research has shown that corporate reporting under a voluntary disclosure regime has been incomplete at best and deliberately misleading at worst. An important philosophical point, however, is that the recognition that the topics of accounting should expand beyond the reporting of financial transactions should be accompanied by the equally important realisation that the audience of accounting information should move beyond investors. The claim that accountants should report to communities rather than just investors is not a radical one, but rather a position which clearly follows from the ethical framework which underpins the accounting profession. The IFAC *Code of Ethics for Professional Accountants* and its equivalents around the world (including APES 110 in Australia) states that the primary mission of accountants is not to serve the investment community alone, but rather to serve the public interest.

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		There is significant tension between the espoused public interest orientation of the accounting profession and promulgating a set of sustainability accountings standards explicitly focused on the needs of investors, especially given the fact that the very reason sustainability issues are important is because of their impact on the public. As noted above, suggesting that voluntary standards such as the GRI will meet the needs of the wider community ignores a wealth of evidence to the contrary. Consequently, the AASB should not limit itself to the creation of sustainability standards that meet the needs of the investment community but also engage in creating standards that provides the additional information required by wider stakeholders. It is only by adopting this expanded perspective that the stated aim of the accounting profession to serve the public interest will be achieved.
A1.	As above.	A key consideration is how materiality will be determined. In GRI standards, for example, identification of material items requires stakeholder consultation, which is a notable departure from conventional approaches to financial accounting. Providing further requirements and guidance to identify issues that relate to 'value' from the perspective of primary users would be an important addition to the standard.
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)?	Yes, and the individual greenhouses gases should be disclosed. This is because the science of the appropriate 'exchange rates' to convert GHGs to their carbon equivalents continues to evolve and also depends on the time horizon selected, i.e. decay rates are different over a 20-year period then a 100-year period. Analysts may therefore wish to apply their own rates to the underlying data.

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B2.	As above	It should be noted, however, that most current GHG reporting are based on estimations rather than direct measurement. The guidance provided for many of these estimations is industry-specific and many are sourced from overseas (particularly the US). Consequently the quality is mixed. Therefore as industry-specific reporting is considered (see the comments below regarding question B3) it would be appropriate to simultaneously review the permitted estimation methods for that industry.
B2.	As above	There are also areas in which the required disclosures could be improved, most notably: - Further details regarding the internal carbon price used, including what the price is; the consistency of this price and what decision-making the price informs; - An explicit requirement that firms disclose the extent to which they are benchmarking themselves in relation to best practice; - Disclosures in relation to opportunities as well as risks; - Remuneration disclosures expanded to executives as well as the Board;
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?	Industry-based disclosures are a good idea in order to promote both understandability and comparability of reporting. Given the significance and complexity of these disclosures, however, a better approach would be to introduce these disclosures more gradually in order to allow for appropriate consultation and dialogue.

#	Question	Response
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?	A key risk area that is Australian-specific is water. It is well established that a consequence of climate change is increased variability in the location and amount of rainfall and this has already been evident in Australia. Whilst not all Australian companies have exposure to water risk, this is particularly the case for agriculture, mining and some consumer goods companies. The updated water accounting standard GRI 303 *Water and Effluents 2018* now requires more significant disclosures by companies with material operations in water-scare regions and these disclosures would be useful to incorporate into mandatory Australian climate-related disclosures.
B4.	As above	It would be useful to also include a requirement for companies to disclosure the nature and location of other climate-related (or sustainability) reporting that they undertake. There have been instances in the past where entities have significant reporting obligations at the site-level (e.g. for mines) but these are not mentioned within annual reports or even corporate sustainability reports. Investors are obviously interested in deriving a complete picture of the operations of the firm and therefore highlighting other disclosures made by the entity would be helpful.
D1.	Do you agree with the AASB's proposed approach to developing sustainability financial related 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.	The concern with developing sustainability as a separate set of standards is that this may signal them as having lesser importance than existing standards, both from a legal and cultural perspective. Given that they are accounting standards there seems no reason to treat them differently to existing standards and these disclosures included as part of general-purpose financial statements, with commensurate fiduciary and assurance obligations.
D2.	Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?	Absolutely. It is critical that climate-related exposures are fully understood by the investment community in order to facilitate the optimum allocation of capital.

Once again thank you for the opportunity to comment on the ED 321 and I am more than happy to further discuss any of the above at your convenience.

Yours Sincerely

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