Hello AASB,

Attached are comments from the ABS with regards to AASBs Exposure Draft 321. We have also met with AASB on 20 July (See Patricia Au/Siobhan Hammond) to discuss some of our concerns around the potential use of the SICS classification.

For more information on this submission please contact me or Afroza Rahman.

regards

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AASB Specific Matters for Comment on Exposure Draft 321:

Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

The AASB would particularly value comments on the following:

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1
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 Australian and New Zealand Standard Industrial Classification (ANZSIC) is the industrial classification that underpins ABS's 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. In Australia, businesses are first assigned an ANZSIC class through the business registration process, with the Australian Bureau of Statistics (ABS) further quality assuring the assigned ANZSIC for large businesses.

From an Industry classification perspective, ANZSIC does not use the concept of enterprise value. ANZSIC uses the concept of Value Added to determine the predominant activity of a business. Industry value added is a fundamental concept used in compiling macroeconomic statistics. In the Australian System of National Accounts: Concepts, Sources and Methods, 2020-21, value added of an industry is defined as the total value of gross outputs at basic prices less the total intermediate consumption at purchasers' prices. Following is an explanation of these terms.

- Gross output of the industry refers to the value of goods and services produced by the industry in the accounting period, including production that remains incomplete at the end of that accounting period.

- Intermediate inputs of the industry include the value of goods and services consumed as inputs into the production process.
- The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service, minus any tax payable (including deductible value added taxes) plus any subsidy receivable, because of production or sale of the unit.
- The purchaser's price is the amount paid by the purchaser to take delivery of goods or services and include any taxes payable (less any subsidies receivable) on production and imports, and any transport charges paid separately by the purchaser to take delivery.

For further details on these concepts please refer to Chapter 9 Gross Domestic Product - Production approach (GDP(P)) | Australian Bureau of Statistics (abs.gov.au)

Enterprise value appears to be analogous to Net Worth (e.g., Total Asset – Total Liabilities). Disclosures related to impact on enterprise value/net worth are broadly consistent with disclosures in the accounting world so there is some merit to this. However, we think there may need to be some consideration for further disclosures on externalities which may not be included in the value of the enterprise. This may only apply to certain types of activities, perhaps those that use natural resources which may not be fully captured on a balance sheet (e.g., mining, agriculture, forestry). Some examples of externalities may be production activities that might be riskier from a climate change perspective include.

- Mines may need to be remediated in future, and this may not be reflected in the company's net worth depending on who is responsible for remediation.
- Electricity generation or heavy industry (e.g., steel making) may be very GHG intensive and pose greater climate risk, regardless of the value of the net worth of the enterprise.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

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?

ABS do not directly report on GHG emissions as this is undertaken by GHG inventory colleagues in the Dept of Climate Change, Energy, the Environment and Water (DCCEEW). We do utilise this information in the energy account as a source of information on energy generation and could see some value in this information if it were systematically captured (particularly scope 2 emissions). That said, it may be difficult to measure by businesses and verify through independent assessment and require additional guidance such as GHG factors for some inputs into the production process. These questions would be better answered by colleagues who manage the National Greenhouse and Energy Scheme reporting.

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)?

In general, ABS always promotes the standardisation of classifications/standards, including making standards comparable internationally. The department of Climate Change, Energy, the Environment and Water (DCCEEW) who have international reporting responsibility for emissions and manage the NGER will be in the best position to respond to this question. We also note that multiple reporting frameworks may place undue reporting burden on businesses and should be considered in any future proposal.

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 list of industries (based on Sustainability Industry Classification System i.e., SICS) as described in the industry-based disclosure requirement in Appendix B has the following issues as outlined below.

- The industries described do not follow definition of industry as well as the concept used in classifying industry as outlined in the Australian and New Zealand Standard Industrial Classification (ANZSIC), that underpins ABS and Statistics NZ industry statistics. In Australia, ANZSIC is used in business registration process and is widely used by government agencies, industry organisations and researchers for various administrative, regulatory, taxation and research purposes, including industry analysis for policy development and program delivery. Following the guidance on the International Standard Industry Classification (ISIC), in ANZSIC, business units engaged in similar productive activities are grouped together with each resultant group referred to as “an industry”. Units in an industry therefore exhibit similar production functions (a term used to describe the transformation of intermediate inputs) through the application of labour and capital to produce outputs.

- The industries as defined in the exposure draft (i.e., on a SICS basis) will align to multiple ANZSIC Classes, Groups, Subdivision or Divisions (i.e., the categories within the ANZSIC’s hierarchical classification structure). The industries described represent what could be considered as an “alternate view of the economy" such as green economy and digital economy, which can result from aggregation of many industries within the ANZSIC, if they are constructed using the same conceptual basis as ANZSIC.

- The conceptual basis of the industry grouping of SICS as provided in Appendix B is not clear to ABS. We understand that under SICS, grouping of businesses is based on business models and underlying activities both upstream and downstream, from production of raw materials all the way through to transformed products where they share a common supply chain. Business models are described as an entities system of transforming inputs through its activities into outputs and outcomes. This is not the conceptual basis of ANZSIC for grouping businesses. In ANZSIC, units or businesses in an industry have similar production functions i.e., business units in a particular ANZSIC class will use similar inputs and apply similar transformation processes to produce similar outputs.

- As the industry description in SICS as described in Appendix B includes multiple industries and processes, it is not clear how a particular business will understand which industry to report under. Is AASB planning to give businesses any guidelines on this when asking to complete the matrix? When a business has multiple activities in ANZSIC, that business is classified according to the predominant activity of the business. As provided in international industry classification guidelines, ANZSIC uses the concept of “Value Added” to determine the predominant activity of a business undertaking multiple activities; that is, the activity with the highest value added is the predominant activity. As mentioned previously In the *Australian System of National Accounts, Concepts sources and methods 2020-21*, value added of an industry is defined as the total value of gross outputs at basic prices less the total intermediate consumption at purchasers' prices. Here, Gross output of the industry refers to the value of goods and services produced by the industry in the accounting period, including production that remains incomplete at the end of that accounting period. Intermediate inputs of the industry include the value of goods and services consumed as inputs into the production process. Where it is difficult to determine the predominant activity of a business based on value added due to lack of the necessary data, a proxy for value added is estimated. The proxy items for value added are sales of goods and services, wages and salaries, or number of employees. If we understand correctly, under the exposure draft when there are multiple business activities, business will determine which industry to report based on assessment of enterprise value, where enterprise value is the sum of the value of an entity’s equity (market capitalisation) and value of an entity’s net debt. So, this conceptual basis for identifying which industry a business will categorised or grouped in SICS is different to how a business will be categorised or grouped in ANZSIC that uses the concept of value added.

- Implementing SICS in Australia will be problematic due to Australia's business registration process. In Australia, businesses are first assigned an ANZSIC class through the business registration process when applying for an ABN. For large businesses with multiple ABNs, the ABS sends a questionnaire to determine whether the business has assigned the correct ANZSIC to an ABN. From an implementation perspective, using SICS can be also problematic as it will be difficult to disaggregate or aggregate the industries on SICS for statistical and analytical purposes when the conceptual basis of SICS is not same as ANZSIC. ABS will not be able to provide any guidance to businesses for aggregating ANZSIC based data on SICS basis. From a business reporting perspective, it would also be a provider burden issue for a business to apply different classifications for their financial and statistical reporting. Reducing provider burden is currently a priority for ABS.

- Climate related risks and opportunities will have an impact on revenue and expenditure of a business. From an industry analysis perspective, it will be difficult to analyse data or assess any flow on impact of climate related risks or opportunities if a business reports climate related risks using SICS classification and financial data using ANZSIC.

- From a business reporting perspective, collecting data on SICS basis will be problematic for the industry listed such as "E-commerce". In SICS, the scope of E-Commerce includes

  > *Firms that provide an online marketplace for other firms or individuals to sell their goods and services, as well as retailers and wholesalers that provide an exclusively web-based platform for consumers to buy goods and services. Firms in this industry sell to consumers as well as to other businesses.*

  Although ANZSIC has a class called non-store retailing, it is hard for business to report data on online retailing vs brick & mortal retailing as many businesses do both online retailing and retailing through shop front and/or physical retailing. Currently, the International Standard Industrial Classification of All Economic Activities (ISIC) is going through a review process where a separate industry for online retailing is not recommended. For industries such as "Oil and Gas refining and marketing" as included in SICS classification, a business might not be able to distinguish the marketing side of the operation from other parts of their refining business based on how the business is structured.

- The SICS classification does not meet criteria of good classification such as being well structured. Some of the criteria for a good classification is that the categories at each level of the classification structure must be mutually exclusive and jointly exhaustive of all the units that it intends to cover. The scope of the SICS classification does not include many industries as identified in ANZSIC. Examples include Media & Entertainment, Professional & Commercial Service, Advertising & Marketing, Education, Biotechnology & Pharmaceuticals, Security & Commodity Exchanges, and Toys & Sporting Goods. One example in SICS where a business could be covered under multiple classifications is Commercial Banks and Mortgage Finance that both provide mortgages.

- Comparability over time is important from a statistical perspective, so it is important to consider how fluid SICS will be with regards to reclassification of industries or maintaining relevance. ABS has back-casting and concordance processes in place to address revision and at many times we have noted structural change with industry classification review.

Some other problems that we see include

- In the industry-based disclosure requirement it is mentioned that for each industry, there are separate disclosure topics/requirements related to climate related risks and opportunities. From an implementation perspective, this can cause a provider burden issue when a business must report for multiple activities. This is also the case for vertically integrated businesses.

- From the reporting perspective, the concept of materiality provides a bit of flexibility in whether items are reported or not (i.e., it is up to business to consider whether a risk is material), which can cause inconsistencies in the data being reported between different businesses.

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?

We note that there are proposals to develop frameworks to consider nature related disclosures. Where possible, these should be considered complementary to climate related disclosures and have a consistent approach. The Task Force for Nature related Financial Disclosures has created a beta framework which is currently being tested.

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2
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, Scope 3 GHG emissions and scientific and scenario analyses)?
If so, which entities and why?
As the scope of macroeconomic statistics includes all For-Profit entities, from industry analysis and statistical compilation and consistency in business reporting perspective, it is important to have a standard applied to all For-Profit entities in Australia. However, we also recognise that capacity of small Not-For-Profit entities might be a limiting factor on what they can report compared with a large For-Profit business.

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?
Feedback from DCCEEW on future regulatory issues would be appropriate.

C3. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 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?
ABS is not involved with the day-to-day preparation of financial statements so no comment in general on S1 or S2. Our main aim is to understand what or if there will be any data impacts to our statistical collections based on any

changed reporting requirements by businesses or impacts on their income, expenses or inventories that flow from changes to financial disclosures.

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?
ABS has limited use of general-purpose financial reports. Information provided through disclosures are beneficial for data confrontation purposes. While not a primary user of general-purpose reports, information that can be incorporated into NGER scheme reporting may be of use, particularly if it improves the quality of reporting.

C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?
We don't audit or assure financial statements for businesses, although we do peruse financial statements at times to confront data.

C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?
ABS has no position on when these EDs should be made effective. Our comment would be that it should be made effective when it can be consistently applied by businesses, so it does not cause undue noise in data movements if there are impacts on reporting by entities to the ABS.

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?
ABS has no comment on this.

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?
ABS has no comment on this.

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?
ABS has no comment on this.

Part D: Matters for comment relating to the AASB's proposed approach
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.
ABS has no comment on this.

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?
We have some concern with the list of industries (based on SICS) described in the industry-based disclosure requirement in Appendix B of IFRS S2. In terms of disclosures, more information is always better from a data confrontation perspective. Our interest is also that when there is more information made available through financial/annual statements, the reporting of that information is done in a manner that is consistent and uniform across all businesses and consistent with other reporting requirements and there are mechanisms to collect and aggregate data that minimises the burden placed on businesses.