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Dr Keith Kendall
Australian Accounting Standards Board
PO Box 204
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Our ref Submission – ED 321
Contact Adrian King +61 3 9288 5738

14 July 2022

Dear Keith

ED 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 (ED 321)

We are pleased to have the opportunity to comment on ED 321. KPMG will also be providing a submission to the International Sustainability Standards Board (ISSB) in relation to the proposed international standards. As a result, this submission focuses on the Australian specific requirements and implementation questions outlined in ED 321.

Global baseline disclosures

We strongly support the adoption of globally consistent disclosure of sustainability-related financial information.

We believe that globally consistent sustainability disclosure standards is an imperative. Alignment of Australian sustainability disclosure standards with those issued by the ISSB, in a timely manner and with due process will strengthen the ability of Australian entities to participate on the international stage.

Growing investor and stakeholder demand for consistent and comparable disclosures of sustainability-related financial information means that any standards issued in Australia must align with those issued globally. Given the success of the alignment of Australian Accounting Standards with IFRS[®] Accounting Standards and the resulting ability for Australian entities to engage on global capital markets, we strongly support the same level of alignment in sustainability-related financial information. With this perspective, we believe that the ISSB sustainability standards should be the Australian baseline for sustainability standards and accordingly that there must be a compelling reason to depart from this international baseline at a minimum.

Given the speed of development and global demand for connected sustainability-related financial information, and developments in other major jurisdictions (United States of America and European Union), we support starting with the proposals contained in [Draft] IFRS S1 and [Draft] IFRS S2 and being open to improving them on a continuous basis going forwards.



Timing of implementation

The proposals represent a new phase in corporate reporting for most entities, and it will take time to both develop and implement processes and controls over all of the proposed disclosure requirements. This time to implement should, however, be balanced with the demand for such disclosures – both locally and globally – from investors and other stakeholders, as well as the practical experience already gained from the adoption of the predecessor voluntary disclosure frameworks such as the Task Force on Climate-related Financial Disclosures recommendations. As a result, on balance, we believe final implementation dates should be closely aligned with those of other major international capital markets to ensure that Australian businesses are not disadvantaged in terms of value, trust, rigour or reputation when accessing these markets.

Indigenous Voice in Australia

There is currently no specific consideration of Indigenous Australians in the proposed international or Australian standards. Given the direct relevance of many sustainability topics, including climate change, to Indigenous Australians, and the specific challenges in Australia in relation to reconciliation, inclusion, the National Apology and the Uluru Statement from the Heart, we believe that the views, needs and impacts of Indigenous Australians should be specifically sought and considered during the finalisation of these initial Australian reporting standards. For example, the past international approach for sustainability reporting would likely lead to a specific future standard addressing the rights and needs of Indigenous Peoples (e.g. GRI 411 *Rights of Indigenous Peoples 2016*) however, we believe that the integration of the views and needs into all standards would likely lead to more inclusive and relevant outcomes. We would be happy to help facilitate this if you do not believe that the existing outreach and consultation process for ED321 has not already achieved this.

We have set out our detailed comments on the specific questions in the ED in the Appendix to this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (03) 9288 5738.

Yours sincerely

A handwritten signature in blue ink that reads 'Adrian V. King'.

Adrian King
Partner



Appendix

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1

Question 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?

As noted in our cover letter, as a guiding principle we strongly support alignment with the ISSB proposals. We therefore support the focus on an entity's enterprise value as an approach when considering sustainability-related financial reporting. Any further comment on this issue will be addressed in our global submission to the ISSB Exposure Drafts.

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

Question 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?

Should the final ISSB IFRS S2 require Scope 3 GHG emissions to be disclosed, we believe that Australian entities should be required to disclose these emissions to maintain global alignment. Given the significant proportion of an entity's total GHG footprint that Scope 3 GHG emissions typically comprise, disclosing Scope 3 GHG emissions is important to the understanding of the entity's business model, risks, opportunities and enterprise value.

We do acknowledge that the determination of Scope 3 GHG emissions can be challenging for certain entities, especially initially. With this in mind, refer to our comments on Question C6 relating to the effective date in Australia and a possible phased adoption approach to certain requirements, depending on entity size.

Question 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)?

We believe that Australian entities should be required to comply with the GHGC Standard. The main principles and calculation methodologies of NGERs legislation are



already aligned with the GHGC and, in our view, largely provide additional local specific inputs such as local emissions factors.

There are some differences in approach between the GHGC and NGERs legislation such as, the population of entities being reported on, given for example, NGERs legislation only applies to Australian operations whereas financial reporting groups will include overseas operations and equity investments. We also note that year ends may also be different between sustainability reporting and NGERs legislation which mandates a 30 June reporting period. These differences, however, represent the varied reporting needs of the users rather than underlying differences in calculation methodologies.

Question 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?

Internationally consistent metrics is key to enabling Australian entities to be benchmarked and assessed so as to access global capital on the same basis as their international peers. We recommend that additional metrics, if any, for Australian entities are kept to a minimum to maximize international consistency and alignment.

Question 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 existing reporting requirements and frameworks in Australia including NGERs legislation, Climate Active (Carbon Neutral) and the Clean Energy Renewable Target (CERT) reporting. These frameworks have users with different reporting needs.

Whilst we are supportive of the additional reporting above, we caution against adding to reporting in annual reports to the extent that it creates divergence from international standards. For example, we would not advocate changing calculation methodologies away from the recommended global principles, such as the GHG Corporate Standard, where there are differences when compared with these existing local frameworks.

We do not support incorporating additional Australian-specific climate-related matters – and thereby adding to mandatory disclosures for Australian entities. We are, however, supportive of entities voluntarily reporting additional relevant entity-specific metrics.

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

Question 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?**

In our view, in Australia, the proposals should be required by all listed entities at a minimum. We would also support extending this to those entities that have public accountability as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*. This extension would capture entities such as registered managed investment schemes and large superannuation funds – both of which would have high levels of interest from investors and members. Refer also to our comments at Question C6 relating to the effective date in Australia and a possible phased adoption approach to certain requirements, depending on entity size.

We do not believe that relief from specific aspects should be considered as disclosure is only required where that information is material. If a disclosure is material, it should be disclosed.

Question 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?

We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals. We acknowledge that introduction of these standards will require entities to implement systems, processes and controls over the proposed disclosure requirements to capture additional data that may not have been captured previously.

We believe this should be balanced with the demand for such disclosures – both locally and globally – by investors and other stakeholders, and the existing take-up of voluntary disclosure frameworks such as the Task Force on Climate-related Financial Disclosures recommendations. Refer also to our comments at Question C9 relating to “Safe Harbour” provisions.

Question 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?**

We note that most sustainability reporting by large listed companies in Australia (for example, 80% of the ASX100), follow the Global Reporting Initiative (GRI) which utilises a broader definition of materiality. We do not, however, consider this to be a significant concern as the GRI requirements and the ISSB sustainability standards can



be aligned if an entity wishes to report under both frameworks. For example, the “nested” concept of sustainability information¹ demonstrates how this can be done.

We further note that the requirements set out in ASIC’s Regulatory Guide 247 *Effective disclosure in an operating and financial review*² and the ASX *Corporate Governance Principles and Recommendations*³ already require material risks of this nature to be disclosed. We do not see any actual differences between these requirements and those contained in the ISSB proposals although the language used is currently different. In the event that a perceived difference emerges, in the interests of achieving international comparability, we would support adjusting these Australian frameworks and guidance rather than the ISSB proposals.

Question 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?

We believe the proposals would result in useful information for primary users of general purpose financial reports.

Question C5: Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?

We have existing assurance frameworks suitable for auditing the proposed sustainability-related financial information – ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, and the guidance issued by the International Auditing and Assurance Standards Board – *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting Assurance Engagements*. We expect that further developments and refinement of this framework will produce iterative improvements to address any deficiencies that emerge.

Question C6: When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?

The proposals represent a new phase in corporate reporting for most entities, and it will take time to both develop and implement processes and controls over all of the proposed disclosure requirements. This time to implement should, however, be balanced with the demand for such disclosures – both locally and globally – from investors and other stakeholders, as well as the practical experience already gained from the adoption of the predecessor voluntary disclosure frameworks such as the Task Force on Climate-related Financial Disclosures recommendations. As a result, on balance, we believe final implementation dates should be closely aligned with those of other major international capital markets to ensure that Australian businesses are not

¹ Statement of Intent to Work Together Towards Comprehensive Corporate Reporting – Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB (September 2020)

² RG 247.66

³ Recommendations 7.2 and 7.4



disadvantaged in terms of value, trust, rigour or reputation when accessing these markets.

Based on evidence of current readiness of ASX listed entities (S&P/ASX 200: 83%, ASX 201-500: 41% and ASX 500+: 12% reporting under at least one environmental or social framework in 2021⁴), there may be merit in adopting a phased implementation of some disclosures depending on entity size, for example, Scope 3 GHG emissions disclosures. This approach would provide the smaller entities with more time to ensure their resources, data, technical know how and capabilities are in place to enable reliable reporting on some of these more complex areas.

Question 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?

We are of the view that the effective dates of [Draft] IFRS S1 and [Draft] IFRS S2 should be concurrent. Given [Draft] IFRS S1 is the general disclosure standard setting out the over-arching structure and principles for sustainability-related financial information covering all sustainability sub-topics, and [Draft] IFRS S2 leverages and is consistent with the core elements of [Draft] IFRS S1, we see no net benefit in making the effective dates inconsistent.

Question 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?

This issue will be addressed in our global submission to the ISSB Exposure Drafts.

Question 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?

Given the perceived increased risks of disclosing forward-looking statements in Australia by directors, it would be useful to introduce or provide clarity on any protections for preparers, specifically in relation to the disclosures arising from these new standards. This would improve Australian disclosures and align with disclosures in other jurisdictions that do have “Safe Harbour” protections. We recommend appropriate consideration of this legal concern to facilitate the smooth and best implementation of these new standards.

⁴ KPMG and ASX Council: ASX Corporate Governance Principles and Recommendations Adoption of Recommendation 7.4: Reporting on Environmental and Social Exposures - Analysis of disclosures made by listed entities between 1 January 2021 and 31 December 2021 (June 2022)



Notwithstanding this perceived increased risk, our view is that the risk of not disclosing material forward-looking assumptions and disclosures on these material matters impacting on future enterprise value is of equal or even greater risk to directors.

Part D: Matters for comment relating to the AASB's proposed approach

Question 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.

We agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards.

Question D2: Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?

As noted in our cover letter, at a minimum, Australia must have sustainability standards that are consistent with global minimum standards. This will ensure Australian entities are on a level playing field with international peers, affording equal access to global capital and business opportunities. In our view, this is in the best interests of the Australian economy.