

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants

(Submitted via the IPSASB website)

9 September 2022

Dear Ross,

IPSASB Consultation Paper *Advancing Public Sector Sustainability Reporting*

The Australian Financial Reporting Council (FRC), the Australian Accounting Standards Board (AASB), and the Auditing and Assurance Standards Board (AUASB) are pleased to provide our joint comments on the IPSASB Consultation Paper *Advancing Public Sector Sustainability Reporting* issued in May 2022.

The Consultation Paper was not explicitly exposed for comment in Australia, although it was linked to the AASB website to publicise its issue by the IPSASB. We have consulted selected stakeholders in developing this submission. Some Australian stakeholders may comment directly to the IPSASB.

We agree that there is a need for public-sector-specific sustainability reporting guidance and that the IPSASB is well-placed to expedite the development of such guidance. However, to be successful, we consider that it would be essential for the IPSASB to have Board members and staff members with experience and knowledge in sustainability reporting.

In respect of the proposed approach to developing public-sector-specific sustainability guidance, we consider that:

- (a) the proposals in [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures* focus on the impact on an entity's enterprise value. This concept may not be as relevant to users of public sector entities' sustainability reports;
- (b) the cost-effectiveness of the proposed approach – using the work of other international bodies as a starting point and making adaptations to tailor for public-sector-specific circumstances – depends on how easily adaptable the objectives and principles of private-sector sustainability standards are for the public sector;
- (c) the guidance needs to address the wide range of accountability obligations of a government to its community, and how government policies would drive behavioural change in its community in addressing sustainability issues, rather than focus only on the activities of a government or an entity; and
- (d) the IPSASB should not aim merely to align with the objectives and principles of the forthcoming International Sustainability Standards Board (ISSB) Standards, but consider the specific needs of users of public sector sustainability information and develop guidance to cater for those needs.

For the IPSASB's information, Appendix B to this letter contains an extract of the AASB-AUASB [joint comment letter to the ISSB](#) on [Draft] IFRS S1 and [Draft] IFRS S2. The AASB and the AUASB have

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publicly expressed support for the establishment and ongoing work of the ISSB. Although there are significant concerns regarding the proposed structure and content of [Draft] IFRS S1 and [Draft] IFRS S2, the AASB and the AUASB support the intended scope and direction of the ISSB's work.

We recommend the IPSASB align to the extent possible its work program with the ISSB's plan and consider further topics to address public-sector-specific needs and priorities.

Our comments on the IPSASB's Preliminary Views and Specific Matters for Comment are set out in Appendix A to this letter.

If you have any questions regarding this letter, please contact any of the signatories or Nikole Gyles, AASB Technical Director (ngyles@aab.gov.au).

Yours sincerely,



Andrew Mills
FRC Chair



Dr Keith Kendall
AASB Chair



Bill Edge
AUASB Chair

APPENDIX A – Responses to the questions in the Consultation Paper *Advancing Public Sector Sustainability Reporting*

Preliminary View 1

The IPSASB's view is that there is a need for global public-sector-specific sustainability reporting guidance. Do you agree with the IPSASB's Preliminary View 1? If not, please provide your reasons.

We strongly agree that there is a need for global public-sector-specific sustainability reporting guidance. Public sector entities have different objectives to be achieved from a sustainability reporting perspective compared with private sector entities.

Governments play a leadership role in addressing sustainability matters in the community. Therefore, public sector entities' sustainability reports would need to provide relevant information for users to understand:

- (a) a government's sustainability objectives and its plans to achieve those objectives;
- (b) how a government manages public funds in achieving its sustainability objectives; and
- (c) how successful a government's policies are in driving behavioural change in its community in addressing sustainability issues.

Preliminary View 2

The IPSASB's experience, processes and relationships would enable it to develop global public-sector-specific sustainability reporting guidance effectively. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

We agree with the IPSASB's view that its experience, processes and relationships would enable it to develop global public-sector-specific sustainability reporting guidance effectively. Australian stakeholders who provided comments on the Consultation Paper also supported this view.

However, in our opinion, to be successful in developing such guidance, it is essential for the IPSASB to:

- (a) incorporate technical experts in the field of sustainability in the standard-setting process, including acquiring the right level of sustainability expertise in its staff and Board composition;
- (b) apply the same rigour and process it currently applies for setting accounting standards; and
- (c) be able to match the current fast pace of the ISSB's work and the work of other sustainability standard setters.

We strongly encourage the IPSASB to consider these comments if it proceeds to develop global public-sector-specific sustainability reporting guidance.

Specific Matter for Comment 1

If the IPSASB were to develop global public-sector-specific sustainability reporting guidance, please tell us what topics you see as most pressing in your jurisdiction and why these should be prioritised by the IPSASB.

We agree that the areas noted in paragraph 3.3 of the Consultation Paper require prioritisation when developing global public-sector-specific sustainability guidance. In addition, we recommend the IPSASB consider the following factors:

- (a) **Clearly define or explain what is meant by 'sustainability' in the context of public sector sustainability reporting.** There are many different interpretations of sustainability. It would be important to clearly explain this term to achieve consistent and comparable sustainability reports.
- (b) **The objective of sustainability reporting in the public sector.** The ISSB stated in the proposed [Draft] IFRS S1 and [Draft] IFRS S2 a clear overall objective of the proposed Standards – to provide essential information for an entity's primary users to assess the entity's enterprise value. Similarly, the public-sector-specific sustainability guidance would need to state a clear objective of public sector sustainability reporting. In determining the objective, we recommend the IPSASB consider the sustainability implications on a community rather than focus only on the activities of a government or an entity. Specifically, consider whether and how the guidance would address:
- the wide range of accountability obligations of a government to its community; and
 - the extent to which government policies would drive behavioural change in its community in addressing sustainability issues.
- (c) **The scope of public sector sustainability reporting.** A government's sustainability information is expected to have a broader range of users than private sector entities. We recommend the IPSASB consider the level of disclosures for public sector entities, especially from the whole-of-government (WoG) perspective. We observe that the IFAC's two-building-blocks approach may require modification in the public sector context. For example, the objective of the IFAC's Block 1 (Investor Focused) to identify sustainability factors material to an entity's short, medium and long-term enterprise value may not be as relevant to users of public sector sustainability reports.

In addition, if the IPSASB decides to retain the IFAC's two-building-blocks approach, we recommend the IPSASB specify the reporting requirements in each block to avoid duplication of reporting. For example:

- (i) using Block 1 to address the specific needs of potential government bond investors and credit-rating agencies regarding the fiscal and economic impact of sustainability matters to assist their consideration of bond price and associated risks and opportunities; whereas,
- (ii) focussing Block 2 on providing sufficient information for users who make, influence and challenge government policies to assess:
- the effectiveness of a government's policies and initiatives in addressing sustainability matters; and
 - the effect of those policies and initiatives on the community.

It is essential that the IPSASB considers user needs when developing public-sector-specific sustainability guidance.

- (d) **Whether the objectives and principles of any private-sector sustainability standards or guidance would apply to public sector entities.** The Consultation Paper proposes to use the work

of other international bodies as the starting point and make adaptations to tailor for public-sector-specific circumstances. Before applying this approach, we recommend the IPSASB assess how easy it is to adapt those objectives and principles to make them fit-for-purpose for the public sector (please also refer to our responses to Preliminary View 3).

- (e) **Whether sustainability reporting guidance should be developed on an individual government policy level, a public sector entity-specific level or a departmental level, or a WoG level.** Based on the feedback received, we understand that potential bond investors, credit agencies and the broader general public would be more interested in information at the aggregated level of the WoG than individual government entities. In addition, there may be users who are interested in understanding the effectiveness of a specific government policy and the effect the policy has on a community.
- (f) **The frequency of sustainability reporting.** The Task Force on Climate-Related Financial Disclosures (TCFD) recommends annual reporting of sustainability information. Given the longer-term horizon of climate change, there might not be significant movements on the impact of climate risks and opportunities on a yearly basis; therefore, users might benefit from specific disclosures that highlight any significant movements from the prior year, rather than an update on all scenario analysis previously prepared. In some States/Territories in Australia, the government publishes climate risks and opportunities assessments every five years; it would be onerous for those entities to prepare the same assessment on a yearly basis when it is uncertain that users would be interested in, and take action on, all the in-depth analysis on a yearly basis.
- (g) **Consider the materiality threshold for disclosing sustainability information that would result in reporting that would meet users' needs.** We recommend the IPSASB provide clear guidance on the application of materiality in sustainability reporting to ensure consistent application by stakeholders.
- (h) **Access to relevant information.** Regarding the ISSB's proposed requirement to disclose targets and outcomes, we observed that different public sector entities may have different abilities to access relevant data to prepare the required disclosures. For example, an unregulated entity may have less access to information than a regulated entity regarding the information throughout its value chain to disclose scope 3 emissions adequately. Similarly, a central agency or the relevant Treasury Department may have more access to information regarding an agency's value chain; particularly for an agency that relies on appropriations.
- (i) **Consider providing guidance to preparers of sustainability information to assist their understanding of the assurance requirements of sustainability information.** We are of the view that current International Auditing and Assurance Standards Board (IAASB) Standards are clear and adequate for assuring non-financial information, including sustainability information. However, sustainability reports prepared by Australia's Commonwealth Government or State/Territory Governments are not currently subject to assurance. If it is determined that assurance of sustainability information is needed, it would be helpful for the IPSASB to provide guidance to assist preparers of sustainability information in understanding what audit evidence would be required to support the assurance of that information, particularly on forecast information. Forecast information is essentially an accounting estimate that is derived through preparers' use of methods, assumptions and data. Preparers need to provide auditors with sufficient information to enable the auditor to evaluate whether the methods, assumptions and data used are appropriate in the context of the applicable financial reporting framework. We also encourage the IPSASB to support the ongoing work of the IAASB to provide additional guidance to assurance providers.
- (j) **Consider the relationship between sustainability reporting and other non-financial reporting, such as service performance reporting.** Currently, many governments and/or the principal

departments of those governments prepare service performance reports. We recommend the IPSASB consider whether there may be an overlap between the information presented in those reports and sustainability reports that require clarification in the sustainability reporting guidance.

- (k) **Consider whether the benefits to users of sustainability information would outweigh the implementation costs and ongoing compliance costs.** We recommend developing tools and guidance to simplify the application of the sustainability reporting guidance to minimise the need for a public sector entity to acquire external assistance to apply the guidance. Costs and benefits may differ for different levels of aggregation in reporting (see point (e) above).
- (l) **Consider whether 'public administration' is considered a core industry that would require industry-specific disclosures.** Public administration, or the implementation of government policies, can be considered a core industry in government. However, there might not be common national or international protocols regarding how government policies are implemented, which may lead to differences in views amongst different government jurisdictions about the industry-specific information and measures that would be relevant for users.

Preliminary View 3

If the IPSASB were to develop global public-sector-specific sustainability reporting guidance it proposes applying the framework in Figure 5.

In developing such guidance, the IPSASB would work in collaboration with other international bodies, where appropriate, through the application of its current processes.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, explaining what alternatives you would propose, and why?

We generally support the idea of using the work of other international bodies as the starting point and making adaptations to tailor for the public-sector-specific circumstance. Leveraging the ISSB's work may be cost-effective and enable the timely issue of the first batch of public-sector sustainability guidance. However, the cost-effectiveness of this approach would depend on how easily adaptable the objectives and principles of the ISSB's work are for the public sector.

The AASB and AUASB's joint comment letter to the ISSB on [Draft] IFRS S1 and [Draft] IFRS S2 noted some significant concerns Australian stakeholders have raised regarding the ISSB's proposals. An extract of the joint comment letter is included in Appendix B.

In addition, we note that some of the proposals in the ISSB Exposure Drafts may need specific consideration in a public sector context. For example:

- (a) adopting the enterprise value concept in the public sector might not be appropriate because the concept of a market value for equity is not relevant in not-for-profit public sector entities;
- (b) from the public sector perspective, achieving government policy to deliver public services is more important to the stakeholders of a public sector entity than maximising the enterprise value of the entity;
- (c) the requirements in ISSB Exposure Draft on [Draft] IFRS S2 go beyond the requirements in the TCFD. There is a need to consider if such a detailed standard is feasible for the public sector;
- (d) identifying the value chain of a government's operations could be challenging. For example, it may be necessary to undertake an extensive analysis of the underlying sources of taxation and grant revenue and certain types of expenses such as grants, subsidies and social benefits to apply the Scope 3 reporting requirements;

- (e) reporting on the monetary impacts of future activities might be problematic in the public sector because of the large number of variables affecting a government policy and activities;
- (f) government's policies and targets may not be set up across the three time periods: short, medium and long term, and may not include sufficiently-specific transition plans. This would make the application of the ISSB's proposals for public sector entities more complex; and
- (g) the proposed disclosures in the ISSB's Exposure Drafts will need to be modified for the public sector.

Unlike setting accounting standards, when developing sustainability reporting guidance, the aim is not to seek alignment with the ISSB's objectives and principles, but, rather, to develop guidance to cater for the specific needs of users of public sector sustainability information.

Preliminary View 4

If the IPSASB were to develop global public-sector-specific sustainability reporting guidance, it would address general requirements for sustainability-related information and climate-related disclosures as its first topics. Subsequent priority topics would be determined in the light of responses to this Consultation Paper as part of the development of its 2024–2028 Strategy.

Do you agree with the IPSASB's Preliminary View? If not, please provide reasons, explaining which topics the IPSASB should prioritise instead, and why.

We strongly agree that the IPSASB should address the general requirements for sustainability-related information and climate-related disclosures as its first topics. Based on feedback we have received from our stakeholder community, these are the two areas in which demand for information is greatest.

We recommend prioritising the consideration of the United Nations Sustainable Development Goals (SDGs) due to the alignment between the SDGs and stakeholder priorities identified in our feedback. In particular:

- (a) social issues, including modern slavery, gender diversity and human capital;
- (b) affordable and clean energy;
- (c) nature-related financial disclosures;
- (d) biodiversity; and
- (e) issues related to the value chain of a government.

In addition, to match the present fast pace of the ISSB's work and the work of other sustainability standard setters, we recommend the IPSASB consider aligning its priority of addressing sustainability reporting topics with the plans of those standard-setters.

Preliminary View 5

The key enablers identified in paragraph 4.2 are needed in order for the IPSASB to take forward the development of global public-sector-specific sustainability reporting guidance.

Do you agree with IPSASB's Preliminary View?

If not, please provide your reasons, identifying which of the proposed key enablers you disagree with, and why.

We agree that the key enablers mentioned in paragraph 4.2 of the Consultation Paper are essential for the IPSASB to successfully develop global public-sector-specific sustainability reporting guidance. In particular, we recommend the IPSASB work collaboratively with sustainability report preparers and auditors because their support is essential to achieving consistent sustainability reporting.

Moreover, as mentioned in our responses to Preliminary View 2, it would be essential for the IPSASB to acquire the right level of sustainability expertise in its staff and Board composition before commencing the development of global public-sector-specific sustainability reporting guidance.

Specific Matter for Comment 2

To what extent would you be willing to contribute financial or other support to the IPSASB for the development of global public-sector-specific sustainability reporting guidance?

We are supportive of the IPSASB taking the initiative of setting global public-sector-specific sustainability guidance and would be delighted to have a continuous liaison to share emerging Australian perspectives on sustainability-related matters. In the future, we would also welcome the opportunity for a member of the AASB or a senior member of AASB staff to be part of the IPSASB's Sustainability Reference Group.



Emmanuel Faber
Chair
International Sustainability Standards Board
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UNITED KINGDOM

28 July 2022

Dear Mr Faber,

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

The Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) are pleased to have the opportunity to provide comments on the International Sustainability Standards Board (ISSB) Exposure Drafts on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures* published 31 March 2022.

The AASB and AUASB have publicly expressed support for the establishment and ongoing work of the ISSB. Sustainability-related disclosure standards fall within the scope of external reporting in Australia, with the AASB and AUASB's mandate covering the development, issuance and maintenance of accounting, external reporting, auditing and assurance standards and guidance that are principles-based, meet the needs of external report users and are enforceable.

In formulating this response, the views of Australian stakeholders were sought and considered. This consultation included:

- Consultation with the AASB's [User Advisory Committee](#);
- Consultation with the AASB-AUASB [Sustainability Reporting Project Advisory Panel](#), which comprises subject matter experts across a range of stakeholder groups (including regulators);
- Publication of the ISSB's Exposure Drafts in Australia,¹ to which the AASB received 29 comment letters and 17 survey responses; and
- Consultation on the ISSB's Exposure Drafts. We conducted 15 roundtables and public outreach events, as well as a number of individual stakeholder meetings. Overall, we met with over 200 stakeholders, representing a wide range of Australian stakeholders, including preparers of financial statements and sustainability-related disclosures, assurance providers, professional and industry bodies, regulators, academics and users.

The AASB and AUASB acknowledge the efforts of the ISSB to address the globalisation and standardisation of sustainability-related financial reporting. Overall, we support the intended scope

¹ In April 2022 the AASB published [ED 321 Requestion 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 was also accompanied by a survey.

and direction of the ISSB's work. However, we are of the view that the proposals in the Exposure Draft of [Draft] IFRS S1 and [Draft] IFRS S2 will not, in their current form, achieve the intended objective of improving consistency, comparability and transparency of sustainability-related financial reporting. In particular, we have some significant concerns regarding the proposed structure and content of [Draft] IFRS S1 and [Draft] IFRS S2, as noted below.

Defining sustainability

The AASB and AUASB observe that [Draft] IFRS S1 lacks a definition or explanation for what is meant by 'sustainability' in the context of the IFRS Sustainability Disclosure Standards. There are many different (sometimes conflicting) definitions and interpretations of sustainability. Accordingly, there are many different interpretations of the intended scope of the IFRS Sustainability Disclosure Standards. To achieve consistency and comparability in reporting sustainability-related financial information, especially in the absence of a full suite of standards, we recommend that the ISSB define in [Draft] IFRS S1 what 'sustainability' means in the context of its ongoing work.

Scalability of the IFRS Sustainability Disclosure Standards

Given the complexity of the proposed requirements in both [draft] standards and the scale of reporting needed to achieve compliance, we are concerned that many small-to-medium entities (SMEs) would be unable to apply the IFRS Sustainability Disclosure Standards. We recommend that the ISSB reconsider its proposals to support the widespread application of its standards through:

- (a) learning from the International Accounting Standards Board (IASB) regarding the understandability and accessibility of their IFRS Accounting Standards;
- (b) using consistent language throughout the proposed and future standards to support understandability and translation into other languages;
- (c) ensuring key terms are clearly defined and consistently used throughout the proposed and future standards to support understandability and translation into other languages;
- (d) considering the complexity and granularity of the requirements in the proposed and potential future standards, some disclosures are 'nice to have' rather than necessary. Further, some complex disclosure requirements could be simplified by requiring qualitative information rather than quantitative information; and
- (e) considering that the complexity and granularity of the requirements in proposed and future standards present a particular challenge for auditors and assurance providers to SMEs. These entities may not have the capability or capacity to obtain evidence supporting the required disclosures, especially in the initial implementation periods as systems, processes, and controls are developed.

Conceptual framework versus general requirements

[Draft] IFRS S1 appears to act as both a conceptual framework and a standard addressing general disclosure requirements. In the AASB and AUASB's view, the standard should focus only on general requirements, with elements relating to conceptual principles being located in a separate conceptual framework. We note that the conceptual elements included in [Draft] IFRS S1 align with the IFRS Foundation's *Conceptual Framework for Financial Reporting (Conceptual Framework)*, so we question the need to duplicate these conceptual elements in [Draft] IFRS S1. We recommend that the IASB and

the ISSB work together to amend the *Conceptual Framework*, which governs the IFRS Foundation's standard-setting activities for general purpose financial reporting.

Boundary of reporting and the value chain

The AASB and AUASB received significant feedback from Australian stakeholders regarding what the proposed boundary of reporting is when considered in conjunction with the 'value chain'. The proposed value chain definition lacks clarity to the extent that there is no clear or consistent understanding of what information falls within an entity's value chain. We recommend that the 'value chain' concept be limited to activities, resources and relationships over which the reporting entity has control. We further recommend that the ISSB provide sufficient guidance to ensure that the value chain concept is consistently understood and applied.

Definition of material

The AASB and AUASB agree with the proposed definition of material and its alignment with the definition of material in the IFRS Foundation's *Conceptual Framework*. However, we have concerns about the consistent application of the definition in the context of sustainability-related financial reporting. Sustainability-related matters are not traditionally reported under, prepared, or used by individuals with a strong understanding of IFRS Accounting Standards. For example, the relevant preparers for much of this information will likely be legal and professional experts that work in the fields of, for example, climate and environmental sciences, human rights and modern slavery. Furthermore, as evidenced by the work of the IASB, users are often not familiar with financial accounting concepts and definitions.

Consequently, while financial accountants are familiar with the existing definition of material and the related supporting guidance in IFRS Practice Statement 2 *Making Materiality Judgements*, the individuals to which these proposed requirements are most relevant may not be. We recommend that the ISSB add guidance on the application of the definition of material to help ensure consistent application by stakeholders. We also recommend the ISSB and IASB work together to consider amending and modifying IFRS Practice Statement 2 *Making Materiality Judgements* to make clear the applicability of that guidance to IFRS Sustainability Disclosure Standards and broader general purpose financial reporting.

Enterprise value and connectivity with the financial statements

The AASB and AUASB note a lack of clarity around the interaction of sustainability-related financial disclosures and general purpose financial statements. In particular, feedback from Australian stakeholders indicates that there is confusion about:

- (a) where the financial statements fit in with users' assessments of enterprise value; and
- (b) how sustainability-related financial disclosures will be used in users' assessments of enterprise value.

Enterprise value is a fundamental concept in the ISSB's current and ongoing work. We recommend that the ISSB develop additional explanation and guidance on enterprise value and how it interacts with general purpose financial reporting and statements as part of a conceptual framework or through amending the existing *Conceptual Framework*.

Effective date

Consultation with preparers and assurance providers in Australia indicates that the effective date of the [draft] standards should be, at minimum, two to three years after the date of issue with early application permitted. This effective date will help ensure that entities that can do so can apply the requirements while also providing sufficient time for others to develop the capabilities, systems and processes needed to comply with the [draft] standards. This is because:

- (a) **The current skill and resource gap in the market is significant.** There is a lack of sufficiently skilled resources in the global and domestic market, and it will take time to develop and educate the resources required to support widespread compliance with sustainability-related reporting requirements.
- (b) **The current quality of data in the sustainability reporting space is poor.** The [draft] standards would force the quality of relevant data to improve in the long-term, but the quality of the data that currently exists would not be sufficient to comply with the proposals.
- (c) **Many of the systems and processes needed to collect the necessary data to comply with the [draft] standards do not exist.** The systems and processes required to collect and report on all an entity's sustainability-related risks and opportunities will need to be developed and built over time to ensure reporting can occur at the scale necessary to comply with the [draft] standards.
- (d) **The proposals in the [draft] standards are complex.** The transition to IFRS Sustainability Disclosure Standards will not be simple and, in some cases, will require entities to significantly alter their business operations (for example, through internal restructuring to develop reporting teams capable of supporting sustainability reporting in the long-term) which requires time.
- (e) **Entities will benefit from additional time to implement systems and processes effectively before they are subject to independent assurance.** Recognising the complexity and qualitative nature of the requirements, extending the effective date allows entities additional capacity to develop effective systems, processes and controls to support sustainability reporting before they need to be scrutinised by auditors or assurance providers.

Appendix B to [Draft] IFRS S2

The AASB and AUASB strongly disagree with the proposed industry-based requirements in Appendix B to the [draft] standard. While we note that many Australian stakeholders are of the view that industry-based metrics would be helpful, based on the feedback from those stakeholders and our own initial assessment, we are of the view that the proposals in Appendix B to the [draft] standard are not currently appropriate for use in the Australian market. Furthermore, the SASB Standards from which the proposed metrics were taken have not previously been exposed for public consultation in Australia. Consequently, we recommend that Appendix B be removed from [Draft] IFRS S2 and referred to only as non-mandatory guidance outside the [draft] standard until the ISSB has the time to consult on, review and amend the proposed content appropriately.

We are specifically concerned about:

- (a) **the insufficient public consultation period for Australian stakeholders to be able to appropriately consider the proposals** in Appendix B in addition to the body of [Draft] IFRS S2 and also [Draft] IFRS S1—that is, the public consultation of both Exposure Drafts overlaps with

Australia's financial year-end and, as a result, stakeholders could not commit resources to respond to all of the ISSB's proposals;

- (b) **the appropriateness of the proposed industry descriptions and industry-based requirements for use in Australia.** Feedback indicated that many of the proposals are US-centric and not representative of the Australian or global markets;
- (c) **the volume of content being proposed in Appendix B to [Draft] IFRS S2.** We question how stakeholders, including national standard-setters, would be able to keep up and comply with future standards if each thematic standard is accompanied by several hundred pages of detailed industry-based requirements that must be reviewed and maintained. We also question the capacity and ability of the ISSB to maintain that volume of work while also working to develop new standards and requirements; and
- (d) **how the proposed industry-based metrics relate to climate.** Because of a lack of definition of 'climate' in the [draft] standards, it is unclear what the boundary of the [Draft] IFRS S2 is. Furthermore, feedback indicates that many proposed metrics do not relate to climate.

Permitting the application of professional judgement is the foundation of principles-based standard setting. It is impossible to develop rules-based requirements for every scenario, such as those proposed in Appendix B to [Draft] IFRS S2. Furthermore, given the early stage of development of the IFRS Sustainability Disclosure Standards, greater flexibility is needed to ensure the evolution of best practice reporting can be realised rather than inhibited by detailed rules-based reporting requirements.

Permitting the application of jurisdictional legislation relating to greenhouse gas emissions disclosures

The AASB and AUASB agree that the IFRS Sustainability Disclosure Standards should reference the GHG Protocol as a global baseline. However, to the extent possible, entities should be permitted to apply the jurisdictional GHG protocols or standards relevant to their operations. Many jurisdictions, including Australia, already legislate and regulate the regular reporting of GHG emissions. In the case of Australia, the [National Greenhouse and Energy Reporting Act 2007](#) (NGER Act) is more stringent and accompanied by more guidance and support than the GHG Protocol. In particular, we are concerned that should such optionality not be permitted, entities would be required to report their GHG emissions under two different protocols depending on where those disclosures are being made. Consequently, we recommend that entities be permitted to use relevant jurisdictional GHG protocols or standards so long as they align with the GHG Protocol or are not of a lower quality than the GHG Protocol.

Provisions for first-time application

The AASB and AUASB acknowledge the relief the ISSB proposes in the first year of application, permitting entities not to disclose comparative information. However, we are of the view that the first-time application relief does not go far enough and should be addressed in a separate standard providing additional relief for entities in the first year of application. The AASB and AUASB consider the need for a first-time application standard to be integral to the success of the ISSB in the future—in particular, because such relief would support:

- (a) **small to medium-sized entities** that would need more time than large entities to transition to full compliance with IFRS Sustainability Disclosure Standards; and

(b) **the ongoing transition to IFRS Sustainability Disclosure Standards in future years.** Because entities will be applying the IFRS Sustainability Disclosure Standards for the first time in future years, we think detailed transition requirements in individual standards are not helpful. Instead, we recommend that the first-time application provisions are isolated in a single standard that supports the ongoing transition to IFRS Sustainability Disclosure Standards in future.

We have provided our detailed recommendations and responses to the specific questions for respondents in the Appendices to this letter.

If you have any questions regarding this letter, please contact Siobhan Hammond, AASB Senior Manager (shammond@aab.gov.au) or Nikole Gyles, AASB Technical Director (ngyles@aab.gov.au).

Yours sincerely,



Dr Keith Kendall

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