



Emmanuel Faber
Chair
International Sustainability Standards Board
IFRS Foundation
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Canary Wharf, London E14 4HD
UNITED KINGDOM

4 August 2023

Dear Mr Faber,

Joint response to invitation to comment on Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*

The Australian Accounting Standards Board (AASB) and the Sustainability Standards Board of Japan (SSBJ) are pleased to have the opportunity to provide comments on the Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates* (Exposure Draft) published on 11 May 2023.

The AASB and SSBJ have both publicly stated support for the ongoing work of the International Sustainability Standards Board (ISSB). Our respective Boards are committed to developing jurisdictional content that builds on the global baseline of sustainability-related financial reporting requirements established by the ISSB. Consequently, we welcome any opportunities to provide comments on projects of international significance, such as the Exposure Draft.

The AASB and SSBJ have provided individual submissions to the ISSB in response to the Exposure Draft, which detail issues that each Board considers important for their jurisdiction.¹

We provide this joint submission to highlight some of the common concerns that both the AASB and SSBJ have regarding the Exposure Draft. In particular, this joint response highlights four key matters that we consider significant to enhancing the international applicability of the SASB Standards.

Our joint submission aims to constructively contribute to the development of internationally relevant and useful industry-specific disclosures and support the ISSB's efforts towards developing a global baseline for sustainability-related financial reporting requirements.

¹ Australia: [AASB submission to ISSB on Methodology for Enhancing International Applicability of SASB](#); Japan: [SSBJ submission to ISSB on Methodology for Enhancing International Applicability of SASB](#).

International applicability of the SASB Sustainable Industry Classification System®

The SASB Sustainable Industry Classification System® (SICS®) is essential to reporting under the SASB Framework. It facilitates the grouping of entities into common industries and sectors and, in turn, the identification of financially material sustainability topics on which an entity should report. While the SASB SICS® may be suitable for companies operating in the United States, they are not necessarily suited for international stakeholders.

There are significant differences and variations in the types of industries that exist globally. These industries commonly have distinct characteristics and therefore face unique sustainability-related financial risks and opportunities. The SASB SICS® are primarily representative of United States-based industries and therefore do not necessarily align with the types of industries that are present in different jurisdictions internationally. This misalignment makes the SASB SICS® difficult to apply in an international setting and therefore limits the relevance and utility of these materials to an international audience.

Both the AASB and SSBJ are of the view that there must be a greater global consensus on the use of SASB SICS® as the industry classification system for sustainability-related financial disclosures via the ISSB. The SASB SICS® may be a suitable starting point for the development of an industry classification system. However, without suitable customisation, they are not suitable for international users in their present form. Consequently, we recommend that the ISSB consider a process and methodology for internationalising the SASB SICS® and expose this for public consultation, together with the revised content itself.

We recognise that this task would require the ISSB to commit significant time and resources. However, we consider this to be a priority because it will significantly help to improve the relevance of any industry-specific requirements to international stakeholders. We are of the view that starting this task soon will provide the ISSB with the opportunity to incorporate industry-specific disclosure requirements into the IFRS Sustainability Disclosure Standards at a later stage.

Non-disclosure of revised content

The content provided in the Exposure Draft is limited to a description of the proposed process and methodology that will be used to amend non-climate-related metrics. It does not identify the specific non-climate-related metrics that were deemed to require amendments to enhance their international application, nor does it provide the amended content itself.²

This approach means that any analysis of the internationalisation process is limited to a high-level consideration of the methodology and process, rather than a detailed

² We acknowledge that the ISSB intends to publish a separate fatal flaw draft containing all of the revised non-climate-related SASB Standards metrics for further public consultation at a later date.

examination of the revised content. We are of the view that international stakeholders are more interested in the precise wording of the revised content that results from the application of the proposed methodology, rather than a general description of the overall process.

Accordingly, we strongly encourage the ISSB to expose the amended SASB Standards in their entirety and allow stakeholders sufficient time to analyse and comment on them before they are finalised. Such an approach would help to provide stakeholders with greater levels of confidence regarding the internationalisation process and facilitate a more complete examination as to whether the revised content may be suitable for individual jurisdictions into the future.

Proposed methodology

We note that the proposed approach to internationalisation outlined in the Exposure Draft is broadly equivalent to that which was applied to revise the climate-based metrics that were exposed as part of Appendix B to [Draft] IFRS S2 *Climate-related Disclosure*. We also note that the AASB and SSBJ both independently concluded that the content incorporated into Appendix B of [Draft] IFRS S2—even in its revised form—had not been sufficiently internationalised and therefore remained unsuitable for international stakeholders. This issue formed part of our individual submissions to the ISSB on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2.³

We are of the view that application of a substantially similar methodology to non-climate-related content will mean that the resultant materials will remain insufficiently internationalised. We therefore encourage the ISSB to consider an alternative and more comprehensive methodology to internationalisation. Such an approach should recognise the diversity that exists in the needs and expectations of stakeholders around the globe.

Consequently, we recommend that the ISSB first seek to establish whether the SASB Standards are a suitable starting point for the development of industry-specific disclosure requirements for international stakeholders. This evidence could partly be obtained by subjecting the SASB Standards to the same, or equivalent, due process requirements as IFRS Accounting and Sustainability Disclosure Standards. We strongly encourage the ISSB to pursue this evidence-informed approach to the development of industry-specific disclosure requirements.

³ Australia: [AASB and Auditing and Assurance Standards Board \(AUASB\) joint submission on \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#); Japan: [SSBJ submission to ISSB on Draft S1 and S2](#).

Bringing industry-specific disclosure requirements within IFRS Sustainability Disclosure Standards

We note that upon consolidation of the Value Reporting Foundation and the IFRS Foundation in January 2022, the IFRS Foundation took over responsibility for developing, issuing and maintaining the SASB Standards. We further note that the SASB Standards are currently developed, issued and maintained independently of the IFRS Sustainability Disclosure Standards and industry-based guidance published by the ISSB. Our understanding is that this arrangement means the SASB Standards are not subjected to the same due process as IFRS Accounting and Sustainability Disclosure Standards.

While we recognise that it may be necessary to continue the independent maintenance of the SASB Standards in the short term, we strongly recommend that the ISSB consider how it may phase out this approach over time. We hold the view that integrating industry-specific disclosure requirements into the IFRS Sustainability Disclosure Standards would significantly enhance the quality of these materials by offering a more streamlined and integrated approach to sustainability-related financial reporting.

We are of the view that the IFRS Foundation's full due process requirements provide a transparent, consultative and evidence-informed approach to the development of international reporting standards. Accordingly, by consolidating industry-specific disclosure requirements into the IFRS Sustainability Disclosure Standards and subjecting them to the IFRS Foundation's full due process, we maintain that international stakeholders would have improved confidence regarding the suitability and relevance of these materials.

Considering the above, we strongly encourage the ISSB to explore ways to integrate industry-based disclosure requirements into the IFRS Sustainability Disclosure Standards and subject them to the same, or equivalent, due process requirements as IFRS Accounting and Sustainability Disclosure Standards. We consider this to be an essential step to advancing the sustainability-related financial reporting agenda globally and therefore encourage the ISSB to commence work on this task as soon as practical.

If you have any questions regarding this letter, please contact Waka Kirihara, Director, SSBJ (w.kirihara@ssb-j.jp) or Siobhan Hammond, Director, AASB (shammond@aasb.gov.au).

Yours sincerely,



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