



<b>Project:</b>	<b>Sustainability Reporting</b>	<b>Meeting</b>	AASB June 2023 (M196)
<b>Topic:</b>	<b>ISSB Exposure Draft <i>Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates</i></b>	<b>Agenda Item:</b>	14.0
		<b>Date:</b>	6 June 2023
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Decide on approach to responding to ISSB's Methodology Exposure Draft

## Objective

- 1 The objective of this paper is for the Board to decide on its approach to responding to the International Sustainability Standards Board's (ISSB) [Exposure Draft Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates](#) (Methodology Exposure Draft).

## Structure

- 2 This paper is structured as follows:
  - (a) Summary of staff recommendation (paragraph 3)
  - (b) Background (paragraphs 4-11)
  - (c) Staff analysis (paragraphs 12-24)
  - (d) Proposed approach to responding (paragraphs 25-26)
  - (e) Appendix A—Revised IFRS Foundation Organisational Structure

## Summary of staff recommendation

- 3 Staff recommend the Board respond to the Methodology Exposure Draft.

## Background

- 4 Upon consolidation of the Value Reporting Foundation<sup>1</sup> (VRF) and the IFRS Foundation in January 2022, the IFRS Foundation took over responsibility for developing, issuing and maintaining the US Sustainability Accounting Standards Board (SASB) Standards and

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<sup>1</sup> The VRF consolidated the US Sustainability Accounting Standards Board (SASB) and the International Council for Integrated Reporting.

guidance.<sup>2,3</sup> Appendix A shows how SASB Standards, the Integrated Reporting <IR> Framework and Climate Disclosure Standards Board (CDSB) Framework for Reporting Environmental and Social Information fit within the existing IFRS Foundation organisational structure.

- 5 As part of its commitment to maintaining the SASB Standards, the ISSB published the Methodology Exposure Draft in May 2023.
- 6 [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([Draft] IFRS S1) will require an entity to consider the SASB Standards in the absence of a specific IFRS Sustainability Disclosure Standard. To support this approach, the ISSB has decided to review and consider amendments to the SASB Standards that include jurisdiction-specific content to ensure they are suitable for international application.
- 7 Importantly, the ISSB will not be exposing the amendments to SASB Standards for public consultation in line with the IFRS Foundation's *Due Process Handbook*, as SASB Standards are not subject to same due process as IFRS Accounting and Sustainability Disclosure Standards.<sup>4</sup> Instead, the ISSB's approach, as approved by the IFRS Foundation's Due Process Oversight Committee, will be to expose the methodology it will use to internationalise the content of SASB Standards for public comment. The ISSB will then make the necessary amendments to the SASB Standards applying the methodology and expose all amendments to SASB Standards as a fatal flaw draft only. This approach means that, at this stage, the ISSB:
- (a) will not be subjecting the SASB Standards to the IFRS Foundation's due process for issuing new standards or amending existing standards; and
  - (b) will not be considering making amendments that would substantially change the structure or original intent of the SASB Standards.
- 8 The Methodology Exposure Draft is open for comment for a 90-day comment period, with comments due to the ISSB by 9 August 2023.

### **Overview of the Methodology Exposure Draft**

- 9 The Methodology Exposure Draft describes the ISSB's proposed methodology for improving the international applicability of non-climate-related metrics.<sup>5</sup> The Methodology Exposure Draft notes that 20% of the approximately 1,000 metrics in SASB Standards were identified as requiring amendments due to their inclusion of jurisdiction-specific references defining their scope, methods and/or parameters.

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<sup>2</sup> See [IFRS - Consolidated organisations \(CDSB & VRF\)](#).

<sup>3</sup> 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.

<sup>4</sup> Paragraph IN9 of the Methodology Exposure Draft explains that the IFRS Foundation has no directly applicable due process to oversee the maintenance and enhancement of the SASB Standards. Consequently, the due process currently being applied to SASB Standards is based on the *review process* for the publication of the International Accounting Standards Board's (IASB) IFRS Interpretations and educational materials as per the IFRS Foundation's *Due Process Handbook*.

<sup>5</sup> All industry-based climate-related metrics in SASB Standards will be updated to align with the ISSB's guidance on climate-related industry-based metrics which was exposed for public comment as part of Appendix B to [Draft] IFRS S2 *Climate-related Disclosures* ([Draft] IFRS S2).

- 10 The Methodology Exposure Draft proposes a five-stage tiered approach for revising the SASB Standards metrics deemed to require amendments. In descending order of preference, the proposed five approaches are:<sup>6</sup>
- (a) Revision Approach 1: substituting available internationally applicable references for standards, definitions or calculation methods to replace jurisdiction-specific references;
  - (b) Revision Approach 2: providing more generalised definitions for standards, definitions or calculation processes to replace jurisdiction-specific references;
  - (c) Revision Approach 3: adopting generalised jurisdictional references to enable preparers to use applicable jurisdictional laws, regulations, methodologies or guidance to replace jurisdiction-specific references;
  - (d) Revision Approach 4: removing—in a limited number of cases—disclosure metrics that are ill-adapted for international application or have no identified international equivalents outside specific jurisdictions; and
  - (e) Revision Approach 5: removing and replacing jurisdiction-specific metrics when a relevant replacement can be identified to preserve the disclosure topic’s integrity (aligning with the intent of the original metric as much as possible based on research) to meet the needs of users of general purpose financial reports.
- 11 The Methodology Exposure Draft also describes the proposed approach to update the SASB Standards Taxonomy. This update involves amending the taxonomy to reflect amendments to SASB Standards that would result from applying the revision approaches described in paragraph 10.

### Staff analysis

- 12 At its March 2023 meeting, in the context of its [Climate-related Financial Disclosure project](#), the Board made the preliminary decision to remove references to SASB Standards from its baseline of IFRS Sustainability Disclosure Standards and not to publish the ISSB’s industry-based illustrative examples until:<sup>7</sup>
- (a) the content has been comprehensively internationalised by the ISSB; and
  - (b) the content has undergone the AASB’s due process in Australia.
- 13 Staff have analysed the Methodology Exposure Draft and identified the following key issues:
- (a) Exclusion of climate-related content (see paragraphs 14-15);
  - (b) Omission of revised non-climate-related metrics (see paragraphs 16-17);
  - (c) Industry-based descriptions and classification (see paragraphs 18-19);
  - (d) Approach to internationalisation (see paragraphs 20-22); and

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<sup>6</sup> The Revision Approaches are not necessarily mutually exclusive and may be used in combination with each other when deemed appropriate.

<sup>7</sup> See [March 2023 Action Alert](#).

- (e) Identification of metrics requiring internationalisation (see paragraph 23).

#### **Exclusion of climate-related content**

- 14 The scope of the Methodology Exposure Draft is limited to non-climate-related metrics exclusively. It does not consider climate-related metrics which were exposed for public comment in Appendix B of [Draft] IFRS S2 (see paragraph 9). Therefore, the industry-based climate-related metrics that were exposed as part of Appendix B to [Draft] IFRS S2 will not be re-exposed prior to being amended in the SASB Standards. That is, the climate-related metrics in SASB Standards will be automatically amended (without public consultation) to align with the climate-related metrics that will be published as illustrative examples accompanying IFRS S2 *Climate-related Disclosure*.<sup>8</sup>
- 15 The lack of internationalisation for the climate-related metrics included in [Draft] IFRS S2 mirrors concerns raised by Australian stakeholders in feedback to ED 321 and formed part of the joint AASB/AUASB submission to the ISSB on [Draft] IFRS S1 and [Draft] IFRS S2.<sup>9</sup>

#### **Omission of revised non-climate-related metrics**

- 16 The Methodology Exposure Draft does not disclose the non-climate-related metrics that have identified as requiring amendments, nor does it contain the amendments to non-climate-related metrics themselves. The Methodology Exposure Draft only describes the proposed *process* and *methodology* that will be used to amend non-climate-related metrics to enhance the international applicability of the SASB Standards.<sup>10</sup>
- 17 This approach creates significant barriers to analysing the revised non-climate-related metrics because commentary or analysis is limited to the process and methodology, rather than the metrics themselves. The incomplete nature of the information contained within the Methodology Exposure Draft therefore restricts any assessment of whether the internationalisation has been comprehensive enough to meet the needs of Australian stakeholders.

#### **Industry-based descriptions and classification**

- 18 The lack of alignment between the industry-based descriptions and classification and the [Australian and New Zealand Standard Industrial Classification 2006](#) (ANZSIC) was raised by Australian stakeholders as a significant issue in feedback to ED 321 and formed part of the joint AASB/AUASB submission to the ISSB on [Draft] IFRS S1 and [Draft] IFRS S2.
- 19 The Methodology Exposure Draft explains that the ISSB will not be considering making amendments that would substantially change the structure or original intent of the SASB Standards. Consequently, the Methodology Exposure Draft is limited to metrics only and does consider the internationalisation of the industry-based descriptions or classification (being the SASB Sustainable Industry Classification System (SICS)) with which the AASB raised significant concerns about in the joint AASB-AUASB submission to the ISSB. That is, the industry-based descriptions and classification will remain US-centric and therefore will

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<sup>8</sup> Anticipated date for publication for the final standard is June 2023.

<sup>9</sup> See [AASB and AUASB joint submission on \[Draft\] S1 and S2](#)

<sup>10</sup> 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 (see ISSB April 2023 [Agenda Paper 8A International applicability of SASB Standards—Ratification of the Methodology Exposure Draft](#)).

continue to be misaligned with the ANZSIC, which is required to be applied by all Australian entities.<sup>11</sup>

### **Approach to internationalisation**

- 20 The approach to internationalisation excludes any amendments that would significantly change the structure or original intent of the SASB Standards. As paragraph 8 of the Methodology Exposure Draft states “the methodology also is designed to ensure the amendments preserve the decision-usefulness of the SASB Standards for users of general purpose financial reports and the amendments do not increase the costs of application for preparers”.
- 21 This approach assumes the requirements of SASB Standards, in their present form, are fit for purpose and already meet the needs of international stakeholders. Given that the SASB Standards were not subject to the same, or equivalent, due process as IFRS Accounting and Sustainability Disclosure Standards (see paragraph 7), any assumption concerning the international decision-usefulness of the SASB Standards lacks a clear evidentiary basis.
- 22 The fact that the SASB Standards are not being made to be subject to the IFRS Foundation's full due process—which is ordinarily followed even when issuing non-mandatory guidance (e.g., Practice Statements)<sup>12</sup>—also presents a significant limitation in the internationalisation approach described in the Methodology Exposure Draft.

### **Identification of metrics requiring internationalisation**

- 23 The process used to identify the metrics that require amendments to enhance their international applicability has not been explained as part of the Methodology Exposure Draft. Given the significance of shortlisting to any decision-making process, the lack of explanatory detail concerning how metrics were initially selected as requiring internationalisation (and disclosure of these metrics themselves) presents a limitation of the Methodology Exposure Draft.

### **Staff recommendation and questions to Board members**

- 24 Considering the significant issues identified above and to better support the ISSB in enhancing the international applicability of the SASB Standards, staff recommend that the Board responds to the Methodology Exposure Draft highlighting the issues identified in paragraphs 14-23.

#### **Question to Board members**

**Q1:** Do Board members have any questions or comments about the information in paragraphs 1-24?

**Q2:** Do Board members agree with the staff recommendation to respond to the ISSB's Methodology Exposure Draft highlighting those issues identified in paragraphs 14-23?

**Q3:** Given the 90-day comment period will end when the Board next meets in August 2023, staff will need to finalise the response out of session. Do Board members wish to appoint the Chair or a subcommittee to finalise a response out of session?

<sup>11</sup> The ANZSIC is the industrial classification that underpins Australian Bureau of Statistics' 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.

<sup>12</sup> See paragraph 6.39 of the [IFRS Foundation Due Process Handbook](#).

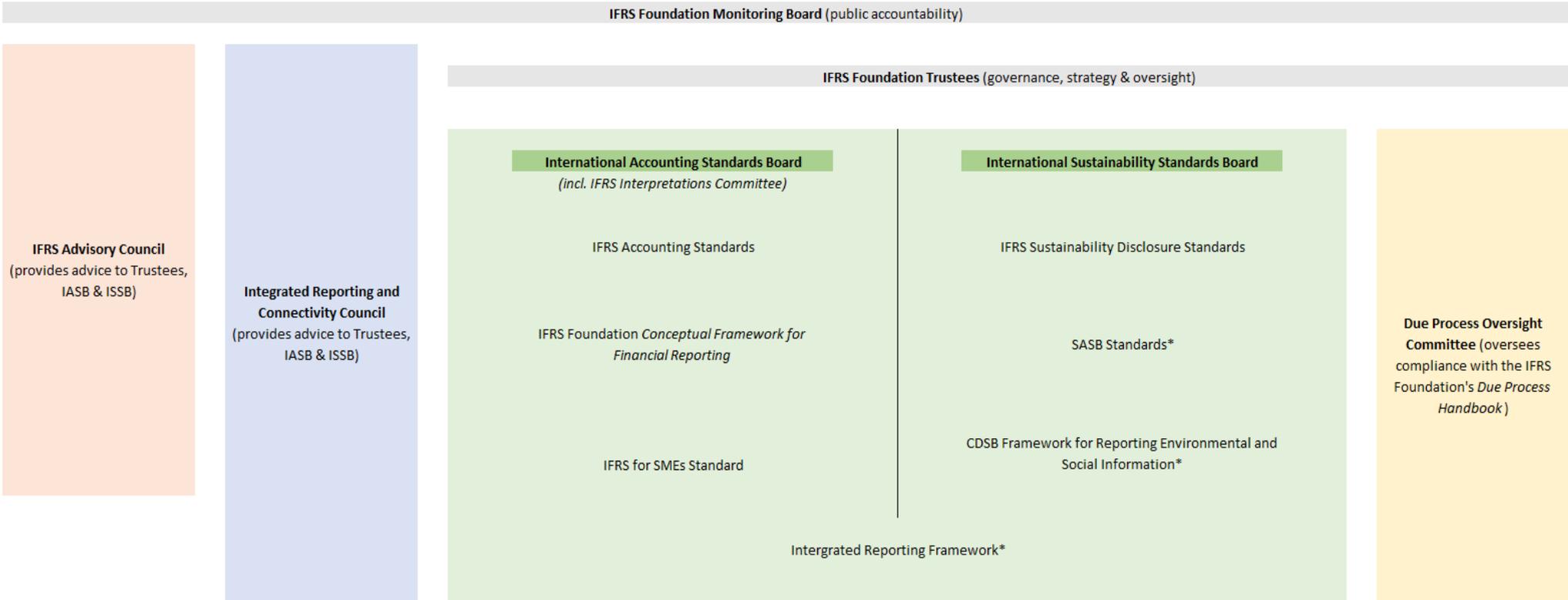
**Proposed approach to responding to the Methodology Exposure Draft**

- 25 Staff consider that it is not necessary to engage in outreach with Australian stakeholders to inform the Board’s response to the Methodology Exposure Draft for the following reasons:
  - (a) The Methodology Exposure Draft is exposing for public comment the methodology that was used to enhance the international applicability of climate-related metrics that were exposed for public comment as part of Appendix B to [Draft] IFRS S2 and is being used to enhance the international applicability of non-climate-related metrics in SASB Standards. Consequently, Australian stakeholders have already provided feedback to the Board on the methodology for enhancing the international applicability of SASB Standards as part of providing feedback on the proposals in [Draft] IFRS S2. Furthermore, staff are of the view that additional public consultation with Australian stakeholders would not identify any new issues that have not already been considered by the Board as part of its submission to the ISSB’s Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2.
  - (b) The Board raised stakeholder fatigue as being a high risk in the [Climate-related Financial Disclosure project plan](#). To help mitigate the risk of stakeholder fatigue, and taking into consideration point (a) above, staff are of the view that the Board would not need to engage in outreach to inform or develop a response to the Methodology Exposure Draft. Furthermore, at this stage, staff consider that obtaining feedback from the Board’s stakeholder base on a future domestic public consultation on its Climate-related Financial Disclosure project should be prioritised.
  
- 26 Consequently, staff plan to consult only with the joint AASB and AUASB Sustainability Reporting Project Advisory Panel in developing the Board’s response to the Methodology Exposure Draft.

**Questions to Board members**

<p><b>Questions to Board members</b></p> <p><b>Q4:</b> Do Board members have any questions about the information in paragraphs 25-26?</p> <p><b>Q5:</b> Do Board members agree with the staff’s proposed approach to developing the response to the ISSB’s Methodology Exposure Draft?</p>
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# Appendix A—Revised IFRS Foundation Organisational Structure



\* Not subject to the IFRS Foundation *Due Process Handbook*