



<b>Project:</b>	<b>Climate-related Financial Disclosure</b>	<b>Meeting</b>	AASB March 2023 (M194)
<b>Topic:</b>	<b>Approach to SASB Standards and the industry-based proposals in Appendix B to [Draft] IFRS S2</b>	<b>Agenda Item:</b>	16.2
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		<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider alignment to the ISSB baseline

## Objective

- 1 The objective of this paper is for the Board to decide on its approach to industry-based metrics developed by the International Sustainability Standards Board (ISSB) as part of [\[Draft\] IFRS S2 Climate-related Financial Disclosures](#).

## Structure

- 2 This paper is structured as follows:
  - (a) Summary of staff recommendation (paragraph 3)
  - (b) Background (paragraph 4-5)
  - (c) Considering the ISSB's proposed industry-based metrics for Australia (paragraphs 6-9)
  - (d) Approach to SASB Standards and the industry-based content of Appendix B to [Draft] IFRS S2 (paragraphs 10-24)
  - (e) Staff recommendation (paragraphs 25-26)
  - (f) Questions to Board members.

## Summary of staff recommendation

- 3 Staff recommend that for Australian purposes:
  - (a) all reference to the US Sustainability Accounting Standards Board (SASB) Standards be removed from the baseline of IFRS Sustainability Disclosure Standards; and
  - (b) regardless of whether industry-based metrics adapted from SASB Standards are authoritative or non-authoritative, the content of Appendix B to [Draft] IFRS S2 not be referred to in any equivalent climate-related disclosure requirements in Australia (that is, that the content of Appendix B of [Draft] IFRS S2 is not published in Australia as illustrative examples or guidance to accompany Australian climate-related disclosure requirements).

## Background

### Proposed industry-based metrics developed by the US SASB and ISSB

4 In March 2022 the ISSB published Exposure Draft on [Draft] IFRS S2. The proposals in [Draft] IFRS S2 would require an entity to apply the industry-based metrics set out in [Appendix B to \[Draft\] IFRS S2](#). That is, the industry-based metrics proposed in Appendix B to [Draft] IFRS S2 would form part of the authoritative body of [Draft] IFRS S2. These industry-based proposals were adapted from the SASB Standards and identify:

- (a) industries for which the ISSB has deemed climate-related risks and opportunities to be material; and
- (b) metrics which have been deemed by the ISSB to be material to each of the industries identified in (a).

5 At the ISSB's October 2022 meeting, the ISSB acknowledged some of the concerns raised by respondents in relation to the proposed industry-based metrics and tentatively decided to remove Appendix B from the authoritative body of [Draft] IFRS S2. That is, the proposed requirement for an entity to disclose industry-based metrics would not be removed from [Draft] IFRS S2, but the content of Appendix B would be temporarily reclassified as non-mandatory illustrative examples until such a time as the ISSB has been able to appropriately internationalise the content of Appendix B to [Draft] IFRS S2.<sup>1</sup>

### Considering the ISSB's proposed industry-based metrics for Australia

6 In April 2022 the Board published [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](#), the responses to which, along with staff analysis, formed the basis of the July 2022 [joint AASB and AUASB submission to the ISSB](#).

7 While almost all respondents to ED 321 supported the development of industry-based requirements in the context of sustainability reporting, these respondents also said that the proposals in Appendix B to [Draft] IFRS S2 were not appropriate for use in Australia and that further work needs to be done to appropriately internationalise the proposals.<sup>2</sup>

8 At its February 2023 (M193) meeting the Board:<sup>3</sup>

- (a) decided to implement the Climate-related Financial Disclosure project plan; and
- (b) decided on a set of criteria to apply when considering departing from, amending or adding to the baseline of IFRS Sustainability Disclosure Standards.

9 Consequently, this paper considers the Board's approach to the proposed industry-based metrics and illustrative examples (that is, the content of Appendix B to [Draft] IFRS S2) that form the baseline of IFRS Sustainability Disclosure Standards.

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<sup>1</sup> See [October 2022 ISSB Update](#).

<sup>2</sup> See November 2022 (M191) [Agenda Paper 3.2.2 Sustainability Reporting: Feedback summary—ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 and \[Draft\] IFRS S2 \(Australian-specific questions\)](#).

<sup>3</sup> See February 2023 (M193) [Action Alert](#).

## Approach to SASB Standards and the industry-based content of Appendix B to [Draft] IFRS S2

- 10 At its February 2023 (M193) meeting the Board decided to use the following criteria when determining whether it would be appropriate to depart from, amend or add to the baseline of IFRS Sustainability Disclosure Standards:<sup>4</sup>
- (a) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice warranting Australian-specific requirements or guidance (see paragraphs 12-15);
  - (b) requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers (see paragraphs 16-19);
  - (c) requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or else will conflict with global sustainability reporting practices (see paragraphs 20-22);
  - (d) the Board identifies equivalent disclosure requirements in Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards and would result in duplicate disclosure or reporting for Australian entities. In making this assessment, the Board would consider relevant Australian legislation such as the National Greenhouse and Energy Reporting Act 2007 (see paragraphs 23-24);
  - (e) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs and/or time when compared with international counterparts, warranting deferral of the application date.
- 11 Regardless of whether the content of Appendix B forms part of the authoritative body of [Draft] IFRS S2 or is temporarily reclassified as illustrative examples, staff are of the view that the Board will need to consider how to approach industry-based proposals (including whether to permit or encourage the use of the ISSB's industry-based illustrative examples) and the references made to US SASB Standards in [Draft] IFRS S1 and [Draft] IFRS S2.

### Australian-specific matters

- 12 In explaining why they were not supportive of the proposals in Appendix B to [Draft] IFRS S2, some respondents to ED 321 said that the proposals are not relevant for Australian entities because:<sup>5</sup>
- (a) the proposals in Appendix B to [Draft] IFRS S2 were developed in the context of the US market and as a result, are not suitable for the Australian context;
  - (b) many of the proposals in Appendix B to [Draft] IFRS S2 do not relate to climate;
  - (c) the industry-based descriptions which have been taken from SASB's Sustainable Industry Classification System (SICS) do not follow the definitions and concepts used in Australia and New Zealand Standard Industrial Classification 2006<sup>6</sup> (ANZSIC) which is required to be applied by all Australian entities; and

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<sup>4</sup> See also Agenda Paper 5.4 *Sustainability Reporting: [Draft] Sustainability reporting standard-setting framework*.

<sup>5</sup> See November 2022 (M191) [Agenda Paper 3.2.2](#).

<sup>6</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.

- (d) not all industries for which climate could be material are covered by the proposals in Appendix B to [Draft] IFRS S2 as SASB Standards only prioritise financially material industries.
- 13 Staff agree with those stakeholders that highlighted that the US SASB Standards and industry-based proposals in Appendix B to [Draft] IFRS S2 have not yet been appropriately internationalised and, as a result, are not relevant for Australian entities. In particular, use of the US SASB Standards or industry-based proposals in Appendix B to [Draft] IFRS S2 in Australia could create diversity in practice due to:
- (a) the US SASB Standards and industry-based proposals in Appendix B to [Draft] IFRS S2 not being appropriately representative of the Australian market;
  - (b) the lack of alignment between the SASB SICs and ANZSIC; and
  - (c) the industry-based proposals in Appendix B to [Draft] IFRS S2 going beyond the scope of climate-related financial information to address broader sustainability-related topics (i.e. many of the industry-based proposals in Appendix B to [Draft] IFRS S2 do not relate to climate but to other sustainability-related topics such as animal welfare and air pollution).
- 14 Consequently, staff are of the view that regardless of whether the proposals in Appendix B to [Draft] IFRS S2 are authoritative or non-authoritative, they are currently not appropriate for use in the Australian market and should not be referred to or issued as accompanying guidance or illustrative examples in Australia. Furthermore, staff are also of the view that referring Australian entities to use, or refer to, the US SASB Standards in the absence of a full suite of IFRS Sustainability Disclosure Standards would be inappropriate at this stage given that US SASB Standards were developed for use in the US context and are therefore not yet relevant for use outside of North America.
- 15 However, staff note that almost all respondents to ED 321 supported the development of industry-based requirements in the context of sustainability reporting. The ISSB has indicated that they intend to continue to work on appropriately internationalising the content of Appendix B to [Draft] IFRS S2 and the content of all US SASB Standards.<sup>7</sup> Consequently, in future the Board may reconsider whether the ISSB's industry-based proposals are appropriately representative of the Australian market once the ISSB has completed its work on the internationalisation of US SASB Standards and the proposals in Appendix B to [Draft] IFRS S2.

#### **Cost versus benefits**

- 16 In explaining why they were not supportive of the proposals in Appendix B to [Draft] IFRS S2, most respondents to ED 321 were concerned with the approach being proposed because:<sup>8</sup>
- (a) consideration needs to be given to addressing the associated implementation and ongoing compliance costs and challenges for preparers;
  - (b) the proposals in their current form are excessive. For example, a few respondents said that there is a need for consolidation and simplification of the proposals to establish its status as global industry guidance and support comparability in the long-term; and
  - (c) regardless of whether the proposals are authoritative or non-authoritative, the proposals are prescriptive in nature and would therefore be complex and lengthy to apply, especially for small-to-medium sized entities (SMEs).

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<sup>7</sup> See ISSB December 2022 [Agenda Paper 4C Climate-related Disclosures: Appendix B](#).

<sup>8</sup> See November 2022 (M191) [Agenda Paper 3.2.2](#).

- 17 As noted in paragraphs 12-15, because US SASB Standards and the industry-based proposals in Appendix B to [Draft] IFRS S2 are not appropriately representative of the Australian market, it could create diversity in practice which in turn could affect how useful the resulting information is to users. That is, the cost of implementation would be high for preparers given that it has yet to be concluded that the resulting information:
- (a) is necessary for users to understand an entity's management of its climate-related risks and opportunities; and
  - (b) would be useful to investors given the proposals are not representative of the global or Australian markets.
- 18 Furthermore, the cost to the Board to develop, issue and maintain the content of Appendix B to [Draft] IFRS S2 would be significant because:
- (a) of the lack of alignment between the SASB SICs and ANZSIC—this would essentially mean the Board would need to maintain an industrial classification code (being the SASB SICs) independently from the Australian Bureau of Statistics (ABS) who are currently responsible for developing, issuing and maintaining ANZSIC in Australia. The Board would also need to develop guidance for stakeholders on how, or whether, the SASB SICs can be used together with the ANZSIC;
  - (b) the content of Appendix B to [Draft] IFRS S2 would still need to be amended, or added to, to ensure it is appropriately representative of the Australian market—to do this while still following its [Due Process Framework for Setting Standards](#), the Board would need to re-expose the content of Appendix B to [Draft] IFRS S2 in Australia for a sufficient period of time to ensure all relevant industries and stakeholders have had an opportunity to provide feedback on the proposals. Staff expect that given the volume of the proposals, staff anticipate that such a task would take several of years to work through; and
  - (c) it is costly to maintain content that has such a significant degree of repetition—that is, there is a significant amount of repetition throughout the content of Appendix B to [Draft] IFRS S2 and consequently maintenance of such proposals would be costly. For example, should one industry-based metric need to be amended in future, the Board would need to locate all instances of that metric across all industries identified in the proposals and consider whether all instances of that metric need to be amended. The Board would then also need to consider all other industry-based metrics that would form part of future IFRS Sustainability Disclosure Standards.
- 19 Consequently, staff are of the view that the perceived costs of referring to the US SASB Standards and the industry-based proposals in Appendix B to [Draft] IFRS S2 (for both preparers and the Board) outweigh any benefits at this stage.

#### **International alignment**

- 20 As noted in paragraphs 13-14, US SASB Standards and the industry-based proposals in Appendix B to [Draft] IFRS S2 have yet to be appropriately internationalised. As a result, in addition to not being representative of the Australian market, the content of Appendix B to [Draft] IFRS S2 is also not appropriately representative of the global markets at this stage.
- 21 Staff are of the view that until the US SASB Standards and the industry-based proposals in Appendix B to [Draft] IFRS S2 have been appropriately internationalised they will likely not achieve international alignment.
- 22 Staff also note that:
- (a) other jurisdictional initiatives have been able to achieve international alignment without developing, issuing or maintaining industry-based requirements or guidance. For example, [Aotearoa New Zealand's Climate Standards](#) broadly achieve alignment

with the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD Recommendations) and [Draft] IFRS S2 without referring to SASB Standards or industry-based metrics such as those proposed in Appendix B to [Draft] IFRS S2; and

- (b) other jurisdictions in the Asia-Oceania region have also raised concerns about the US SASB Standards and industry-based proposals in Appendix B of [Draft] IFRS S2 not being appropriately representative of jurisdictional and global markets.<sup>9</sup>

#### **Conflicts with existing Australian legislation**

23 As observed in paragraphs 12-15, 17 and 20-22:

- (a) all Australian entities are required to comply with the ANZSIC; and
- (b) SASB SICs and ANZSIC do not align—that is, ANZSIC requires entities to use the concept of ‘value-added’ to determine the predominant activity of a business and its related industry classification and the SASB SICs does not.

24 Consequently, staff are of the view that until the Board and the ABS are able to identify how the two codes can be appropriately used together, any Australian industry-based requirements or guidance should not refer to SASB Standards, the SASB SICs, or the content of Appendix B to [Draft] IFRS S2.

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

25 Staff are of the view that making reference to the US SASB Standards or the industry-based content of Appendix B to [Draft] IFRS S2 in Australia is not appropriate because they do not appropriately reflect the Australian or global markets and conflict with existing Australian legislation (being ANZSIC). Consequently, the cost of implementing such proposals in Australia at this stage exceed any perceived benefits because they would be costly:

- (a) for preparers to implement;
- (b) for investors to interpret; and
- (c) for the Board to adapt and maintain.

26 Staff therefore recommend that for Australian purposes:<sup>10</sup>

- (a) all reference to US SASB Standards be removed from the baseline of IFRS Sustainability Disclosure Standards; and
- (b) regardless of whether it is authoritative or non-authoritative, the industry-based proposals in Appendix B to [Draft] IFRS S2 not be referred to in any equivalent climate-related disclosure requirements in Australia (that is, that the content of Appendix B of [Draft] IFRS S2 is not published in Australia as illustrative examples or guidance to accompany Australian climate-related disclosure requirements).

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

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**Q1:** Do Board members have any comments or questions on the information in this paper?

<sup>9</sup> See ISSB September 2022 [Agenda Paper 4A Climate-related Disclosures: Summary of comments](#).

<sup>10</sup> Staff note that the Board may reconsider this approach once the ISSB has appropriately internationalised the industry-based metrics adapted from the US SASB Standards.

**Q2:** Do Board members agree with the staff recommendation to remove from the baseline of IFRS Sustainability Disclosure Standards:

- (a) all references to the US SASB Standards; and
- (b) references to, and the content of, Appendix B to [Draft] IFRS S2 regardless of whether it is authoritative or non-authoritative?