15 July 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007
AUSTRALIA

Via website: www.aasb.gov.au/current-projects/open-for-comment

Dear Keith

Exposure Draft 321: Request for Comment on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

As representatives of over 300,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountant Australia and New Zealand (CA ANZ) welcome the opportunity to provide feedback on the Request for Comment ("ED 321").

Given we are separately responding to the consultation by the International Sustainability Standards Board ("ISSB"), we have opted to focus on the Australian-specific questions that are raised in ED 321. We will forward you a copy of our submission to the ISSB consultation in due course.

The below details the key points from our submission, and the below **Attachment** sets out our responses to selected specific questions raised in ED 321.

Key points

Scope 3 greenhouse gas (GHG) emissions

- We support improved, comparable and consistent disclosure of Scope 3 emissions. In our view, to remain internationally competitive and to align with global best practice, any reporting requirement adopted in Australia should include Scope 3 emissions reporting.
- We note that there are current challenges with the timeliness, availability and quality of the related data. As such, we encourage the consideration of transitional arrangements and the phased adoption of Scope 3 emissions disclosure, particularly related to financed/insured emissions and value chain emissions, to support entities to continually improve their disclosures whilst recognising the challenges of accessing the required data within the specified timeframe.
- We also note that the National Greenhouse and Energy Reporting (NGER) Act does not explicitly require disclosure of Scope 3 emissions. With this in mind, we suggest that the AASB liaises with the Clean Energy Regulator to determine how alignment between NGER reporting requirements and the proposed Greenhouse Gas Corporate (GHGC) Standard can be achieved to encompass alignment with respect to the reporting entity, measurement requirements and guidance for Scope 3 emissions disclosures. This approach would be preferable to minimise onerous duplicate reporting by entities, whilst maintaining the higher level of precision.

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Appendix B metrics

- We note that the metrics contained in Appendix B are inherently based on the United States environment and therefore might not be suitable in the Australian context, particularly given the industry classification, units of measurement and choice of metrics differ between the two jurisdictions.
- However, due to the sheer quantum of the proposed metrics within Appendix B, we have not had the capacity to consider them in detail. We consider this to be concerning given their potential widespread application.

Adoption and effective date

- We suggest a phased in approach for adoption would be most appropriate, initially commencing with a subset of for-profit entities.
- This reflects the readiness of Australian entities to adopt the proposals, with large, listed entities typically being more mature and prepared. However, some entities will require considerable time to scale up their expertise and capacity.
- In the domestic implementation of the ISSB standards, the local legal context needs to be considered fully. We suggest that clear guidance from domestic regulators, and if necessary regulatory support, may be needed to ensure that entities can produce the specific forward-looking statements required by the ISSB standards.

Assurance

- There is a critical role for independent external assurance to enhance the credibility of sustainability information. In our view, the goal should be for investors and other stakeholders to rely on the assurance obtained and the integrity of the information, in a congruent way, similar to the way they rely on assurance obtained in an audit of the financial statements.
- A consistent baseline is needed for there to be trust and confidence in the information that is published and to avoid confusion or misunderstanding amongst investors and other stakeholders. We believe the current Exposure Drafts, overall, could be substantially improved to better encapsulate suitable criteria that could underpin comprehensive assurance engagements.
- We recognise and commend the collaboration between the ISSB and the International Auditing and Assurance Standards Board (IAASB), as well as the ongoing efforts of the IAASB to rapidly refine and develop the available framework for assurance of sustainability information. Notwithstanding, we would encourage making assurability an even more central condition in developing an effective reporting standard – simply put, if the reporting standards do not represent comprehensive suitable criteria, the reporting will not be able to achieve its aims.

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If you require further information or elaboration on the views expressed in this submission please contact at CPA Australia, Patrick Viljoen at patrick.viljoen@cpaaustralia.com.au, or at CA ANZ, Karen McWilliams at Karen.McWilliams@charteredaccountantsanz.com.

Yours sincerely

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ATTACHMENT

Responses to specific questions

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

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?

- No specific comment other than those contained in our submission to the ISSB.

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

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2 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.6 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?

- We support improved, comparable and consistent disclosure of Scope 3 emissions.
- On an international level we note that there is a reasonable degree of alignment between IFRS S2's requirement for Scope 3 emissions disclosure and the requirements of the European Financial Reporting Advisory Group's ESRS E1 (Para 65), United States Securities and Exchange Commission and the External Reporting Board (XRB) through NZ CS1.
- Therefore, to remain internationally competitive and to align with global best practice, any reporting requirement adopted in Australia should include Scope 3 emissions reporting.
- Currently, there are challenges with the timeliness, availability and quality of the related data.
- We encourage the consideration of transitional arrangements and the phased adoption of Scope 3 emissions disclosure, particularly related to financed/insured emissions and value chain emissions to support entities to continually improve their disclosures whilst recognising the challenges of accessing the required data within the timeframe.

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)?

- The NGER Act and related legislative instruments mandate reporting of Scope 1 and 2 GHG emissions by certain Australian entities, specifically those with high emitting facilities.
- Although the scope for ISSB standards adoption in Australia is yet to be determined, it is likely to represent a different but overlapping group of entities.
- We understand that, generally, the specifications under the NGER Act represent a higher level of precision than those within the GHGC Standard.

- However, we also note that the NGER Act does not explicitly require disclosure of Scope 3 emissions.
- With this in mind, we suggest that the AASB liaises with the Clean Energy Regulator to determine how alignment between NGERS requirements and GHGC Standard can be achieved to encompass alignment with respect to the reporting entity and measurement requirements and guidance for Scope 3 emissions disclosure. This approach would be preferable to minimise duplicate reporting by entities whilst maintaining the higher level of precision.
- It is important to note that for domestic implementation existing NGER GHG emissions reporting requirements are for an Australian financial year, 30 June, which may not align with an entity's financial year.

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?

- We note that the metrics contained in Appendix B are inherently based on the United States environment and are therefore not wholly suitable for the Australian context. For example, industry classification, units of measurement and choice of metrics.
- However, due to the sheer quantum of metrics within Appendix B, we have not had the capacity to consider them in detail. We consider this to be concerning given their potential widespread application.

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 have no additional Australian-specific climate-related matters to raise. It is our view that IFRS S2 is suitably comprehensive in its scope. However, please refer to our comments with respect to other questions.

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

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

  - We suggest a phased in approach for adoption would be most appropriate, initially commencing with a subset of for-profit entities.
  - This reflects the readiness of Australian entities to adopt the proposals, with large, listed entities typically being more mature and prepared. However, some entities will require considerable time to scale up their expertise and capacity.
  - We note that the Australian Sustainable Finance Initiative Roadmap recommended the ASX 300 and financial institutions with more than $100 million in consolidated annual revenue to report in line with the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations.

- In New Zealand, financial institutions with assets of more than NZ$1 billion and listed issuers with a market price or quoted debt in excess of NZ$60 million are required to produce climate-related disclosures.

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?

- For certain disclosures, transitional time periods will be required due to the current availability and reliability of data and methodologies. Collectively, we are likely to encourage prompt and comprehensive adoption of [Draft] IFRS S2 by entities in our region. However, we suggest finite and structured transition periods may need to be considered for the disclosure of scenario analyses, Scope 3 emissions and some specific industry specific metrics.
- Likewise, we note that climate is one of the most progressed and measurable thematic sustainability areas. Disclosures of other sustainability areas, i.e., under [Draft] IFRS S1, may require more specific transitional arrangements as data and methodologies are typically less well developed

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?

- In the domestic implementation of the ISSB standards, the local legal context needs to be considered. We suggest that clear guidance from domestic regulators, and if necessary regulatory support, may be needed to ensure that entities can produce the specific forward-looking statements required by the ISSB standards.
- It will be important that liability risks do not undermine comprehensive and “in good faith” implementation of the ISSB standards and the appropriate accountability for disclosure.

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?

- Directionally the ISSB’s [Draft] IFRS S2 broadly aligns with the current voluntary adoption of the TCFD recommendations, as encouraged by ASIC Regulatory Guide 247 and the ASX Corporate Governance Principles and Recommendations fourth edition.
- However, we note that for some entities already reporting under broader sustainability frameworks such as Global Reporting Initiative (GRI), the ISSB’s [Draft] IFRS S1 would be new to the Australian environment. Consideration would need to be given to how it, and other subsequent sustainability standards, would fit into Australia’s broader corporate reporting framework.

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?

- No specific comment beyond our submission to the ISSB.

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

- There is a critical role for independent external assurance to enhance the credibility of sustainability information.
- In our view, the goal should be for investors and other stakeholders to rely on the assurance obtained and the integrity of the information reported in a congruent way, similar to how they rely on assurance obtained in an audit of the financial statements. While there may be differences in the level of assurance and nature of the information, a consistent baseline is needed for there to be trust and confidence in the information that is published and to avoid confusion or misunderstanding amongst investors and other stakeholders.
- We believe the current draft of the Exposure Drafts overall could be substantially improved to better encapsulate suitable criteria that could underpin comprehensive assurance engagements.
- We recognise and commend the collaboration between the ISSB and the IAASB, as well as the ongoing efforts of the IAASB to rapidly refine and develop the available framework for assurance of sustainability information. Notwithstanding, we would encourage making assurability an even more central condition in developing an effective reporting standard – simply put, if the reporting standards do not represent comprehensive suitable criteria, the reporting will not be able to achieve its aims.

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

- We consider that, whilst some entities are reasonably mature and prepared for the introduction of these new disclosure standards, some entities will require considerable time to scale up their expertise and capacity. We recommend consideration be given to a phased approach to adoption across entity types, sectors and/or sizes.
- Further, for certain disclosures, transitional arrangements may be required due to the current availability and reliability of data and methodologies. In particular, we suggest finite and structured transition periods may need to be considered for the disclosure of scenario analyses, scope 3 emissions and some specific industry specific metrics.
- By way of example, in Australia there was a phased transition period for the new prudential standard CPS511 (Remuneration) issued by the Australian Prudential Regulatory Authority (APRA). The implementation was phased by size of entity. For the largest entities, the obligation to comply commenced with the commencement of the entity's financial year.
- The requirements for sustainability-related financial disclosures and notably for climate related disclosures under [Draft] IFRS S2 involve greater complexity. As such, a longer phased transition time period should be considered.
- Likewise, we note that climate is one of the most progressed and measurable thematic sustainability areas. Disclosures of other sustainability areas, i.e., under [Draft] IFRS S1, may require more specific transitional arrangements as data and methodologies are typically less well developed. Consideration would also be needed as further thematic standards are issued, to ensure effective dates are staggered and to avoid over burdening preparers.
- For completeness, it is worth noting that implementation by entities of the TCFD recommendations on a voluntary basis has typically been over a two- to three-year time frame. Therefore, it is reasonable to expect that entities new to this reporting would need a similar implementation period. To this end, we suggest that the AASB considers how a phased approach could be reflected.

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?

- No specific comment beyond our submission to the ISSB.

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?

- No specific comment beyond our submission to the ISSB.

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?

- No specific comment beyond our submission to the ISSB.

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 proposed approach for a separate suite of standards for sustainability-related financial reporting.
- We consider that this approach is most appropriate given the possible difficulties with trying to reconcile the new standards with the existing Australian corporate reporting framework.

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

- We consider clear, comprehensive and comparable disclosure of sustainability-related information to be part of the foundation of a well-functioning global financial system and to be in the best interests of the Australian economy.
- We fully support a global approach to the development of sustainability disclosure standards and are supportive of the ISSB as the global body to issue these standards.
- Our submissions raise some key considerations in relation to the two ISSB Exposure Drafts that require resolution.
- We also note that [Draft] IFRS S1 and [Draft] IFRS S2 are underpinned with considerations aimed at ensuring that organisational thinking and the resulting business models remain resilient. Moreover, that such resilience is sought against sustainability-related considerations. Noting that implementation of the standards by entities may inevitably cause disruption, it is our opinion that such risks would be outweighed by the future resilience from which businesses would benefit.