Australian Government
Australian Accounting Standards Board

Staff paper

Project:	**Sustainability Reporting**	**Meeting**	AASB November 2022 (M191)
Topic:	**ED 321 Feedback summary—ISSB Exposure Draft on [Draft] IFRS S1**	**Agenda Item:**	03.2.3
		Date:	25 October 2022
Contact(s):	Aanchal Bhandari abhandari@aasb.gov.au Siobhan Hammond shammond@aasb.gov.au Nikole Gyles ngyles@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High None Consider feedback from outreach activities

Objective and background

1 The objective of this paper is to provide the Board with an overview of the feedback the AASB received on the International Sustainability Standards Board's (ISSB) Exposure Draft on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* as part of outreach on ED 321 Request for Comment on ISSB [Draft] IFRS S1 and [Draft] IFRS S2.

2 This paper summarises the feedback submitted to the Board and included in the joint AASB and AUASB submission to the ISSB. To avoid duplication, this paper only includes a summary of additional feedback not already summarised in Agenda Papers 3.2.2 and 3.2.4. Refer to Agenda Paper 3.2.1 for a breakdown of comment letters received and respondents by stakeholder type.

3 This paper is for information purposes only and does not ask the Board to make any decisions.

Structure

4 This paper is structured as follows:

(a) Summary of feedback (paragraphs 5);

(b) Overall approach (paragraphs 6-8);

(c) Objective (paragraphs 9-10);

(d) Scope (paragraphs 11-12);

(e) Core Content (paragraphs 13-15);

(f) Reporting entity (paragraphs 16-18);

(g) Connected information (paragraphs 19-21);

(h) Fair presentation (paragraphs 22-24);

(i) Materiality (paragraphs 25-30);

(j) Frequency of reporting (paragraphs 31-32);

(k) Location of information (paragraphs 33-37);

(l) Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 38-46);

(m) Statement of compliance (paragraphs 47);

(n) Assurability (paragraph 48-49);

(o) Effective Date (paragraphs 50-51);

(p) Global baseline (paragraphs 52);

(q) Digital reporting (paragraphs 53-55); and

(r) Costs, benefits and likely effects (paragraphs 56).

Key messages

5 The respondents provided a wide range of feedback to the Board about the ISSB's proposals. The feedback received has been summarised below:

Topic	Summary of feedback received	Reference
Overall approach	Most respondents were of the view that the overall approach in [Draft] IFRS S1 requires further clarification or is not appropriate in the context of sustainability reporting. Some respondents noted that the lack of a conceptual framework makes the application of [Draft] IFRS S1 and [Draft] IFRS S2 challenging given [Draft] IFRS S1 attempts to act as both a conceptual framework and a standard addressing disclosure requirements.	Paragraphs 6-8
Objective	While many respondents agreed with the proposed objective of disclosing sustainability-related financial information in [Draft] IFRS S1, they commented that the proposed objective could be further clarified. Almost all respondents said the definition of "sustainability-related financial information" would need to be further clarified.	Paragraphs 9-10
Scope	Many respondents agreed that the proposals in [Draft] IFRS S1 could be applied regardless of what jurisdictional GAAP is applied to prepare an entity's general purpose financial statements.	Paragraphs 11-12
Core Content	Most respondents supported the proposed structure and disclosure objectives that are based on the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD Recommendations). Some respondents said that it would be essential to streamline content and remove duplication as [Draft] IFRS S1 and [Draft] IFRS S2 have overlapping content regarding governance, strategy and risk management requirements. Most respondents also broadly agreed with the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective. However, these respondents also provided	Paragraphs 13-15

Topic	Summary of feedback received	Reference
	feedback on specific aspects of the related proposals that could be improved on.	
Reporting entity	Almost all respondents agreed with the proposal that sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements. Most respondents agreed with the proposed requirement for identifying the related financial statements. There were mixed views about the proposed requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain. While some respondents agreed with the proposed requirements, others said that the proposed requirements and value chain definition are not clear enough to implement.	Paragraphs 16-18
Connected information	Most respondents agreed with the proposals related to connected information. However, these respondents also had significant concerns about the practicality of the related proposals and the relationship between the financial statements and sustainability-related financial reporting. For example, many respondents said that it would be beneficial to have more guidance on how connectivity is to be achieved without undermining the information disclosed in an entity's financial statements.	Paragraphs 19-21
Fair Presentation	Some respondents agreed that the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information is clear.	Paragraphs 22-24
Materiality	Almost all respondents said that the proposed definition of material lacks clarity. Many respondents did not agree that the proposed definition of material and its application would capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity.	Paragraphs 25-30
Frequency of reporting	Most respondents agreed that sustainability-related financial disclosures should be provided simultaneously with the financial statements to which they relate. However, these respondents also said that this would only be able to be achieved when the issues related to data quality, resources and capabilities have been addressed. Consequently, some respondents suggested that transitional arrangements be put in place until such a time when all information can be released concurrently.	Paragraphs 31-32
Location of information	Most respondents agreed with the proposals to provide flexibility around the location of sustainability-related financial disclosures. However, a few respondents did not agree with the inclusion of sustainability-related financial	Paragraphs 33-37

Topic	Summary of feedback received	Reference
	disclosures in an entity's general purpose financial reporting as the scope of information to be disclosed is unclear. Many respondents supported the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced.	
Comparative information, sources of estimation and outcome uncertainty, and errors	Most respondents agreed with the proposal providing relief from disclosing comparative information in the initial year of application.	Paragraphs 38-46
Statement of compliance	Many respondents agreed with the proposals that entities be required to make a statement of compliance as it enables users to understand the basis on which the sustainability-related financial disclosures have been prepared. However, respondents also said that, where entities did not comply with a specific aspect of the requirements in IFRS Sustainability Disclosure Standards, they should be required to explain why.	Paragraphs 47
Assurability	Most respondents said that the proposals in [Draft] IFRS S1 do not provide a suitable basis for auditors and regulators to determine compliance.	Paragraph 48-49
Effective date	Almost all respondents said that the final standard should be made effective two-to-three years after it is issued. Some respondents considered that the standards should be made effective as soon as possible with early adoption permitted.	Paragraphs 50-51
Global baseline	Most respondents supported the ISSB's global approach to the development of sustainability-related financial disclosure requirements.	Paragraphs 52
Digital financial reporting	Almost all respondents supported the development of a consistent Taxonomy and digital reporting for sustainability-related financial reporting.	Paragraphs 53-55
Costs, benefits and likely effects	Consistent with the feedback to ED 321, respondents highlighted the potential costs and benefits of the proposals. In particular, respondents raised concerns about the scalability of the proposals and the burden of reporting for small-to-medium-sized (SME) entities.	Paragraphs 56

Overall approach

6 [Draft] IFRS S1 sets out overall requirements to disclose sustainability-related financial information that is useful to the primary users of the entity's general purpose financial reporting when they assess the entity's enterprise value and decide whether to provide resources to it.

7 Most respondents were of the view that the overall approach in [Draft] IFRS S1 requires further clarification or is not appropriate in the context of sustainability reporting.[1] These respondents said:

(a) the focus on 'enterprise value' is problematic, and it would be more appropriate to focus on the 'provision of information for decision making'. For example, a few respondents said that investors usually use information disclosed through multi-stakeholder sustainability reports (such as GRI compliant reports) to assess the relevance to their investment decisions and reiterated the importance of a broader multi-stakeholder approach.

(b) the overall approach in [Draft] IFRS S1 would likely increase greenwashing because the decision regarding whether to disclose sustainability-related financial information involves judgement. A few of these respondents said that the most efficient way to reduce greenwashing would be for Global Reporting Initiative (GRI) Standards to be mandated alongside standards that focus on financial statement implications of sustainable development trends and corporate impacts.

(c) further guidance is needed to ensure consistent application of the requirements to identify and disclose material information about all sustainability-related risks and opportunities.[2]

(d) the lack of a conceptual framework makes the application of [Draft] IFRS S1 and [Draft] IFRS S2 challenging. This is because [Draft] IFRS S1 currently attempts to act as both a conceptual framework for sustainability-related financial disclosures and requirements for those disclosures. These respondents recommended the ISSB:

    (i) clearly separate the proposals in [Draft] IFRS S1 into a conceptual framework and a standard addressing general disclosure requirements;[3] or

    (ii) revise and frame [Draft] IFRS S1 as a conceptual framework incorporating fundamental concepts for sustainability-related financial reporting that will guide the ISSB in developing standards and help ensure that subsequent standards are conceptually consistent.[4] One respondent suggested that the ISSB refer to the United Nations System of Environmental Economic Accounting (UN SEEA) in developing such a framework. [5]

(e) the ISSB would need to develop a definition for "sustainability", and "sustainable" to clarify whether the term "sustainable" is intended to cover matters which are yet to emerge or be identified as sustainability-related matters.

(f) the ISSB would need to develop a definition for "significant" as it is unclear how it relates to the definition of material.[6]

8 A few respondents said they are supportive of the ISSB's Memorandum of Understanding with the GRI. They encouraged further clarity regarding how the GRI interacts with the ISSB

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1 For example, refer to submissions from CAANZ-CPA, Peak Australian Bodies, Durham University (DU), Australian Institute of Company Directors (AICD), Australian Banking Association (ABA) and QBE Insurance Group Limited (QBE).

2 For example, refer to submissions from CAANZ- CPA and Peak Australian Bodies.

3 For example, refer to submissions from CAANZ- CPA and Peak Australian Bodies.

4 For example, refer to submissions from ABA and AICD.

5 For example, refer to submissions from Australian National University (ANU).

6 For example, refer to submissions from QBE, ABA, AICD, Deloitte, Insurance Council of Australia (ICA) and the Group of 100.

and that similar arrangements should be made with other bodies.[7] Another respondent recommended that ISSB's approach should align to the approach adopted by the GRI.

Objective

9 While many respondents agreed with the proposed objective of disclosing sustainability-related financial information in [Draft] IFRS S1,[8] they also said the proposed objective could be further clarified. In particular, these respondents said:[9]

(a) entities are already obliged to issue sustainability reports to a much broader stakeholder group and it would be helpful if the objective of [Draft] IFRS S1 acknowledged other frameworks, such as the United Nations Principles of Responsible Banking (UN PRB), which go beyond sustainability-related financial information; and

(b) further clarification is required on the objective of disclosing sustainability-related financial information and its connection with multi-stakeholder reporting addressed by other frameworks such as the GRI Standards.

10 Almost all respondents said the definition of "sustainability-related financial information" is unclear and further clarification is required.[10] Consistent with the feedback received on the overall approach (see paragraphs 6-8) most respondents noted that the definition of sustainability is essential for the purposes of sustainability-related financial reporting requirements. For example, these respondents said:

(a) comparability and usability of sustainability-related financial reports may be impacted if such a key term is left undefined as preparers and users may not have a consistent understanding of what is meant by 'sustainability'.

(b) further explanation is required in relation to 'knowledge-based assets' proposed in paragraph 6(d) of [Draft] IFRS S1, and how these assets would be related to 'sustainability' and the proposed requirement in paragraph 2.

(c) it would be helpful if the ISSB could provide examples of the types of information that could be material from an enterprise value perspective on a cross-industry basis, such as impacts on people.

Scope

11 Many respondents agreed that the proposals in [Draft] IFRS S1 could be applied by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP.[11] These respondents said that the inclusion of those jurisdictions that do not use IFRS Accounting Standards could aid the adoption of IFRS Sustainability Disclosure Standards globally. These respondents also said:

(a) that each jurisdiction would likely need to provide guidance to support the proposals in [Draft] IFRS S1 and how they could be used in conjunction with related GAAP requirements;

(b) proposed paragraph 9 is unnecessary, and it is unclear how it interacts with proposed paragraph 2 and paragraphs addressing materiality; and

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7 For example, refer to submissions from CAANZ- CPA, Peak Australian Bodies and the Property Council of Australia (PCA).

8 For example, refer to submissions from AICD, Deloitte, ICA, Peter Wells and PCA.

9 For example, refer to submissions from CAANZ, Peak Australian Bodies, NGS Super, DU and ANU.

10 For example, refer to submissions from CAANZ, AICD, Deloitte, Peak Australian Bodies, NGS Super, ICA, DU, and PCA.

11 For example, refer to submissions from ICA, Deloitte, PCA, QBE and CAANZ-CPA.

(c) information related to sustainability-related risks and opportunities would most likely be qualitative in nature; however, where disclosures might be represented quantitatively, there may be differences in the timing and measures used in applying jurisdictional GAAP that would be useful to understand and disclose.

12 A few respondents disagreed with the proposed scope:

(a) One respondent said that the proposed scope is problematic due to the broadness of the objective of sustainability-related financial reporting and would consequently be unlikely to guide standard-setting in a meaningful manner.

(b) One respondent recommended the proposals be narrowed down and go deeper into the financial statement implications of sustainability using GRI Standards as the foundation.

(c) One respondent questioned what "reasonable" meant in proposed paragraph 9. This respondent also said that what is "reasonable" should be determined by relevant experts such as climate scientists.[12]

(d) One respondent said that the not-for-profit public and private sectors should also be included in the proposed scope of [Draft] IFRS S1.

Core Content

13 Most respondents said that they support the proposed structure and disclosure objectives that are based on the TCFD Recommendations.[13] Some respondents said that it would be essential to streamline content and remove duplication as [Draft] IFRS S1 and [Draft] IFRS S2 have overlapping content in terms of governance, strategy and risk management requirements.

14 Most respondents also broadly agreed that the disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to their stated disclosure objective.[14] However, these respondents also provided feedback on specific aspects of the related proposals:

Core Content	Feedback Received
Governance	(a) One respondent disagreed with the proposed requirement in paragraph 13(d), which requires an entity to state how and how often the body and its committees are informed about sustainability-related risks and opportunities. This respondent did not consider the frequency of informing the governance body and its committees about sustainability-related risks and opportunities to be relevant information to users and recommended that the ISSB consider amending the requirement to refer instead to how often the governance body and its committees are informed about external trends. (b) One respondent recommended that proposed paragraph 13 be improved by consistently referring to governance bodies and individuals throughout the proposed requirements. (c) One respondent said that the requirements in paragraphs 9 and 21 of GRI 2 *General Disclosures* are useful disclosures and, consistent with those GRI requirements, recommended the

12 For example, refer to submissions from ANU, DU and Peter Wells.

13 For example, refer to submissions from CAANZ-CPA, AICD, Deloitte, Peak Australian Bodies, ICA.

14 For example, refer to submissions from CAANZ-CPA, AICD, Deloitte, Peak Australian Bodies, NGS Super and ICA.

	ISSB focus on additional matters relevant to oversight of sustainability-related risks and opportunities from the entity's perspective.
Strategy	(a) Many respondents recommended that ISSB develop an exemption from reporting commercially sensitive information under this pillar because the proposed requirements related to strategy could compromise the entity's corporate strategy by signalling of corporate direction to competitors. (b) Many respondents said that it is unclear how the information required by proposed paragraph 22 would interact with the financial statements (see also paragraphs 19-21). (c) In relation to the proposals related to short-, medium- and long-term time horizons, some respondents observed that there is a lack of consistency between the reference to timeframes in the opening statement for proposed paragraph 22, which refers to 'short-, medium- and long-term', and sub-paragraphs 22(a) – (d) which refer to' current financial year', 'next financial year' and 'over time'. A few respondents noted that clarification is needed around those terms to ensure that the related disclosures are comparable; (d) One respondent said that the disclosures in GRI 2 paragraphs 22 to 25 are clear and useful and recommended that the ISSB use a similar approach to develop requirements that help understand the effects of significant sustainability-related risks and opportunities on an entity's strategy and decision making.
Risk Management	(a) A few respondents said that the proposals in paragraph 26 are burdensome due to their granularity and entities would not always be able to comply with them. For example, one respondent said that while a materiality assessment would reduce the need for disclosure in many cases, there would be material information about agreements in place with vendors and other third parties that prohibit such disclosures. (b) A few respondents said that the definition of the processes to identify sustainability-related risks and opportunities does not have an appropriately clear scope to be applied consistently. (c) One respondent recommended that further alignment between objective and disclosure requirements is needed because there is a lack of alignment in the language referring to opportunities. For example, proposed paragraph 25 states, 'These disclosures shall enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management processes.' However, proposed paragraph 26(f) requires disclosures on how opportunities are 'integrated into the overall management process'. (d) One respondent recommended that [Draft] IFRS S1 mandate a process for identifying material information across an entity's value chain (see paragraph 18).

Metrics and Targets	(a) Many respondents observed that sustainability-related metrics presently have several limitations such as data quality, availability, comparability, and the evolution of methodological approaches and financial modelling, which reflects that sustainability reporting is in its early stages (see paragraph 30). (b) One respondent said that further clarity is required as to whether proposed requirement paragraph 31(b) which refers to "validated by an external body" refers to the assurance of metrics or refers to metrics used by an entity being developed by an external body that is independent from the entity. (c) One respondent said that standardisation of metrics would also be required to achieve consistency and comparability in sustainability-related financial reporting.

15 One respondent said that it would be helpful to clarify how preparers can comply with the [draft] standard when they do not have all elements of their governance, strategy, risk management, and metrics and targets in place for a particular matter and consequently recommended that the wording in BC85[15] of the Basis for Conclusions is incorporated into [Draft] IFRS S1.

Reporting entity

16 Almost all respondents agreed with the proposal that sustainability-related financial information be required to be provided for the same reporting entity as the related financial statements.[16] However, of these respondents:[17]

(a) a few said the proposed language regarding the reporting entity and the proposed reporting boundary is confusing because it asks preparers to disclose information about its value chain which relates to entities outside the reporting entity boundary.[18] Consequently, these respondents recommended the ISSB include a requirement for entities to disclose if specific metrics have been calculated using a different reporting entity boundary (see paragraph 18).

(b) a few observed that [Draft] IFRS S2 refers to the Greenhouse Gas (GHG) Protocol Corporate Accounting Standard (GHGC Protocol) which includes approaches for reporting boundaries that are not consistent with the reporting entity concept for financial statements. Consequently, this could lead to inconsistent disclosures in respect of the reporting entity on GHG emissions.

15 Paragraph BC85 of [Draft] IFRS S1 states "The Exposure Draft proposes issuing disclosure-only Standards and if an entity meets these disclosure requirements, it can assert compliance with IFRS Sustainability Disclosure Standard. A qualified statement of compliance with the IFRS Sustainability Disclosure Standards would not be permitted. The proposals in the Exposure Draft would not require an entity to implement strategic goals, but would only require it to disclose information about those strategic goals. Therefore, an entity might not be managing some of its significant risks and opportunities or established metrics and targets for them. The entity could still assert compliance with IFRS Sustainability Disclosure Standards as long as its disclosures explain that fact. The fact that an entity does not have procedures and processes in place to identify and manage sustainability-related risks and opportunities is, in and of itself, likely to be material information for the users of the sustainability-related financial disclosures. However, the entity would need to meet the specific disclosure requirements such as Scope 1 greenhouse gas emissions proposed in IFRS S2."

16 For example, refer to submissions from CAANZ-CPA, ABA AICD, Deloitte, Peak Australian Bodies, NGS Super, ICA, QBE and PCA.

17 For example, refer to submissions from, DU, Deloitte, CAANZ-CPA, Materiality counts and ANU.

18 For example, refer to the submission from DU.

(c) one said that sustainability matters are context-specific, and should report material risks related to each subsidiary, joint venture and associate because the aggregation of all the entities in the value chain into a single entity may make it difficult for users to interpret the information accurately.

(d) one said that further clarity is required around financial value versus enterprise value and how they relate to an entity's value chain and the reporting entity boundary (see paragraph 18).

17 Most respondents agreed with the proposed requirement for identifying the related financial statements.[19]

Value chain

18 There were mixed views about the proposed requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain. While some respondents agreed with the proposed requirements,[20] others said that the proposed requirements and definition of value chain are not clear enough to implement and apply.[21] Of the respondents that said the proposals lacked sufficient clarity:

(a) many said there is a need for more illustrative examples and implementation guidance because the sustainability-related risks and opportunities related to activities, interactions and relationships along an entity's value chain will be specific to each individual sustainability matter and entity. For example:

(i) one respondent observed that while the proposals would require that information from third parties be included and disclosed, the proposals do not indicate how to navigate situations where those parties are not subject to related requirements or comparable jurisdictional regulation;and

(ii) one respondent recommended that proposed paragraph 40 be amended to recognise the examples described in the Basis for Conclusions (BC) paragraph BC51.[22]

(b) many said that because value chain is a broad concept that goes beyond the reporting entity boundary, there should be more guidance to help entities understand how far up and down the value chain they need to look to identify material information;

(c) some said that it may not be feasible to provide the information asked for in proposed paragraph 40 for the whole value chain, especially when considering the resources and capabilities of small-to-medium sized entities (SMEs). These respondents said that it is important to maintain a focus on materiality and provide an appropriate balance between the value of disclosures relative to the costs of preparing them (see also paragraph 56).

(d) a few made the following observations related to the proposed paragraph 40(c) in respect of associates and joint ventures:

(i) the concept of control for associates and joint ventures in [Draft] IFRS S1 appears to go beyond that of the IFRS Accounting Standards where associates and joint ventures are not consolidated;

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19 For example, refer to submissions from CAANZ-CPA, AICD, DU, Deloitte, Peak Australian Bodies, NGS Super and ICA.

20 For example, refer to submissions from AICD, NGS Super and ICA.

21 For example, refer to submissions from Deloitte, CAANZ- CPA, and DU.

22 The examples described in paragraph BC51 state that the information required along the value chain will vary depending on the sustainability-related matter.

(ii) further clarity or guidance is needed around the information expected in respect of associates and joint ventures; and

(iii) it should be clarified whether the approach should be consistent with the preparation of the financial statements and if this is practicable.

Connected information

19 Most respondents agreed with the proposals related to connected information. However, these respondents also had significant concerns about the practicality of the related proposals and the relationship between the financial statements and sustainability-related financial reporting. For example, many respondents said that it would be beneficial to have more guidance on how connectivity is to be achieved without undermining the information disclosed in an entity's financial statements. [23]

20 A few respondents recommended that guidance on connectivity should catered for jurisdictionally to permit for reporting structures which are not fully based on IFRS Accounting Standards in respect of management commentary or similar information.

21 One respondent disagreed with the proposals related to connected information because:[24]

(a) the proposals related to connected information are complex, incapable of credible assurance and likely to be so extensively qualified that it would be of no value to users of sustainability reporting;

(b) connected information would include entities making forward-looking disclosures or statements which would introduce significant new risks for reporting entities;

(c) the proposals related to connected information go beyond the TCFD Recommendations. For example, the TCFD Recommendations encourage reporting entities to undertake scenario analysis, but not to extend the analysis (for reporting purposes) to financial statements, business model, value chain, strategy, and other sustainability issues; and

(d) there are no similar reporting requirements related to connected information in the IFRS Accounting Standards.

Fair Presentation

22 Most respondents did not support the sources of guidance to identify sustainability-related risks and opportunities and related disclosures proposed in paragraph 51 of [Draft] IFRS S1. These respondents said that it was unclear whether the external standards and frameworks referenced represented guidance or whether they would be considered mandatory. These respondents also said:[25]

(a) the ISSB should strive to create greater consistency and comparability of sustainability reporting and not add to the reporting burden.

(b) the open-ended nature of proposed paragraphs 51-54 could create critical challenges for compliance, adoption, comparability and assurance because they state that 'an entity shall consider' standards and frameworks that are unspecified and external to the ISSB and IFRS Foundation.

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23 For example, refer to submissions from ICA AICD, Peak Australian bodies, CPA-CA ANZ, QBE, DU, PCA and NGS Super

24 For example, refer to submissions from Group of 100

25 For example, refer to submissions from Peter Wells, DU, PCA, CAANZ- CPA, ABA, AICD, Deloitte, Peak Australian Bodies, Group of 100 and ICA.

(c) [Draft] IFRS S1 should be standalone and not rely on other external frameworks as this may result in significant challenges in relation to the adoption, comparability, and verifiability of disclosures.

23 Some respondents agreed that the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, is clear.[26]

24 One respondent supporting international alignment recommended that proposed paragraph 54 be amended to explicitly permit entities to apply the work of other recognised sustainability standard-setters and frameworks (such as the GRI Standards) provided that they do not conflict with the IFRS Sustainability Disclosure Standards.[27]

Materiality

Definition of material

25 Almost all respondents said that the proposed definition of material lacks clarity.[28] These respondents raised the following issues:

(a) A few respondents said that proposed paragraph 58 specifies that materiality will be entity-specific however, it should be clarified that materiality will also be specific to the particular sustainability matter (as highlighted by the ISSB in paragraph BC51 of the Basis for Conclusions to [Draft] IFRS S1).

(b) A few respondents said that more clarity is required around the alignment with the GRI materiality assessment. One of these respondents recommended further clarification of proposed paragraph 60 regarding if the entity needs to disclose that it has not made specific disclosures as required by the standards due to the fact that risks identified are not material. This respondent also noted that the proposed paragraph 61 results in too expansive a disclosure obligation and recommended deleting the paragraph.

(c) One respondent supported the alignment of the definition to that in the IFRS *Conceptual Framework for Financial Reporting* and IAS 1 *Presentation of Financial Statements*. However, this respondent also highlighted the misalignment between the definitions in the proposed scope (see paragraph 9 of [Draft] IFRS S1) and material (see paragraph 56 of [Draft] IFRS S1).

(d) One respondent said that the proposals should aim to bridge the gap between different concepts of materiality in non-financial reporting and financial reporting and harmonise it.

(e) There is a need to clarify the approach to identifying material information about significant sustainability-related matters. The prototype included content on 'nested and dynamic' materiality in Appendix C: Guidance on Implementing Materiality, which should be added to these proposals. The respondent also noted that in due course, the ISSB could consider developing a Practice Statement on Materiality for sustainability-related financial information, similar to the IASB.

(f) The materiality of ESG-related risks and opportunities can vary based on an organisation's business model, industry and geography therefore, consideration should be given to sector and geographical sustainability issues as standards are developed.

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26 For example, refer to submissions from AICD, ICA and Deloitte.

27 For example, refer to the submission from QBE.

28 For example, refer to submissions from CAANZ- CPA, ABA, Cbus Super, Deloitte, Peak Australian Bodies, NGS Super, Materiality Counts and ICA.

26 Many respondents did not agree that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity.[29]

27 Some respondents said there is a need for clarification between identifying significant sustainability-related risks and opportunities and identifying information material to primary users.

28 One respondent observed that the financial definition of material has only ever been applied to point-in-time information in financial statements and financial reporting. This respondent recommended the ISSB further clarify how this definition applies to forward-looking information.

Proposed illustrative guidance

29 In terms of the proposed illustrative guidance, most respondents found the guidance to be useful for identifying material sustainability-related financial information.[30] Some respondents highlighted that further clarification is required:

(a) Some respondents recommended that paragraph IG6 of the illustrative guidance could further emphasise the importance of qualitative factors in the materiality assessment of sustainability-related financial information.

(b) A few respondents said that more guidance on identifying material sustainability-related financial topics is needed such as a non-exhaustive list of sustainability matters, recognising that sustainability materiality is much more qualitative than financial materiality.

(c) One respondent said that there is a need for further guidance on how an entity should deal with a topic where more than one standard or framework exists to address that topic.

(d) One respondent recommended extensive illustrative guidance with examples outlining how various types of risk might be disclosed.

(e) One respondent recommended that the guidance further clarify the interaction between an entity's impacts on people, the planet and the economy and enterprise value.

30 Most respondents agreed with the proposal to relieve an entity from disclosing information otherwise required by IFRS Sustainability Disclosure Standards if local laws or regulations prohibit the entity from disclosing that information.[31] One respondent recommended that, if the absence of the information is material because it relates to a significant risk or opportunity, disclosure should be made that that information has been omitted due to local regulation.

Frequency of reporting

31 Most respondents agreed that sustainability-related financial disclosures should be provided simultaneously with the financial statements to which they relate.[32] However, consistent with feedback received on ED 321, these respondents also said that this would only be able to be achieved when the issues related to data quality, resources and capabilities have been

29 For example, refer to submissions from ICA, NGS Super, Peak Australian Bodies and CAANZ- CPA.

30 For example, refer to submissions from CAANZ- CPA, Peak Australian Bodies, NGS Super, QBE ICA, DU, and ANU.

31 For example, refer to submissions from CA ANZ- CPA, AICD, Deloitte Peak Australian Bodies, NGS Super, ICA and QBE.

32 For example, refer to submissions from CAANZ- CPA, Peter Wells, ABA, AICD, Deloitte, ANU, Peak Australian Bodies, ICA and NGS Super.

addressed. Consequently, some respondents recommended that transitional arrangements be put in place until such a time when all information can be released concurrently. These respondents also made the following comments:

(a) A few respondents were of the view that it would be inappropriate for sustainability-related financial disclosures to occur more than once a year and intra-year reporting should only be considered at a future stage.

(b) One respondent said that the measurement period of the information disclosed does not need to align to the same period as the financial statements to be included in the report. For example, this respondent that in Australia, many banks report their GHG emissions information per the National Greenhouse and Energy Reporting Act 2007 (NGER Act) which is 3 months out of sync with their financial statements and financial reporting year.

(c) One respondent said further clarification is needed on whether comparatives include prior year projections versus current year.

(d) One respondent recommended that the ISSB amend the drafting of proposed paragraph 71, link it to IAS 10 *Events after the Reporting Period*, and clarify whether disclosure is required for adjusting and/or non-adjusting events.

32 One respondent agreed with the proposal but opposed transitional arrangements as that may stall the process of transparent information.[33]

Location of information

33 Most respondents agreed with the proposals to provide flexibility around the location of sustainability-related financial disclosures.[34]

34 A few respondents did not agree with the inclusion of sustainability-related financial disclosures in an entity's general purpose financial reporting as the scope of information to be disclosed is unclear. However, these respondents also said if sustainability-related reporting is to be included in financial reporting, it is important for these connections to be highlighted so investors can clearly identify areas of risk and opportunity for the entity and increase transparency of reporting. [35]

Jurisdiction-specific challenges

35 Many respondents were not aware of any jurisdiction-specific requirements that would affect the ability of an entity to make sustainability-related financial disclosures as part of their general purpose financial reporting.[36] However, some other respondents raised the following matters that, in their view, are specific to Australia:

(a) A few respondents observed that the proposals seek to regulate disclosures that traditionally have formed part of the operating and financial review (OFR). In Australia, the OFR is governed by the Corporations Act 2001 and contains different requirements than the proposals, with additional requirements for companies listed on the Australian Stock Exchange (ASX). For example, these respondents highlighted that there is a different materiality test applicable to disclosures made in the OFR.

(b) Disclosures made under the ASX Corporate Governance Principles and Recommendations can be presented either in an entity's annual report or on its website provided they are clearly cross-referenced from the annual report and

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33 For example, refer to submission from NGS Super.

34 For example, refer to submissions from QBE, CAANZ- CPA, ABA, AICD, and Deloitte.

35 For example, refer to the submission from ICA.

36 For example, refer to submissions from Deloitte, ICA, and CAANZ-CPA.

presented and centrally located on, or accessible from, a ‘corporate governance’ website landing page.

36 Many respondents supported the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced.[37] However, one respondent said that preparers should be permitted to make the decision to disclose information separately, outside the general purpose financial report, provided this is properly cross-referenced as proposed in paragraph 77.

37 One respondent said that clarity is required as to whether cross-referencing is permitted outside the reporting package and, if so, the ISSB should liaise with the International Auditing and Assurance Standards Board (IAASB) to understand the implications of this approach for assurance (see also paragraphs 48-49).

Comparative information, sources of estimation and outcome uncertainty, and errors

Comparative information

38 Most respondents agreed with the ISSB’s proposal to provide relief from disclosing comparative information in the first year of application.[38] One respondent recommended that the ISSB separate all transitional arrangements in a standalone standard addressing transitional arrangements for first-time adoption. Another respondent suggested that the ISSB consider whether additional relief for comparative information in initial reporting periods may be required due to the nature of the information and data.

39 A few respondents recommended that the ISSB clarify the proposed requirements to update comparative information in paragraphs 63 and 64[39] . They don’t currently distinguish between an ‘error’ and a ‘better estimate’ and could also confuse the current year narrative.

40 One respondent said that, given the premise that each annual disclosure is made with the best possible knowledge and tools available at the time, it would be reasonable to recalculate some previous disclosures based on evolved techniques and data, but not all.

Errors

41 Some respondents supported the requirement to disclose the corrected comparative information regarding statements made in error. [40]

42 One respondent recommended that paragraph 88 be better aligned with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* with an error being restated from the beginning of the reporting period rather than from the earliest practicable date.

Sources of estimate and outcome uncertainty

43 Some respondents observed that many differences will be a result of ‘better’ estimation methods in initial reporting periods as entities develop appropriate capabilities to comply with the proposals. These respondents said the rate of change will be significant concerning methodology and modelling development and improvement, as well as data acquisition, quality, and storage creation. This could lead to a disconnect in metrics from one reporting period to the next.

44 One respondent said that sustainability-related disclosures are often reliant on estimation. They noted that, in theory, it makes sense to require restatement of comparatives when

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37 For example, refer to submissions from CAANZ- CPA, ABA, AICD and Deloitte.

38 For example, refer to submissions from CAANZ, CPA, QBE, ABA, Deloitte, NGS Super and ICA.

39 For example, refer to submissions from CAANZ-CPA and Peak Australian Bodies.

40 For example, refer to submissions from CAANZ- CPA, Peak Australian Bodies, PCA, and ABA.

estimations are updated to demonstrate trends; however, this might not be practicable and may create an onerous burden on the reporting entity.

45 One respondent agreed with departing from the accounting notion of adjusting for changes in estimates in the current period to restating comparative changes in estimates for sustainability information, except where it is impracticable.[41]

46 One respondent noted that in Australia, the proposals around estimation and outcome uncertainty may raise concerns around forward-looking statements that need to be made reasonably to avoid legal liability.

Statement of Compliance

47 Many respondents agreed with the proposal that entities be required to make a statement of compliance as it enables users to understand the basis on which the sustainability-related disclosures have been prepared.[42] However, these respondents also said that, where entities did not comply with a specific aspect of the IFRS Sustainability Disclosure Standards requirements, they should be required to explain why. For example, these respondents said that when an entity does not make a particular disclosure, they should be required to explain why they were unable or chose not to do so.

Assurability

48 Consistent with feedback received on ED 321 (Agenda paper 3.2.2 paragraph 36-40), most respondents questioned whether the proposals in [Draft] IFRS S1 provide a suitable basis for auditors and regulators to determine compliance and said that compliance would be challenging.[43] For example, these respondents said:

(a) that certain aspect of proposals in [Draft] IFRS S1 could be improved to encapsulate better suitable criteria that could underpin the appropriate use of limited and reasonable assurance engagements. These respondents referred the ISSB to the requirements for assurance providers in ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* which describe suitable criteria for relevance, completeness, reliability, neutrality and understandability. [Draft] IFRS S1 in its current form presents challenges across all of these criteria from an assurance perspective.

(b) proposed paragraphs 51 and 54 of [Draft] IFRS S1 mandate an open-ended process for the identification of sustainability-related risks and opportunities which will be challenging for assurance providers to test compliance with;

(c) it will be challenging for assurance providers to assure forward-looking information, such as that which would be required when applying the proposed requirements related to disclosing the anticipated effects of sustainability-related risks and opportunities on an entity's financial performance, position and cash flow. Further, it will be challenging for assurance providers to test compliance with the proposed requirements related to an entity's value chain, given the lack of clarity around the reporting boundary and value chain concept.

49 One respondent said that forward-looking views incorporated into the financial statements create a potential disconnect and may introduce reliability issues. This respondent recommended the following:

(a) prospective disclosures to be limited to the short or medium term (for example, three-to-five years). The longer-term horizon could continue to be reported in

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41 For example, refer to the submission from QBE.

42 For example, refer to submissions from CAANZ-CPA, Peter Wells, QBE, Deloitte, ICA.

43 For example, refer to submissions from ICA, Peak Australian Bodies, AICD, ABA and CAANZ- CPA.

extended external reporting or could be discussed through qualitative disclosures; and

(b) consider the audit requirements for future projections as there will be challenges and limitations which most likely preclude auditors from proving positive assurance.

Effective date

50 Almost all respondents said that the final standard should be made effective two-three years after final standard is issued, with early adoption permitted.[44]

51 Some respondents recommended that the ISSB develop additional transition arrangements to provide relief on certain aspects of [Draft] IFRS S1 and [Draft] IFRS S2 because these are not disclosures that entities would typically make in Australia, and hence, data and methodologies generally are less well-developed (see also Agenda Paper 3.2.2, paragraphs 24-26).[45]

Global Baseline

52 Most respondents supported the ISSB's global approach to the development of sustainability-related financial disclosure requirements.[46] However, these respondents also said:

(a) it would be important for the ISSB and other international sustainability reporting standard setters and framework providers to align key concepts, terminology and metrics; and

(b) to achieve global alignment, the ISSB will need to work with jurisdictions where independent approaches to sustainability reporting are being developed (for example, New Zealand, the United States of America and Europe).

Digital Financial Reporting

53 Almost all respondents supported the development of a consistent Taxonomy and digital reporting for sustainability-related financial reporting.[47]

54 One respondent said that the open-ended nature of the proposed requirements in paragraph 51 would likely create difficulty in facilitating the development of a consistent Taxonomy and digital reporting.

55 One respondent recommended the ISSB consider harmonisation with CDP, the Dow Jones Sustainability Indices (DJSI), Sustainalytics and MSCI questionnaires by using digital tagging, which would help improve consistency across various reporting frameworks.

Costs, benefits and likely effects

56 Consistent with the feedback received for ED 321 (see Agenda Paper 3.2.2, paragraphs 47-48) on balance respondents said:

(a) the proposed standard will lead to consistent, comprehensive sustainability-related disclosures;

(b) there will be significant financial costs of implementation for some jurisdictions/entities—particularly SMEs and developing countries;

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44 For example, refer to submissions from CAANZ-CPA, QBE, ICA and PCA.

45 For example, refer to submissions from AICD and Peak Australian Bodies.

46 For example, refer to submissions from CAANZ- CPA, PCA, Deloitte and Peak Australian Bodies.

47 For example, refer to submissions from CAANZ-CPA, PCA, Deloitte, Peak Australian Bodies, NGS Super, QBE, Peter Wells and ICA.

(c) there will be a material increase in consulting costs, audit costs and training and resource costs for all entities; and

(d) there may be regulatory and legislative arrangements that could affect the adoption of the IFRS Sustainability Disclosure Standards within Australia (see also paragraphs 35-37).[48]

Question to Board members

Question to Board members
Q1: Do Board members have any questions about the summary of feedback received?

48 Refer to the submission from AICD.