



<b>Project:</b>	<b>Sustainability Reporting</b>	<b>Meeting</b>	AASB September 2022 (M190)
<b>Topic:</b>	<b>Update on international and jurisdictional perspectives</b>	<b>Agenda Item:</b>	3.2
		<b>Date:</b>	5 September 2022
<b>Contact(s):</b>	Siobhan Hammond <a href="mailto:shammond@asb.gov.au">shammond@asb.gov.au</a>  Nikole Gyles <a href="mailto:ngyles@asb.gov.au">ngyles@asb.gov.au</a>	<b>Project Priority:</b>	High
		<b>Decision-Making:</b>	None
		<b>Project Status:</b>	Consider feedback from outreach activities

## Objective

- 1 The objective of this paper is to inform Board members of international and jurisdictional developments in sustainability reporting.
- 2 This paper is for information purposes only and does not ask the Board to make any decisions.

## Structure

- 3 This paper is structured as follows:
  - (a) Background (paragraph 4)
  - (b) Taskforce on Nature-related Financial Disclosures (paragraph 5)
  - (c) International Sustainability Standards Board (paragraphs 6-10)
  - (d) Global Reporting Initiative (paragraphs 11-12)
  - (e) Update on selected jurisdictional sustainability reporting perspectives (paragraphs 13-22)
  - (f) Question to Board members.

## Background

- 4 The Board was provided with an overview of international and jurisdictional developments on sustainability-related financial reporting at its February, May and August 2022 meetings.<sup>1</sup> This paper provides an update on those developments since the Board's meeting in August 2022.

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<sup>1</sup> See February 2022 (M185) [Agenda Papers 3.2 Background to global sustainability reporting](#) and [3.3 Australian and selected jurisdictional perspectives](#), May 2022 (M187) [Agenda Paper 6.3 Update on selected international and jurisdictional perspectives](#), and August 2022 (M189) [Agenda Paper 6 Update on international and jurisdictional perspectives](#).

## **Taskforce on Nature-related Financial Disclosures (TNFD)**

- 5 In June 2022 the TNFD released version 2.0 of its beta framework for nature-related risk and opportunity management and disclosure. Two more updates of the beta framework are scheduled for November 2022 and February 2023, before the TNFD’s final recommendations are published in September 2023.<sup>2</sup>

## **International Sustainability Standards Board (ISSB)**

- 6 On 1 August 2022 the IFRS Foundation announced the completion of the consolidation of the Value Reporting Foundation (VRF)<sup>3</sup> into the IFRS Foundation. This now completes the consolidation of the significant standard-setters and framework providers (being the Climate Disclosure Standards Board (CDSB), ISSB and VRF) that only address sustainability-related financial reporting. The ISSB will seek to embed the industry-based approach of the Sustainability Accounting Standards Board (SASB) into its standard-setting process, as well as addressing the international applicability of the SASB Standards as a priority. The International Accounting Standards Board (IASB) and ISSB have jointly assumed responsibility for the International Integrated Reporting Council’s (IIRC) Integrated Reporting Framework.<sup>4</sup>

### **ISSB Board developments**

- 7 The ISSB held its inaugural meeting on 20 and 21 July 2022.
- 8 The ISSB also released the dates for its meetings for the remainder of 2022:
- (a) 19<sup>th</sup>-23<sup>rd</sup> September 2022;<sup>5</sup>
  - (b) 17<sup>th</sup>-21<sup>st</sup> October 2022;
  - (c) 14<sup>th</sup>-18<sup>th</sup> November 2022; and
  - (d) 12<sup>th</sup>-16<sup>th</sup> December 2022.
- 9 On 23 and 31 August 2022 the IFRS Foundation Trustees announced the final four appointments to the ISSB:<sup>6</sup>
- (a) Jenny Bofinger-Schuster (Europe)—from Siemens, she has served as Senior Vice President for sustainability and operational excellence, with responsibility for developing the company’s sustainability strategy and for implementing new disclosure requirements;
  - (b) Veronika Pountcheva (Europe)—from METRO, where she served as Senior Vice President of corporate responsibility and Co-chief Executive Officer of NX Food, with responsibility for developing the company’s long-term sustainability strategy;
  - (c) Hiroshi Komori (Japan)—from the Government Pension Investment Fund (GPIF) in Japan, he served as the Senior Director and Head of the Stewardship and ESG

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<sup>2</sup> See [June newsletter: TNFD releases v0.2 of beta framework – TNFD](#)

<sup>3</sup> Note that the VRF is a consolidation of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

<sup>4</sup> See [IFRS Foundation completes consolidation with Value Reporting Foundation](#) (1 August 2022)

<sup>5</sup> Due to timing, staff will provide the Board with a verbal update on the ISSB’s September 2022 meeting.

<sup>6</sup> See [IFRS - Three members appointed to the International Sustainability Standards Board from Europe and Japan](#) (23 August 2022) and [IFRS - Former World Bank Vice President Jingdong Hua appointed as ISSB Vice-Chair, completing the ISSB membership](#) (31 August 2022).

Division, where he established the Division and developed GPIF's investor engagement and participation in international sustainability initiatives; and

- (d) Jingdong Hua (at large, co-Vice Chair of the ISSB)—former Vice President and Treasurer of the World Bank, his responsibilities included green bond initiatives and sustainable finance capacity-building programmes. Before joining the World Bank, he served as Vice President and Treasurer of the International Finance Corporation, where he led innovative bond issuances in several emerging markets. He has also previously served as Deputy Treasurer of the Asian Development Bank and has held positions at the United Nations Development Programme and the African Development Bank.

#### **Potential matters for inclusion in an ISSB agenda consultation**

- 10 In addition to receiving an update on outreach activities and feedback received so far,<sup>7</sup> the ISSB also discussed matters related to potential topics for inclusion in a future agenda consultation. Staff note that the discussion of which topics should be addressed after climate was focused on SASB's existing Standards and workplan and that the agenda consultation would only address a period of two years as a result of ongoing and rapid developments in sustainability-related financial reporting. The potential topics noted were:<sup>8</sup>

##### *Broadly defined topics*

- (a) **biodiversity, ecosystems and nature loss.** Matters related to biodiversity, ecosystems and nature loss have drawn increasing attention from investors and other capital market participants (for example, as evidenced by the work of, among others, the TNFD). A well-established and widely embraced set of disclosure practices, tools and metrics has yet to emerge to facilitate understanding of how nature affects an entity's financial position, performance and prospects over the short, medium or long term.
- (b) **circular economy, materials sourcing and value chains.** In their assessments of enterprise value, investors are increasingly considering the risks and opportunities arising from an entity's use of resources across the full lifecycle of its goods and services and throughout its value chain (this includes an entity's plans and capacity to adapt its business model and operations in line with 'circular economy' principles). Entities are also facing increasing social and investor pressure to consider the risks and opportunities that could materially impact their value chains. Despite the growing focus on circular economy, materials sourcing and value chains, a well-established and widely embraced set of disclosure practices has yet to emerge to facilitate consistent, comparable and reliable disclosure on the related implications for an entity's financial position, performance and prospects over the short, medium or long term.
- (c) **climate change.** Assessing and disclosing climate-related risks and opportunities is a fast-evolving field with a number of ongoing industry, consortia, regulatory and academic initiatives. This dynamic environment implies a need to actively monitor, understand and respond to key emerging issues by potentially updating existing IFRS Sustainability Disclosure Standards, developing new standards or providing further guidance.

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<sup>7</sup> See July 2022 ISSB [Agenda Paper 2 Overview of exposure drafts \(S1 and S2 and feedback received as at 7 July 2022\)](#).

<sup>8</sup> See July 2022 ISSB [Agenda Paper 1A Items to be considered in development of a Request for Information](#).

- (d) **cybersecurity, data security and customer privacy.** Cybersecurity-related risks have the attention of the global investment community, who observed that cyber incidents can disrupt business operations, create legal and regulatory risks and reduce portfolio company valuations and earnings. However, a well-established and widely embraced set of disclosure practices has yet to emerge despite market participants overwhelmingly agreeing that increased disclosures would benefit all entities and significantly reduce social risks and harms.
- (e) **economic inequality.** Recent initiatives, such as the Business Commission to Tackle Inequality, launched by the World Business Council on Sustainable Development (WBCSD), have begun to explore the 'business case' for tackling inequality in a way that unlocks entity-level benefits, including attracting and retaining talent, growing the customer base, enhancing access to capital, building resilient supply chains, and staying ahead of policy and regulatory change designed to 'internalise' social costs. However, a well-established and widely embraced set of disclosure practices, tools and metrics has yet to emerge to facilitate consistent, comparable, reliable disclosure on the implications of inequality for an entity's financial position, performance and prospects over the short, medium or long term.
- (f) **human capital.** Entities and investors are increasingly attentive to the financial implications of how businesses manage people (i.e. human capital) a concept meant to promote the idea of people as assets rather than as costs. Human capital management may include such issues as workforce composition, workforce stability, diversity and inclusion, training and development, health, safety and wellbeing, compensation and more, with respect to an entity's employees and contractors. As a result, many entities across multiple jurisdictions are seeking clearer guidance on how to prepare and disclose more effective information on human capital management.
- (g) **human rights.** Although it is standard practice in most jurisdictions for entities to respect human rights and undertake appropriate due diligence to manage related risks, they are increasingly challenged to do so as international economies become more interconnected and supply chains become more complex. These conditions have led to an increased focus by regulators and investors on workers' rights, discrimination and equality, indigenous peoples' and community rights, child labour, forced or bonded labour, and human trafficking in an entity's direct operations or in its value chain. In the absence of jurisdictional legislation or regulation to address such matters, several standards and frameworks have emerged to provide guidelines for entities, while in other jurisdictions, specific legislation is being implemented to protect human rights, creating increasing regulatory risk for entities. Consequently, a growing number of investors view human rights information as relevant to their assessments of enterprise value.
- (h) **water and marine resources.** In addition to serving as essential life-support systems, water and marine resources are critical to the long-term viability of a range of economic activities, including agriculture, apparel manufacturing, mining and technology. Business risks and opportunities can arise from the regulatory environment, competition for local resources, watershed pollution, water-related weather events, and more. However, despite a significant body of guidance for preparers on disclosing information about their water usage, investors remain dissatisfied with the current state of disclosure on water and marine resources.

### *Industry-based requirements and SASB project portfolio*

- (i) **industry-based requirements.** Many companies and investors have expressed strong support for an industry-based approach to standardising the disclosure of sustainability-related financial information. The ISSB may wish to design and execute a project (or projects) that would advance the SASB Standards through its own due process to establish industry-based IFRS Sustainability Disclosure Standards, as recommended by the Technical Readiness Working Group (TRWG). The ISSB could also consider issuing, alongside such proposed industry-based disclosure requirements, thematic discussion papers that survey key themes across the industry-based standards.
- (j) **standard-setting projects.** That is, the ISSB could further existing standard-setting projects on the SASB's workplan:
- *Alternative products in the food and beverage industries*—stems from a SASB research project exploring alternative meat and dairy products which evidenced the reduced environmental impacts associated with alternative products;
  - *Content governance in the internet media and services industry*—stems from SASB research project exploring online content moderation which evidenced financial impacts on entities within the internet media and services industry as well as investor interest related to the management activities used by entities in relation to harmful online content and user freedom of expression;
  - *Plastics risks and opportunities in the chemicals industries*—stems from an intensifying focus on the contribution that externalities of plastics use has to an escalating regulatory environment and shifting customer demand for packaging which is expected to affect assessments of enterprise value;
  - *Human capital: diversity, equity and inclusion*—stems from a research project exploring human capital more broadly which was initiated to (1) analyse and document emerging evidence supporting the relevance to enterprise value of human capital issues, (2) review how human capital issues are accounted for across the existing SASB Standards, and (3) develop evidence-based recommendations for subsequent standard-setting activities;
  - *Greenhouse gas emissions in the marine transportation industry*—stems from feedback from a SASB industry working group and subject matter experts that certain metrics in the Greenhouse Gas Emissions and Air Quality disclosure topics lack completeness and comparability in measuring entity performance regarding greenhouse gas emissions and other non-greenhouse gas pollutants; and
  - *Renewable energy in the electric utilities and power generators industry*—stems from market feedback that there are opportunities to investigate other ways to measure company performance related to renewable energy that are not currently captured in the SASB Standard for the electric utilities and power generators industry.
- (k) **research project: human capital.** SASB launched a human capital research project in September 2019. The purpose of the project is to assess the scope and prevalence of various human capital management themes across the SASB-based industries to develop an evidenced-based view on this cross-cutting theme. Major components of this project's objective are to design and implement a systematic analysis through

the development of a human capital framework that enables an assessment of the relevance to enterprise value of the various aspects of the matter.

*Potential projects to be undertaken in coordination with the IASB*

- (l) **conceptual framework.** Conceptual frameworks are essential to high-quality standards development, as well as facilitating market understanding of and confidence in those standards. Although the IASB and ISSB are united by a common primary user and objective, the TRWG identified that certain adaptations and additions to the IASB's *Conceptual Framework for Financial Reporting* would be necessary to accommodate the unique characteristics of consistent, comparable, verifiable sustainability-related financial information, as well as to explain how key concepts are applied.
- (m) **management commentary.** Narrative reporting has evolved significantly, including the incorporation of sustainability considerations and the adoption of a longer-term outlook. In its current Management Commentary project, the IASB sought to build on innovations in narrative reporting—including the IIRC Framework. The ISSB's participation in advancing this work could help enable connected discussion and analysis of financial statements and sustainability-related financial disclosures in a way that is compatible with IFRS Sustainability Disclosure Standards.
- (n) **other projects.** Other projects which could benefit from collaboration include the IASB's projects on climate-related risks, intangible assets and pollutant pricing mechanisms.

## **Global Reporting Initiative (GRI)**

- 11 The most recent meeting of the Global Sustainability Standards Board (GSSB)—the GRI's standard-setting body—took place on 7 July 2022. The following topics were noted:
  - (a) [draft project proposal addressing phase 2 of the Labour project](#) which will include a review of individual GRI Topic Standards with human rights and labour-related content, and the development of new standards or disclosure requirements as needed. The project proposal included the establishment of an expert Technical Committee which will be made up of six expert members that will be responsible for the review of the labour-related Topic Standards;
  - (b) update on the Biodiversity project; and
  - (c) presentation on the Living Income Community of Practice which addressed living income and living wage as a potential input into the GSSB Workplan for 2023-2025.
- 12 The GSSB will next meet on 15 September 2022.

## Update on selected jurisdictional sustainability reporting perspectives

### European Union (EU)

- 13 The [public consultation period on the Exposure Drafts of the thirteen \[draft\] European Sustainability Reporting Standards](#) (ESRS) closed on 8 August 2022. The European Financial Reporting Advisory Group’s (EFRAG) Sustainability Reporting Board has commenced analysis of the feedback received on its recent public consultation. Staff note that the first set of draft ESRS is due to the European Commission by November 2022.

### United Kingdom (UK)

- 14 The Department for Business, Energy and Industrial Strategy (BEIS) sets the reporting requirements, both financial and non-financial (ESG matters) for UK registered entities under UK Company Law. In their [submission to the ISSB](#), BEIS highlighted that they intend for ISSB standards to form the central component of the UK’s Sustainability Disclosure Requirements. BEIS requested that the UK Endorsement Board (UKEB) assist the UK Government by carrying out work to consider the overlap or impact of the proposed IFRS Sustainability Disclosure Standards with accounting standards issued by the IASB. Staff note the key themes of the [UKEB submission to the ISSB](#) and BEIS submission are consistent with the key themes in the AASB and AUASB’s joint submission to the ISSB.
- 15 The proposed new remit of the UK Financial Reporting Council (UK FRC) as they transition to become the Audit, Reporting and Governance Authority is “to protect and promote the interests of investors, other users of corporate reporting and wider public interest”. Under this remit, the UK FRC’s objective is to leverage their role and responsibilities alongside other regulators, the market, and other stakeholders, to promote high quality audit, corporate reporting, corporate governance, accounting and actuarial work. The UK FRC made two submissions to the ISSB’s Exposure Drafts on [\[Draft\] IFRS S1](#) and [\[Draft\] IFRS S2](#). Staff note that the key themes raised in these submissions are consistent with the key themes in the AASB and AUASB’s joint submission to the ISSB.
- 16 In July 2022 the UKEB published a [Feedback Statement](#) on their outreach on the ISSB’s Exposure Drafts on [\[Draft\] IFRS S1](#) and [\[Draft\] IFRS S2](#).

### New Zealand (NZ)

- 17 In July 2022 the New Zealand External Reporting Board (NZ XRB) commenced its final and third public consultation on climate-related disclosures. The final public consultation consists of [three Exposure Drafts](#) on:
- (a) Aotearoa New Zealand Climate Standard (NZCS) 1 *Climate-related Disclosures*— contains the disclosure requirements relating to the four thematic sections (governance, risk management, strategy, and metrics and targets) and the related assurance requirements:

Governance	Risk management
<ul style="list-style-type: none"><li>• Identity of the governance body</li><li>• Governance body oversight of climate-related risks and opportunities</li></ul>	<ul style="list-style-type: none"><li>• Processes for identifying, assessing and managing climate-related risks</li></ul>

<ul style="list-style-type: none"> <li>• Management’s role in assessing and managing climate-related risks and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• How these processes are integrated into overall risk management processes</li> </ul>
<p><b>Strategy</b></p> <ul style="list-style-type: none"> <li>• Identification of climate-related risks and opportunities</li> <li>• Scenario analysis against a minimum of three climate-related scenarios</li> <li>• Current climate-related impacts, and anticipated impacts of identified climate-related risks and opportunities</li> <li>• How the entity will position itself in the transition to a low-emissions, climate-resilient future</li> </ul>	<p><b>Metrics and targets</b></p> <ul style="list-style-type: none"> <li>• Cross-industry metric categories (including scope 1, 2 and 3 greenhouse gas (GHG) emissions)</li> <li>• Industry-based metrics</li> <li>• Key performance indicators</li> <li>• Targets, and performance against targets</li> </ul> <p><i>Assurance</i></p> <ul style="list-style-type: none"> <li>• GHG emissions disclosures are subject to limited assurance for any accounting period that ends on or after 27 October 2024</li> </ul>

(b) NZCS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards*—contains adoption provisions available to entities the first time that they are required to disclose:

<p><b>Strategy (NZCS 1)</b></p> <ul style="list-style-type: none"> <li>• One year exemption for current financial impacts</li> <li>• One year exemption for disclosing anticipated financial impacts</li> <li>• One year exemption for disclosing transition plan aspects of strategy</li> </ul>	<p><b>Metrics and targets (NZCS 1)</b></p> <ul style="list-style-type: none"> <li>• One year exemption for disclosing scope 3 GHG emissions</li> </ul>
<p><b>Comparative information (NZCS 3)</b></p> <ul style="list-style-type: none"> <li>• In first year of reporting, no comparative information is required</li> <li>• In second year of reporting, only one year of comparative information is required</li> <li>• Two year exemption <a href="#">for</a> analysis of trends</li> </ul>	



- (c) NZCS 3 *General Requirements for Climate-related Disclosures*—contains the general requirements and principles for preparers to follow when making disclosures under NZCSs:

<b>Overarching principle of fair presentation</b>	
<p><b>Principles: Information</b></p> <ul style="list-style-type: none"> <li>• Relevance</li> <li>• Balance</li> <li>• Accuracy</li> <li>• Verifiability</li> <li>• Comparability</li> <li>• Consistency</li> <li>• Timeliness</li> </ul>	<p><b>General requirements</b></p> <p><i>Location of disclosures:</i> An entity may provide its climate-related disclosures in a standalone document or within another document (e.g., an annual report).</p> <p><i>Reporting entity and reporting period:</i> An entity must prepare its climate-related disclosures for the same reporting entity and reporting period as its financial statements.</p> <p><i>Value chain:</i> An entity must consider the exposure of its value chain when considering its exposure to climate-related risks and opportunities.</p>
<p><b>Principles: Presentation</b></p> <ul style="list-style-type: none"> <li>• Understandability</li> <li>• Completeness</li> <li>• Consistency</li> <li>• Coherence</li> </ul>	<p><i>Materiality:</i> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity’s enterprise value. Material information could include, but is not limited to, information about an entity’s impacts on the climate if those impacts could reasonably be expected to affect the entity’s enterprise value.</p> <p><i>Comparative information:</i> Two years of comparative information is required for each metric, and an entity must disclose an analysis of main trends.</p> <p><i>Methodologies, assumptions and estimation uncertainty:</i> An entity must disclose methodologies, significant assumptions and significant estimation uncertainty, including on scenario analysis and GHG emissions.</p>

- 18 The NZ XRB also submitted a [comment letter to the ISSB](#). Staff note that the key themes raised by the NZ XRB in their submission are consistent with the key themes in the AASB and AUASB’s joint submission to the ISSB.

### Canada

- 19 In October 2021, the Canadian Securities Administrators (CSA) published for comment proposed National Instrument 51-107 *Disclosure of Climate-related Matters* that proposed mandatory climate-related disclosures for Canadian entities. The public consultation was completed 16 February 2022. The CSA received 131 responses from a wide variety of stakeholders, including investors, issuers and industry associations. One particularly strong message in the comments was that investors and other users of financial information need

reliable, relevant, clear and comparable information on climate-related risks and opportunities.<sup>9</sup>

- 20 Following the announcement of the [establishment of the Canadian Sustainability Standards Board](#) (CSSB), the Auditing and Assurance Standards Oversight Council (AASOC) and the Accounting Standards Oversight Council (AcSOC) have initiated the process of setting up the CSSB. An Implementation Committee has been established to develop the necessary groundwork for the CSSB. The Implementation Committee will:
- (a) initiate recruitment plans for the Chair and members of the CSSB; and
  - (b) define and codify key governance and due process considerations.
- 21 Staff support will be provided by Financial Reporting and Assurance Standards Canada Boards. The CSSB aims to be operational by April 2023.
- 22 In the absence of the CSSB, the AASOC and AcSOC submitted [joint responses to the ISSB's Exposure Drafts on \[Draft\] IFRS S1 and \[Draft\] IFRS S2](#). Staff note that the key themes raised by the AASOC and AcSOC in their submissions are consistent with the key themes in the AASB and AUASB's joint submission to the ISSB with the exception of the industry-based metrics in Appendix B to [Draft] IFRS S2 which they did not express a view on.

### Question to Board members

#### Question to Board members

Do Board members have any questions about the information provided in this paper?

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<sup>9</sup> See [CSA comment letter submission to the ISSB Exposure Drafts](#).