



<b>Project:</b>	<b>Sustainability Reporting</b>	<b>Meeting</b>	AASB June 2022 (M188)
<b>Topic:</b>	<b>Key themes from feedback received to date</b>	<b>Agenda Item:</b>	4.3
		<b>Date:</b>	14 June 2022
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		<b>Project Status:</b>	Initial consideration of feedback to ED 321

## Objective

- 1 The objective of this paper is to:
  - (a) update the Board on recent and planned outreach activities;
  - (b) provide an overview of the key themes from feedback received to date; and
  - (c) for the Board to decide how to finalise the AASB comment letter to the International Sustainability Standards Board (ISSB) Exposure Drafts.

## Attachments

Agenda Paper 4.3.1	Staff summary of the Melbourne preparer-focused roundtable <i>[Board only]</i>
Agenda Paper 4.3.2	Staff summary of the Melbourne general stakeholder focused roundtable <i>[Board only]</i>
Agenda Paper 4.3.3	June 2022 AASB-AUASB Sustainability Reporting Project Advisory Panel meeting minutes <i>[Board only]</i>
Agenda Paper 4.3.4	Staff summary of the extractive activities, energy, renewables and utilities industry-focused roundtable <i>[Board only]</i>
Agenda Paper 4.3.5	Staff summary of the food, beverage and agriculture industry-focused roundtable <i>[Board only]</i>
Agenda Paper 4.3.6	Staff summary of the Sydney preparer-focused roundtable <i>[Board only]</i>
Agenda Paper 4.3.7	Staff summary of the Sydney general stakeholder focused roundtable <i>[Board only]</i>
Agenda Paper 4.3.8	Submissions received to date—Peter Wells

## Structure

- 2 This paper is structured as follows:
  - (a) Background (paragraphs 3-11);
  - (b) Key themes from feedback received to date (paragraphs 12-36);
  - (c) Next steps (paragraph 37).

## Background

- 3 At its April 2022 (M186) meeting, the Board considered the following outreach plan for the AASB [Exposure Draft 321 Request for Information on ISSB \[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and \[Draft\] IFRS S2 Climate-related Disclosures](#) (ED 321):<sup>1</sup>
  - (a) **Proactive stakeholder engagement**—one-to-one meetings, meetings with existing AASB advisory committees and requesting submissions directly from sustainability reporting stakeholders.
  - (b) **Industry-based outreach**—roundtable discussions with key industries in Australia to specifically discuss the proposed industry-based metrics.
  - (c) **Application**—volunteers to implement the proposed standards and provide examples of potential reporting outcomes.

### Proactive stakeholder engagement

- 4 Staff have received a high level of engagement through a series of in-person roundtables in Melbourne and Sydney. Preparer-focused and general stakeholder focused roundtables were held in each location with over 40 attendees from a diverse range of accounting and non-accounting backgrounds including:
  - (a) professional firms—representing both accountancy and sustainability professions;
  - (b) preparers—including peak industry body representatives;
  - (c) users—including peak user body representatives;
  - (d) environmental and sustainability professionals;
  - (e) not-for-profit representatives;
  - (f) academics; and
  - (g) regulators.
- 5 Staff continue to engage with the AASB's User Advisory Committee and the AASB-AUASB's Sustainability Reporting Project Advisory Panel.
- 6 Staff have also engaged in, or have planned, additional one-to-one meetings with, and presentations to, a range of stakeholders. Upcoming general stakeholder events include:
  - (a) joint ISSB-AASB virtual outreach event hosted with the Accounting and Finance Association of Australia and New Zealand (AFAANZ) on 15 June 2022 for which over 75 attendees have registered;<sup>2</sup> and

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<sup>1</sup> See April 2022 (M186) [Agenda Paper 3.1 Sustainability Reporting—Cover memo](#).

<sup>2</sup> See: [AFAANZ Insight Series: ISSB General Requirements and Climate Exposure Drafts](#).

- (b) in-person preparer and general stakeholder focused roundtables in Perth on 28 June and 29 June 2022.<sup>3</sup>

### **Industry-based outreach**

- 7 Staff have received a high level of engagement through a series of virtual industry-focused roundtables for the following sectors and industries:
  - (a) extractive activities, energy, renewables and utilities;
  - (b) food, beverage and agriculture; and
  - (c) financials, banking, insurance and superannuation.
- 8 Attendance to virtual roundtables has been high, with over 60 attendees from a diverse range of accounting and non-accounting backgrounds, including:
  - (a) professional firms—representing both accountancy and sustainability professions;
  - (b) preparers—including peak industry body representatives;
  - (c) users—including peak user body representatives;
  - (d) environmental and sustainability professionals;
  - (e) academics; and
  - (f) regulators.
- 9 Upcoming industry-focused roundtables include:<sup>4</sup>
  - (a) consumer goods and manufacturing on 14 June 2022; and
  - (b) property, real estate and construction on 16 June 2022.
- 10 Staff have also engaged in, or have planned, additional invitation-only meetings with peak industry bodies.

### **Application**

- 11 To date, additional information on field testing the proposals in [Draft] IFRS S2 has been provided to five entities that registered their interest in volunteering for field testing.

### **Key themes from feedback received to date**

- 12 Almost all attendees were supportive of:
  - (a) the scope and direction of the AASB and ISSB's work on sustainability-related financial reporting; and
  - (b) implementing sustainability-related financial reporting in Australia.

These attendees also highlighted the ongoing importance of international alignment as they Board considers how it will move forward. However, attendees also raised some concerns in relation to key elements of the proposals in [Draft] IFRS S1 and [Draft] IFRS S2.
- 13 Many attendees raised concerns about the scalability of the proposals in the ISSB's two initial Exposure Drafts. For example, these respondents said that while the ISSB has explained that all entities in the for-profit sector can apply these proposals, small-to-medium (SME) entities would be unable to implement and apply the proposals due to:

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<sup>3</sup> See: [AASB Perth Roundtables on ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and \[Draft\] IFRS S2 Climate-related Disclosures](#).

<sup>4</sup> See: [AASB Industry-based virtual roundtables on ED 321 Request for Comment on ISSB \[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and \[Draft\] IFRS S2 Climate-related Disclosures](#).

- (a) the complexity of the proposals (for example, proposals for the disclosure of Scope 3 greenhouse gas (GHG) emissions disclosures and scenario analysis); and
  - (b) the lack of sufficient and affordable resources available in the market (for example, lack of sufficiently skilled personnel and the cost of software that would be needed to capture the data required to comply with the proposals).
- 14 Many attendees raised concerns about the current skill gap in the domestic and international markets. For example, these attendees said that currently, the resources to implement the proposals do not exist (or exist in a limited form in larger for-profit sector entities) and would need to be built over time through education.
- 15 Some attendees raised the lack of sufficient time and resources to appropriately consider the proposals being put forward in the ISSB's two initial Exposure Drafts and questioned the ability of the ISSB to obtain high quality feedback that is useful given such time and resource constraints and how this is compliant, or inline, with their due process.

#### **Proposed Australian approach**

- 16 All attendees so far agreed with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate, or independent, suite of standards because the alternative would mean that sustainability-related financial disclosures are included in the general purpose financial statements and, in their view:
- (a) Such an approach would be inconsistent with other international and jurisdictional approaches<sup>5</sup> which seek to develop sustainability-related reporting requirements that are separate from accounting standards. A few attendees said such an approach would not result in international alignment that was previously raised with the Board as a high priority.
  - (b) It would not be appropriate to include sustainability-related financial disclosures in the financial statements because they focus on enterprise value which goes beyond the scope of the financial statements.
  - (c) If sustainability-related financial disclosures are incorporated into the financial statements, they would be subject to audit. Some attendees, including auditors and preparers, said that the proposals in the ISSB's Exposure Drafts are not yet at the stage where an audit could be performed.
  - (d) Such an approach would result in material financial statement information being obscured by sustainability-related financial information.

#### **ISSB's approach—[Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information***

- 17 Most attendees agree that, where possible, conceptual elements within proposed ISSB standards should align with existing financial reporting concepts (for example, the fundamental qualitative characteristics of useful financial information, definition of material and frequency of reporting) in the IFRS *Conceptual Framework for Financial Reporting*. A few attendees noted the recent announcement from the IFRS Foundation to work towards integrated reporting<sup>6</sup> as a key reason why alignment of financial reporting concepts in both sets of standards (being the proposed and future ISSB standards and IASB Standards) is essential. However, many attendees also said that the proposals could be improved and suggested that the ISSB:

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<sup>5</sup> See February 2022 (M185) Agenda Papers [3.2 Background to global sustainability reporting](#) and [3.3 Australian and selected jurisdictional perspectives](#) and May 2022 (M187) Agenda Paper [6.3 Update on selected international and jurisdictional perspectives](#) for examples of other international and jurisdictional approaches to which attendees referred to.

<sup>6</sup> See: [IFRS Foundation - Integrated Reporting—articulating a future path](#).

- (a) provide additional guidance about the application of the definition of material in the context of sustainability-related financial information;
  - (b) provide more clarity about where sustainability-related financial information should be disclosed; and
  - (c) provide more guidance on the connectivity of sustainability-related financial information and financial statement information (for example, by explaining the role of the financial statements in assessing an entity's enterprise value and the role of enterprise value when considering the financial statements).
- 18 Many respondents agreed with the ISSB's approach to focus on enterprise value in the context of sustainability-related financial reporting because:
- (a) it provides a boundary so that entities are more easily able to identify what information should be disclosed; and
  - (b) enterprise value, while an emerging concept, is relatively well understood.
- Of those attendees that disagreed with the ISSB's focus on enterprise value, many said that enterprise value was likely the best starting point for sustainability-related financial reporting. No alternatives to enterprise value in the context of sustainability-related financial reporting were identified.
- 19 Most attendees said that additional guidance on connectivity is needed concerning:
- (a) various sustainability-related risks and opportunities—for example, while the ISSB is currently only proposing one thematic standard (being [Draft] IFRS S2), some attendees asked how future standards will connect with [Draft] IFRS S1 and [Draft] IFRS S2;
  - (b) the governance, strategy and risk management related to those risks and opportunities, along with metrics and targets—for example, many attendees said it is almost impossible for entities to be able to isolate those matters that relate to climate only; and
  - (c) sustainability-related risks and opportunities and other information in general purpose financial reporting, including the financial statements (see also paragraph 17).
- 20 Most attendees commented on the lack of definitions for 'sustainability', 'climate' and 'significant'. They said that definitions of these terms would be needed for entities to be able to determine the boundaries of reporting. A few attendees questioned the unintended consequences in the IASB Standards of using or defining the term 'significant' and its interaction with the definition of material.
- 21 Some attendees noted that the definition for value chains in [Draft] IFRS S1 would be sufficient for applying the proposals in [Draft] IFRS S2 but questioned whether it would be possible to apply it to future standards given the definition has been adapted from the work of the Taskforce on Climate-related Financial Disclosures (TCFD). These attendees suggested that additional guidance on the boundary of the reporting entity would be helpful, especially when considering an entity's value chain and reporting on Scope 3 GHG emissions.
- 22 Some attendees said that the proposals in [Draft] IFRS S1 are not useful because it seeks to do too much. For example, these attendees said that [Draft] IFRS S1 seeks to act as a:
- (a) conceptual framework until one can be developed;
  - (b) transition standard for the first-time application of ISSB standards;
  - (c) general standard addressing the presentation of sustainability-related financial information; and

- (d) general standard addressing estimates and uncertainties, changes to estimates and errors.

These attendees suggested that the ISSB separately address some of the matters to simplify the proposals in [Draft] IFRS S1.

**ISSB's approach—[Draft] IFRS S2 *Climate-related disclosures***

- 23 Overall, attendees were more comfortable with the proposals in [Draft] IFRS S2 (excluding Appendix B) than the proposals in [Draft] IFRS S1. This is because the proposals in [Draft] IFRS S2 predominantly align with the TCFD Recommendations, with which many attendees were familiar.
- 24 Some attendees questioned whether the requirements related to disclosing climate-related risks and opportunities in an entity's value chain could be implemented given:
  - (a) the ability of entities to obtain the necessary data from stakeholders within their value chain; and
  - (b) the lack of guidance for (or insufficient definition of) value chain and where the reporting boundary (or boundaries) are—for example, under the current proposals, a few attendees said that they are not able to determine what information should be in the entity's value chain and what is not considered part of the value chain (see also paragraph 21).

Consequently, a few attendees said that the guidance in [Draft] IFRS S1 and [Draft] IFRS S2 was insufficient for an entity to determine the effects of climate-related risks and opportunities on its business model and value chain.

- 25 Many attendees agreed with the requirements related to transition plans and carbon offsets, with a few highlighting that carbon offsetting is integral to transitioning to a lower-carbon economy.
- 26 Most attendees agreed that entities should be required to disclose the current and anticipated effects of climate-related risks and opportunities on their financial performance, financial position and cash flows. However, many of these respondents questioned whether quantitative information on anticipated effects is too detailed. For example:
  - (a) Some preparers and a few users said that more consideration should be given to commercially sensitive information. For example, for some industries, information about anticipated effects of climate-related risks and opportunities on financial performance, financial position and cash flows in the medium and long term would result in the disclosure of commercially sensitive information that could also be subject to legal action if disclosed.
  - (b) A few attendees said that what is most important is ensuring that entities are able to demonstrate that they are thinking about and addressing climate change as part of their normal operations, and information that supports this is not necessarily going to be quantitative but rather qualitative. For example, these attendees said that, in this case, qualitative information is more useful than granular quantitative information that is being proposed.
- 27 Most attendees agreed that climate-related scenario analysis is useful for an entity's management and investors. However, some attendees said that, due to the complexity of scenario analysis, it would be helpful if the ISSB were to:
  - (a) develop guidance on how entities should approach climate-related scenario analysis; and
  - (b) develop more specific requirements to ensure at least some consistency on how entities develop climate-related scenario analysis.

A few attendees also said that if the ISSB developed the suggested guidance and requirements as above, it could help simplify climate-related scenario analysis for SME entities.

- 28 Most attendees agreed that the seven proposed cross-industry metric categories<sup>7</sup> are applicable across all industries and business models and are useful in assessing enterprise value. However, a few attendees questioned the relevance of internal carbon prices. They compared it to transfer pricing in accounting standards under which internal transfer prices are not required to be disclosed.
- 29 In relation to the application of the *Greenhouse Gas Protocol Corporate Standard* in measuring and disclosing Scope 1, 2 and 3 GHG emissions, most attendees highlighted the existing legislation in Australia, which requires certain entities to apply the *National Greenhouse and Energy Reporting Act 2007* (NGER Act). These attendees expressed their support for the NGER Act requirements. However, they observed that the NGER Act only addresses Scope 1 and 2 GHG emissions. Many attendees suggested that the Board develop Australian-specific guidance on how the NGER Act interacts with the requirements in [Draft] IFRS S2.
- 30 Almost all attendees agreed that entities should be required to disclose their Scope 3 GHG emissions. However, some attendees said it would be helpful if the ISSB told entities which methodology to apply to calculate those emissions to achieve international comparability.

**ISSB's approach—Appendix B to [Draft] IFRS S2 *Climate-related disclosures***

- 31 Almost all attendees disagreed with the proposals in Appendix B to [Draft] IFRS S2 forming part of the authoritative body of the standard because:
- (a) While [Draft] IFRS S1 and the body of [Draft] IFRS S2 have been developed applying a principles-based approach, Appendix B to [Draft] IFRS S2 has been developed on a rules-based approach and it is unclear how the ISSB determined the materiality of the disclosure topics.
  - (b) The relevance of the proposals in Appendix B to [Draft] IFRS S2 is unclear. These attendees said that more clarity was needed on (i) the link between the information disclosed from applying those proposed metrics and enterprise value; and (ii) how those metrics relate to climate.
  - (c) The requirements in Appendix B to [Draft] IFRS S2 have not previously been subject to global public consultation and due process, so it is unclear how the ISSB determined that SASB Standards and requirements are, in fact, an appropriate global baseline.
  - (d) The proposals in Appendix B to [Draft] IFRS S2 are not appropriate for the Australian market because:
    - (i) they have not previously been exposed to public consultation in Australia;
    - (ii) metrics are being proposed that are not material for Australian stakeholders (for example, those metrics related to fracking in the oil and gas industries);
    - (iii) there are metrics material to Australian stakeholders that are missing (for example, climate-related metrics pertaining to first nations people and biodiversity);

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<sup>7</sup> Being (1) GHG emissions on an absolute basis and on an intensity basis; (2) transition risks; (3) physical risks; (4) climate-related opportunities; (5) capital deployment towards climate-related risks and opportunities; (6) internal carbon prices; and (7) the percentage of executive management remuneration that is linked to climate-related considerations.

- (iv) an assessment first needs to be done on the differences between [Australia and New Zealand Standard Industrial Classification 2006](#) and the industry definitions and descriptions being proposed;
  - (v) some of the information being asked for is commercially sensitive. That is, it cannot legally be disclosed (for example, metrics related to the sourcing of ingredients in the non-alcoholic beverages industry).
- (e) Appendix B to [Draft] IFRS S2 assumes that climate-related risks and opportunities are only material to a subset of industries. A few attendees disagreed with this assumption and said that climate is a pervasive issue that will impact all entities regardless of their industry. Furthermore, these attendees also highlighted the need for entities in all industries to apply the requirements in [Draft] IFRS S2 to get the data necessary to report on the value chain and Scope 3 emissions.

32 Consequently, almost all attendees suggested that Appendix B be removed from [Draft] IFRS S2 and instead be adapted to provide entities with non-mandatory guidance. Some attendees also suggested that similar to the European Union and New Zealand approach, the ISSB should focus on establishing cross-industry metrics in a range of standards before moving on to more detailed industry-based disclosure requirements.

#### **General comments—audit and assurance**

33 Almost all attendees said they are concerned about the auditability and enforceability of the ISSB's proposals. Some attendees said that auditors would be unable to determine or test an entity's compliance with the proposals in [Draft] IFRS S1 given how open-ended the proposals are. For example, many attendees questioned whether an auditor could test compliance with (or regulators could enforce) paragraph 51 of [Draft] IFRS S1, which requires entities, when identifying material sustainability-related risks and opportunities, to consider:

- (a) the disclosure topics in the industry-based SASB Standards;
- (b) the ISSB's non-mandatory guidance (such as the CDSB Framework application guidance for water- and biodiversity-related disclosures);
- (c) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and
- (d) the sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies.

34 Many attendees also raised concerns about the approach to audit and assurance of sustainability-related financial information will be given:

- (a) skill gap that currently exists in the domestic and international markets (see paragraph 14);
- (b) the allowance for cross-referencing from the annual reporting package to sustainability-related financial information disclosed elsewhere;
- (c) data availability in the current market—for example, some attendees said that it would take several reporting cycles to get the data needed to comply with the proposals in [Draft] IFRS S2;
- (d) the cost of auditing or assuring sustainability-related financial disclosures, especially for SME entities;
- (e) the pressure on resources as a result of the proposed alignment of sustainability and financial reporting cycles; and
- (f) the lack of maturity in sustainability-related financial reporting—for example, some attendees said it would take several reporting cycles for entities to be able to get a



better understanding of the reporting outcomes of applying the proposals and what is expected by investors and regulators.

**General comments—effective date**

- 35 Almost all attendees have said that it will take several reporting cycles for entities to be able to comply fully with the proposals in both [Draft] IFRS S1 and [Draft] IFRS S2 due to the skill gap and data availability. Many attendees also said it will take longer for SME entities, or entities that have not yet started their sustainability reporting journey, to adapt to the proposals than larger entities in the for-profit sector. Consequently, these attendees suggested that:
- (a) consistent with major accounting standards, the effective date of the proposals be set two to three years after the standards are issued with early application permitted; and
  - (b) a phased-in approach is considered whereby larger entities with sufficient resources and capabilities are required to apply the proposals earlier than SME entities or entities that have not started their sustainability reporting journey.
- 36 In relation to determining an effective date for the proposals in Australia, many attendees said that, regardless of the effective date set by the AASB or ISSB, larger entities would be expected to implement the standards issued by the ISSB as soon as possible (or within their next reporting cycle).

**Question to Board Members**

Q1: Do Board members have any questions or comments about the feedback received to date?

**Next steps**

37 In line with the draft project plan,<sup>8</sup> staff expect the following timeline for finalising the AASB submission to the ISSB:

<b>Activity</b>	<b>Timeline</b>
ED 321 comment period closes	15 July 2022
Draft comment letter to Board subcommittee for review	20 July 2022
Comments back from Board subcommittee	25 July 2022
Final comment letter to subcommittee for approval	28 July 2022
Submission of comment letter to the ISSB	29 July 2022

**Questions to Board Members**

Q2: Do Board members agree with the expected timeline for submission of a comment letter to the ISSB?

Q3: Which Board members would like to join the subcommittee to finalise the AASB submission to the ISSB Exposure Drafts?

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<sup>8</sup> See May 2022 (M187) Agenda Paper [6.2 \[Draft\] Sustainability Reporting project plan](#).