Dr Keith Kendall
AASB
Melbourne VIC

Dear Dr Kendall,

Comments on EDSR1

I am writing to provide comments on the recent exposure draft, as an active adviser and consultant in sustainability strategy, planning and reporting. Thank you for taking time to discuss the draft and for encouraging me to submit my feedback, I'll keep it brief. I have attached my initial notes related to key questions in Appendix A.

My background

Firstly, I would like to provide my background and interest area. I have science-based degrees and post graduate studies (Geology and environmental management), masters (Hydrogeology) and EMBA. I have been working in sustainability reporting for over 12 years of 30 years in resources. I am a certified GRI practitioner, and I have a keen interest in the inclusion of sustainability related information in financial reporting. I recently participated in workshops in Europe on integrated thinking and reporting and I attended the launch of the IFRS ISSB standards at the London Stock Exchange in June 2023 followed by the IFRS conference, where I met you and your team.

Key fundamental comments (related to Q1)

As discussed, my main feedback relates to the scope of EDRS1. Excluding ISSB S1's reference to sustainability in my view has challenges, listed below and I have described the potential impact on implementation and progress.

1. Climate is a significant issue and one of the most material sustainability topics, but not applying the standard requirements more broadly is disabling advancement, understanding and progress of other issues.
2. Short term, narrow view.
3. Australia will not be well placed for TNFD requirements.
4. Alignment with ASX Corporate Governance Council's Principles. Recent webinar hosted by Elizabeth Johnstone – Chair, ASX Corporate Governance Council discussed broad stakeholder concerns represented and section 7.4 remains unchanged requiring companies to disclose material environmental and social risks (Appendix B). The objective being the ***"creation of long-term sustainable value"***
5. Fixed short-term mindset – need growth, scientific and innovative mindset to ensure sustainable development.

Impact on company approach and sustainable development

Prior to the launch of IFRS ISSB S1 and S2 in 2023 I saw very positive moves in Companies as they started to integrate their teams through committees and working groups to tackle the understanding of sustainability impacts, risks and opportunities. Following the release of AASB EDSR1 the urgency for this broader perspective shifted to focus on climate. In my view companies should understand all their impacts on economy, environment, and people first and manage their most material topics from in impact point of view across all stakeholder groups (GRI impact materiality approach). See extract from GRI in Appendix B.. The impact materiality approach partnered with the identification of sustainability-related risks, opportunities will enable a holistic view of what could reasonably be expected to affect an entities cash flow, access to finance or cost of capital in the short, medium, or long term. Risk is pivotal to this process. When these teams come together, magic happens. This is a form of double materiality (in practice) to determine financially material sustainability information supported by a bottom-up scientific impact and risk approach and methodology.

AASB Reporting Vision

Looking into the future what does success look like for AASB? What do you want to see in financial reporting and are you supporting an integrated approach and report? An approach that is supported by the IFRS. Sustainable development for the future of Australia in the medium to long-term needs Companies to act now to understand their impacts, risks and opportunities across their value chain and prioritize the ones that require mitigation, management and assess how this affects the entities prospects financially.

I congratulate you on getting out an exposure draft and undertaking broad stakeholder engagement. I look forward to your updated draft and I welcome further discussions at any time.

Kind regards,

Sara

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Appendix A Responses to some key questions in the Exposure Draft

Questions	Comment	Suggestion
1 The AASB is proposing to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures. Therefore, in developing the [draft] ASRS Standards, all references to "sustainability" in IFRS S1 have been replaced with "climate".	Short term thinking Narrow view Material here and now but disabling advancement of other significant sustainability material issues. Impact on identification of impacts, risks and opportunities Exploration of companies – bottom-up approach are there any irreversible impacts now or potential in the future	Integrated approach Integrated reporting Integrated thinking One standard Integrated into business model. Fit into existing processes
2 Do you agree with the AASB's approach to make references to its *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of* ED SR1 8 INTRODUCTION *Statements* (in respect to not-for-profit entities) instead of duplicating definitions and contents	Agree Support as part of integration	
3 Do you agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2? Please provide reasons to support your view.	Yes	Need to explain why not
4 Do you agree with the AASB's views noted in paragraphs BC39–BC41? Please provide reasons to support your view.	Agree with not enforcing SASB but MOI with GRI and EFRAG ANZSIC, ISO other	GRI ?
5 Do you agree with the AASB's view that if an entity elects to make industry-based disclosures, the entity	Yes	

should consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC?		
6 Do you consider that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards)? Entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures. Please provide reasons to support your view.	Yes This is so important. Companies should know their impacts and manage them and report on them	
7 Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 to [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures. Do you agree with that proposed requirement? Please provide reasons to support your view.	No	Keep detailed index, not too onerous
9 Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard? Please provide reasons to support your view.	No	Keep open so many dependencies and interlinked issues

Appendix B GRI 1 Foundation 2021 and extracts from ASX Corporate Governance Principles and Recommendations

Box 1. Sustainability reporting and financial and value creation reporting

The GRI Standards enable organizations to report information about the most significant impacts of their activities and business relationships on the economy, environment, and people, including impacts on their human rights. Such impacts are of primary importance to sustainable development and to organizations' stakeholders, and they are the focus of sustainability reporting.

The impacts of an organization's activities and business relationships on the economy, environment, and people can have negative and positive consequences for the organization itself. These consequences can be operational or reputational, and therefore in many cases financial. For example, an organization's high use of non-renewable energy contributes to climate change and could, at the same time, result in increased operating costs for the organization due to legislation that seeks to shift energy use toward renewable sources.

Even if not financially material at the time of reporting, most, if not all, of the impacts of an organization's activities and business relationships on the economy, environment, and people will eventually become financially material issues. Therefore, the impacts are also important for those interested in the organization's financial performance and long-term success. Understanding these impacts is a necessary first step in determining related financially material issues for the organization.

Sustainability reporting is therefore crucial for financial and value creation reporting. Information made available through sustainability reporting provides input for identifying financial risks and opportunities related to the organization's impacts and for financial valuation. This, in turn, helps to make financial materiality judgments about what to recognize in financial statements.

While the impacts of the organization's activities and business relationships on the economy, environment, and people may become financially material, sustainability reporting is also highly relevant in its own right as a public interest activity. Sustainability reporting is independent of the consideration of financial implications. It is therefore important for the organization to report on all the material topics that it has determined using the GRI Standards. These material topics cannot be deprioritized on the basis of not being considered financially material by the organization.

Recommendation 7.4:

A listed entity should disclose:

(a) its material risks (including its material environmental, social and governance risks); and

(b) how it manages or intends to manage those risks.

Commentary

A listed entity should consider the material risks to its business model and strategy.

"Material risk" in this Recommendation relates to a risk which is material to a listed entity's prospects over the short, medium or longer term. The relevant time period will be individual to the circumstances of the entity.[90]

[88] This includes periods less than a financial year.

[89] See IIA Global Internal Audit Standards: < https://www.theiia.org/en/ >.

[90] For example, see the discussion of prospects and time frames in ASIC, *Regulatory Guide 247 Effective disclosure in an operating and financial review*, 247.55.

Entities may find it useful to consider their reasonably foreseeable risks, as well as their key stakeholders, when developing their reporting. Although paragraph (a) of this Recommendation makes reference to environmental, social and governance risks, it is not necessary to report against each of these categories individually. The use of this terminology is to assist entities in considering the range of risks that may be relevant to their organisation, beyond (for example) short-term financial risk.

In addition, several risks may span more than one category of risk. For example, corporate culture, cyber-resilience, and workplace health and safety issues may be governance or social risks and may develop into financial risks. Entities that believe that their prospects may not be impacted by any material environmental, social or governance risks should consider carefully their basis for that belief.

A listed entity may satisfy this Recommendation with a statement that includes references to disclosures in, for example, its operating and financial review in its directors' report (and, if it prepares a sustainability report[91] or an integrated report[92], disclosures in those reports).

An operating and financial review should disclose information that members of the listed entity would reasonably require to make an informed assessment of (amongst other matters) the business strategies, and prospects for future financial years, of the entity reported on.[93] It is not intended to result in disclosure of generic risks.[94]

While a sustainability report is not expected when reporting under this Recommendation, sustainability concepts may assist an entity in its approach to reporting its material risks. The sustainability of an organisation considers the interactions between the entity, the resources it uses to generate value, and its relationships. For example, this includes capital management, human capital management, considering the impact of technology on business models, the entity's impacts and dependencies on natural resources, and the interests of various stakeholders throughout the entity's upstream and downstream value chain.[95]

Listed entities should consider ongoing developments in sustainability standard setting when making disclosures under this Recommendation. Where no relevant standard as yet applies to the entity, entities may wish to consider global standards in developing their thinking on the material risk issues and metrics that may be relevant to their organisations.[96] (It may also assist in developing reporting which will become expected of listed entities that are within larger supply chains.)

An entity should have reasonable grounds for making disclosures under this Recommendation, particularly for forward-looking statements.[97] As a result, an entity may wish to provide relevant context to its forward-looking information.

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[91] [***Certain entities may be required to prepare sustainability reports, for example, in respect of climate-related financial disclosures under Chapter 2M.3 of the Corporations Act. Entities may also prepare other sustainability reporting content.***] [***NB: This assumes that sustainability reports are introduced as reflected in exposure draft legislation for climate-related financial reporting: Treasury Laws Amendment Bill 2024: Climate-related financial disclosure***.]

[92] In accordance with the International Integrated Reporting Council's ***International Integrated Reporting Framework***.

[93] Section 299A of the Corporations Act.

[94] For example, see ASIC, *Regulatory Guide 247 Effective disclosure in an operating and financial review*, 247.61-66.

[95] For example, sustainability-related risks and opportunities are referred to in sustainability financial-related reporting standards by reference to an entity's value chain of resources and relationships: see [the Australian Accounting Standards Board for Australian Sustainability Reporting Standards, including *ASRS1: General Requirements for Disclosure of Climate-related Financial Information*, Aus 2.1, and *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* (2023), paragraph 2.] [***NB: ASRS are in the course of development.***]

[96] Generally, governments are seeking to make their regulations and standards on matters such as climate and other sustainability as inter-operable as possible internationally, and for information to be presented in a comparable way. See the Australian Accounting Standards Board for Australian Sustainability Reporting Standards. Where Australian standards are in the course of development, entities may also find it useful to consider standards and guidance from the International Sustainability Standards Board.

[97] For example, see section 769C of the Corporations Act.