Mr Keith Kendall
Chair, Australian Accounting Standards Board
530 Collins Street
Melbourne Vic 3000

28 February 2024

Dear Keith

Deakin Integrated Reporting Centre Submission to AASB on ED SR1

Thank you for the opportunity for us as leaders of the Deakin University Integrated Reporting Centre to make a submission from the Centre on this important consultation.

The Deakin University Integrated Reporting Centre (DIRC) is an independent thought leadership centre with deep connections into academia, accounting and assurance standard-setting, and the business world. It provides leadership across three pillars of excellence in better business reporting and in particular integrated reporting: thought leadership and engagement, education and training, and research. It also provides the Secretariat for the Australian Business Reporting Leaders Forum (BRLF).

The BRLF is a discussion forum. It is the IFRS Foundation's designated Integrated Reporting Community for Australia and is a reporting stakeholder to the Financial Reporting Council (FRC). Accordingly, it has direct international connectivity and a strong local voice. Its mission is to drive better business reporting in Australia as well as contributing to the global discussion, with a focus on integrated reporting and integrated reporting assurance, and producing research, thought leadership and education in better business reporting including integrated reporting and integrated reporting assurance.

A Changed and Changing External Reporting Environment

The world has seen a period of rapid change in the corporate reporting ecosystem over the last few years as it became clear that sustainability reporting needed to be brought into the mainstream of corporate reporting in a clear and coherent, and consistent and comparable, manner at a time when such reporting had become fragmented, complex and additive. The tendency was to add on rather than work according to an underlying strategy, resulting in an increased corporate reporting burden over time, rather than reworking what is most relevant.

In response there has been unprecedented consolidation of relevant institutions and simplification of corporate reporting over the last three years. Of particular note were the creation of the International Sustainability Standards Board (ISSB) by the IFRS Foundation, such that the ISSB has now issued IFRS Sustainability Disclosure Standards S1 and S2; and the issue by the International Auditing and Assurance Standards Board (IAASB) of the exposure draft of its general requirements sustainability reporting assurance standard, ISSA 5000. We note internationally the move towards one system of sustainability reporting and a global baseline set of sustainability disclosure standards issued by the International

Sustainability Standards Board (ISSB), and audit and assurance standards issued by the International Auditing and Assurance Standards Board (IAASB), as core components of the overall corporate reporting ecosystem.

We note the concurrent consultation by Treasury on proposed climate-related financial disclosure legislation, which will put substance behind the enabling legislation passed in 2023 for the AASB to set sustainability-related financial reporting standards. Pleasingly, through Treasury's climate reporting consultation, Australia is now moving towards international alignment.

We also note with endorsement the intention expressed by Treasury to be aligned with international disclosure and assurance standards to the maximum extent possible. In this regard we note the November 2023 sustainable financing strategy consultation paper, which on page 10 stated:

> "The Government will continue to closely monitor international developments on sustainability disclosure frameworks. Expanded sustainability disclosure requirements in Australia will be considered as international standards emerge, consistent with the commitments Australia has made to support global efforts to strengthen nature and biodiversity related reporting."

This submission is made in the context of the above developments and is consistent with earlier submissions made by DIRC on relevant consultations. Our submissions focus on:

- maximised international alignment.
- more integration in reporting.
- use of one integrated report as the primary corporate report.

These themes are consistent with the main objects set out in Section 224 of the ASIC Act:

- facilitating the Australian economy by reducing the cost of capital.
- enabling Australian entities to compete effectively overseas.
- having accounting and auditing standards (to be expanded to sustainability reporting and assurance standards) that are clearly stated and easy to understand.
- maintaining investor confidence in the Australian economy including its capital markets.

However, the proposed Australian Sustainability Reporting Standards do not achieve alignment with IFRS Sustainability Disclosure Standards, neither in form nor substance. In our view this is not consistent with the core objects set out in the ASIC Act or government policy, which is for a 'climate-first' strategy.

In relation to international alignment academic research exists evidencing benefits from international alignment in terms of the cost of capital, and better use of information by analysts and investors.

Australia does not currently have direct representation on the IFRS Foundation Trustees and ISSB Board. This constrains the ability of Australia to influence standard setting in the first place, enabling it to be more of standards taker than a standards setter) and so allowing precious Australian resources to be more focused on driving and supporting adoption.

On the basis of its contribution to achievement of the core objects set out in section 224 of the ASIC Act, the available academic research, and the improved prospects of direct Australian representation on international institutions such as the IFRS Foundation Trustees and ISSB, we re-iterate the imperative of maximum international alignment.

Our submission to Treasury on its proposed climate disclosure legislation package stated the following:

> "It is imperative that a 'climate-first' not 'climate-only' strategy with policy and legislative backing be communicated urgently through this climate reporting package if the AASB is to act and achieve true international alignment. It is not too late to broaden ASRS 1 to be fully aligned with S1 and embrace broader sustainability matters, even its release is delayed slightly beyond the release of ASRS 2 but retaining the same effective date.'

We re-iterate this statement. This submission to the AASB proposes three broad themes - that:

1. Australian Sustainability Reporting Standards reflect a 'climate-first, not climate-only' strategy.
2. full international alignment of those standards with IFRS Sustainability Standards within the bounds of government policy, legislation and the institutional environment be pursued.
3. The location of ASRS 1 and ASRS 2 disclosures be specified - in an independently assured integrated report in accordance with the Integrated Reporting Framework.

Australian entities must be able to state that they comply with IFRS Sustainability Disclosure Standards <u>by</u> complying with Australian Sustainability Reporting Standards.

Our concerns and proposed solution are further explained in the attached submission. We make this submission on behalf of the DIRC and offer any required assistance to the AASB.

Yours faithfully

John Stanhope AM
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Chair, Deakin University Integrated Reporting Centre Advisory Board

Michael Bray
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Professor Roger Simnett AO
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Executive Director, Deakin University Integrated Reporting Centre

Submission by Deakin Integrated Reporting Centre to the AASB

Executive Summary

While we are generally supportive of the proposals put forward in ED SR1, we have a major concern about the proposed standards: are they Climate-first or climate-only? ES SR1 proposes 'climate-only' Australian equivalents to S1 and S2. Does that achieve international alignment to the maximum extent possible? We believe not.

The proposed Australian equivalent of S1 (ASRS 1) is drafted on a climate-only basis. If the climate-only approach is retained, ASRS 1 will need to be amended for each new Australian Sustainability Reporting Standard that is introduced, rather than the approach used in S1 of providing a conceptual basis (based on the Integrated Reporting Framework and TCFD Recommendations) and a catch-all standard for sustainability-related financial disclosures beyond climate before topic-specific standards are introduced. ASRS 1 needs to be 'future-proofed' now.

Industry-specific disclosures are fundamental to IFRS Sustainability Disclosure Standards. The ISSB's strategy has been to internationalise SASB Standards to enable this. The AASB is proposing not to require the adoption of that aspect of S2 which reflects internationalised SASB Standards. This is a key aspect of the proposed ASRS 2 not being internationally aligned.

As such, the proposed ASRS 1 and 2 do not achieve international alignment in form or in substance. This is not good for attracting international investment in Australia, nor for meeting the main objects set out in section 224 of the ASIC Act, particularly when one of the drivers of international finance being available is attention to broader sustainability matters. The proposed ASRS 1 and 2 will take Australia further behind the UK, EU and some other jurisdictions, as evidenced in the February 2024 IFAC report, 'The State of Play' Sustainability Disclosure and Assurance – 2019-2022 Trends & Analysis'.

In our view, the AASB should make clear that climate-related disclosures are the first in a series of sustainability-related financial disclosures which are aligned to the maximum extent possible with S1 and S2:

- Giving investors and other stakeholders confidence that Australian sustainability reporting will be truly internationally aligned.
- Confirming that it has the mandate to fully align Australian Sustainability Reporting Standard 1 (ASRS 1) with IFRS Sustainability Disclosure Standard S1 (S1), such that the ISSB formally endorses Australia as being internationally aligned.

It seems clear to us that there is no legislation, policy commitment or Ministerial / regulatory directive that Australian Sustainability Reporting Standards (ASRS) will be limited to climate-related matters. On the contrary Treasury's November 2023 sustainable financing strategy consultation paper stated that the policy is 'climate-first' and not 'climate-only'. There is nothing in either the Corporations or ASIC Acts to suggest that the AASB, as an independent standard-setter, should have its independence fettered by Treasury directives. Finally, the Corporations Act appears to anticipate limited to change to IFRS Accounting Standards in Australian equivalents, as do recent proposed changes to the Acts to go deeper into sustainability reporting standard setting.

The recent amendments to the ASIC Act in sections 227 (4) and (5) now grant the AASB with the power to set sustainability reporting standards. This power is not restricted to setting climate disclosure standards. The Act also references 'international sustainability standards' which are defined in terms of the ISSB's IFRS Sustainability Disclosure Standards. Subsections 228(1) and (2) and 229(1) have also been altered to replace 'accounting standards' with 'applicable standards'. Accordingly, there is no impediment to the AASB setting sustainability reporting standards in addition to climate disclosure standards now, and aligning these to the maximum extent possible with IFRS Sustainability Disclosure Standards. Indeed, to not do so would be inconsistent with government policy as expressed by Treasury.

Together, these paragraphs indicate an intention for Australian standards to mirror international standards except where this would be inconsistent with the Australian legal or institutional environment. None of the departures from IFRS Sustainability Disclosure Standard being proposed by the AASB meet this intention. In addition, there is nothing in the Australian 'institutional environment' which would indicate otherwise.

That Act also amended the powers of the FRC in parallel fashion. Under Section 225 (1A)[1], the FRC functions now include knowing international sustainability reporting and assurance developments, and oversight

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[1] Paragraph 225(1)(a) (as amended) relates to the FRC's powers: (a) to provide broad oversight of the processes for setting in Australia: (i) accounting standards; and (ii) auditing standards; and (iii) sustainability standards; and Under the Treasury Laws Amendment Bill 2024: Climate-related financial disclosure, section 9 of the Corporations Act will also be amended: 'Sustainability standard' means a standard in force under section 336A; or a provision of such a standard as it so has effect."

Section 336A also now refers to sustainability standards: "(1) The AASB may, by legislative instrument, make sustainability standards for the purposes of this Act or the ASIC Act. The standards must not be inconsistent with this Act, the regulations or a legislative instrument made under this Act."

Under Section 225 (1A), the FRC functions now include knowledge of the international sustainability reporting and assurance developments, and oversight over sustainability reporting and assurance standards as well as accounting and audit standards:

a) monitoring the development of international accounting standards, international auditing standards and international sustainability standards; and
b) monitoring the development of the accounting standards, auditing standards, and sustainability standards that apply in major international financial centres; and
c) furthering the development of a single set of each of the following for world-wide use with appropriate regard to international developments: (i) accounting standards; (ii) auditing standards; (iii) sustainability standards; and

over sustainability reporting and assurance standards as well as accounting and audit standards. There is no mention in these powers and functions of government policy.

Location of disclosures under ASRS 1 and ASRS 2

It is clear that disclosures under ASRS 1 and ASRS 2 must be located in an entity's general purpose financial reporting, other than in the financial statements, where sustainability-related disclosures may need to be made under Australian Accounting Standards. However, that leaves room for wide variation in where those disclosures need to be made. For example, they could be located in the Directors Report, Review of Operations / Operating and Financial Review, Remuneration Report or Corporate Governance Statement. The Sustainability Report / Climate Statement proposed in the 'Treasury Laws Amendment Bill 2024: Climate-related financial disclosure' will address this matter, but this will create its own issues in terms of adding to the volume and complexity of reporting by adding another new report.

In this regard, we refer to our submission on this matter to Treasury. In that submission we state that the ideal location for disclosures under ASRS 1 and ASRS 2 will be in an integrated report prepared in accordance with the Integrated Reporting Framework or an Operating and Financial Review (OFR) prepared in accordance with the Integrated Reporting Framework. Such reports will provide suitable criteria for assurance under international and Australian assurance standards.

We recommend that the AASB work with ASIC and the ASX Corporate Governance Council in relation to elevating the integrated report / OFR to the status of an Australian Sustainability Reporting Standard, even if this is in advance of an international 'location' project pursued by the IFRS Foundation. This will follow the precedent set by Brazil, where the securities regulator issued an integrated reporting and assurance mandate for large listed public companies in 2021[2].

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d) promoting the continued adoption of international best practice: (i) accounting standards; and (ii) auditing standards; and (iii) sustainability standards; in the Australian standard-setting processes if doing so would be in the best interests of both the private and public sectors in the Australian economy; and

e) monitoring the operation of: (i) accounting standards; and (ii) auditing standards; and (iii) sustainability standards; to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy; and

f) monitoring the effectiveness of the consultative arrangements used by the AASB and the AUASB."

[2] The PRESIDENT OF THE BRAZILIAN SECURITIES COMMISSION (CVM) … adopted the following Resolution (Resolution 14): "Article 1 - Makes 'CPC Guideline 09 – Integrated Report', issued by the Accounting Pronouncements Committee - CPC, attached to this Resolution, mandatory for publicly-held companies that decide to prepare and disclose the Integrated Report. Article 2 - The Integrated Report shall (or must**)** be subject to limited assurance by an independent auditor registered with the CVM in accordance with the rules issued by the Federal Accounting Council (CFC)." So this is an 'opt in' resolution with first mandatory adoption in 2022. Given the market environment there has been a significant number of companies subject to the resolution opting in to the integrated reporting and assurance mandate.

Avoiding Early Experience of Aligning Australian Accounting Standards and IFRS Accounting Standards

To not pursue maximum alignment of ASRS with IFRS Sustainability Disclosure Standards would be to place Australian entities in the same position as they were in for the 2005-09 period when the International Accounting Standards Committee (IASC) had transitioned to the IFRS Foundation and International Accounting Standards Board (IASB) and IASC standards were replaced by IFRS Accounting Standards. IASC standards had retained alternative accounting treatments and the IASB removed these choices.

The Australian Accounting Standards Board (AASB) retained those choices between 2005 and 2009. Some Australian companies were happy about this as they could keep doing what they were doing. Others were frustrated that they had to make complex compliance disclosures as they could not say that they were meeting IFRS Accounting Standards simply by complying with Australian Accounting Standards. They had to incur additional cost to also claim compliance with IFRS Accounting Standards and risked confusing potential international investors, affecting their international competitiveness and cost of capital. This situation was rectified in 2009.

Australia needs to avoid making the same mistake now. It needs to be made as easy as possible for Australian entities to claim adoption of S1 and S2 *by* complying with ASRS. Barriers to raising sustainability funding internationally need to be minimised. It is imperative that ASRS 1 and ASRS 2 extend to all sustainability matters as envisaged in S1 and S2.

Our submission to Treasury on its proposed climate disclosure legislation package stated the following:

> "It is imperative that a 'climate-first' not 'climate-only' strategy with policy and legislative backing be communicated urgently through this climate reporting package if the AASB is to act and achieve true international alignment. It is not too late to broaden ASRS 1 to be fully aligned with S1 and embrace broader sustainability matters, even its release is delayed slightly beyond the release of ASRS 2 but retaining the same effective date.'

We re-iterate this view. This submission to the AASB proposes three broad themes - that:

1. Australian Sustainability Reporting Standards reflect a 'climate-first, not climate-only' strategy.
2. full international alignment of those standards with IFRS Sustainability Standards within the bounds of government policy, legislation and the institutional environment be pursued.
3. the location of ASRS 1 and ASRS 2 disclosures be specified - in an independently assured integrated report in accordance with the Integrated Reporting Framework.

Australian entities must be able to state that they comply with IFRS Sustainability Disclosure Standards <u>by</u> complying with Australian Sustainability Reporting Standards.

Questions Asked by AASB

We preface our responses to all questions by saying that one central theme permeates our responses to each question: Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. This means extending Australian Sustainability Reporting Standards beyond climate matters in the manner envisaged by S1. We see no reason that the Australian equivalents of S1 and S2 (ASRS 1 and ASRS 2) cannot be fully aligned with S1 and S2.

To avoid unnecessary repetition, when this theme is central to our response to a question, we simply say, "We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible.

Presenting the core content of IFRS S1 in draft ASRS

Question One. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Option 2 best achieves this. Accordingly, we prefer Option 2 – two ASRS Standards with the same requirements in respect to disclosures of governance, strategy and risk management to be included in both Standards. We see no substantive need to diverge.

Replacing duplicated content with references to the Conceptual Frameworks

Question Two. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Accordingly, we do not agree with the AASB's approach to make references to its Conceptual Framework for Financial Reporting (in respect to for-profit entities) instead of duplicating contents of that Framework in [draft] ASRS 1 and [draft] ASRS 2.

Entities that do not have material climate-related risks and opportunities

Question Three. We do not agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2:

- In relation to paragraph Aus6.2, Australian equivalents of S1 and S2 should not be subject to Australian Government policy. In any event as far as we are aware S1 and S2 are not inconsistent with Australian Government policy.
- In relation to paragraph 4.2, in our view, the combination of a fully aligned ASRS 1 and ASRS 2, in combination with Treasury's proposed powers of ASIC, will address this matter. These are disclosure standards which are the responsibility of boards of directors, and subject to independent external assurance.

> A proper application of S1 and S2 – making disclosures about governance, strategy and risk management in relation to climate risks and opportunities will reveal to users the reasoning of directors as to why they have assessed that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Such statements will be subject to independent external assurance and ASIC surveillance.

Integrated reports in accordance with the Integrated Reporting Framework and containing ASRS 1 and ASRS 2 disclosures will contain a description of the organisation's materiality determination process (refer also our response to Question 32).

Modifications to the baseline of IFRS S1 for [draft] ASRS 1 - Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards

Question Four. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. We do not agree with the AASB's views noted in paragraphs BC39–BC41 for the following reasons:

- The final S1 and S2 do not require the application of the SASB Standards or disclose the industry-based metrics proposed in the exposure draft of S2. They require that SASB Standards be considered.
- The international effective date for first disclosures under S2 was deferred for one year beyond those under S1.
- Appendix B of S2 is just that – guidance. It is not a requirement. However, while it can be disregarded by individual jurisdictions it does provide helpful guidance.
- Other jurisdictions have made the time to enable their sustainability-related financial standards to be internationally aligned.

Question Five. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. We do not believe that ASRS 2 signalling out ANZSIC classifications as the basis for entities electing to make industry-based disclosures as distinct from SIC classifications, is misaligned with S2 in a significant way.

These classification systems are aligned to a significant extent, and the ANZSIC codes are widely used (eg by The ATO and many other government agencies:

https://www.abs.gov.au/ausstats/abs@.nsf/0/5573827718D9D06DCA25711F00146D6C?opendocument.

For all Australian businesses and departments to realign may be costly. Our main point is that there should be as close alignment with S2 as possible, as evidenced by the fact that many Australian businesses are international and capital is international.

Question Six. ASRS should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards) on the basis that entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures.

Online repositories can be used to locate more detailed disclosures.

An integrated report in accordance with the Integrated Reporting Framework and containing ASRS 1 and ASRS 2 disclosures must also be concise (refer our response to Question 32).

Disclosing the location of the entity's climate-related financial disclosures

Question Seven**.** We concur with the AASB adding 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 for the reasons set out in the AASB's Basis for Conclusions.

An online repository can be used to house the proposed index table and other detailed disclosures.

An integrated report prepared in accordance with the Integrated Reporting Framework and containing ASRS 1 and ASRS 2 disclosures would contain a Basis of Preparation and Presentation which would be an ideal location for the link to the index table (refer also our response to Question 32).

Interim reporting

Question Eight**.** We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Accordingly, we do not agree with the proposed omission of IFRS S1 paragraphs 69 and B48.

Modifications to the baseline of IFRS S2 for [draft] ASRS 2 - Scope of [draft] ASRS 2

Question Nine**.** Other climate-related emissions such as ozone depleting emissions will be caught by a fully internationally aligned ASRS 1 if they are material.

Climate resilience

Question 10**.** We make no comment on the proposal in [draft] ASRS 2 paragraph Aus22.1. However, S2 is not prescriptive in relation to how many scenarios are required to be disclosed. Accordingly, entities will comply with S2 by complying with paragraph Aus22.1.

Question 11. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Accordingly, we agree with the AASB's view that it should not specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis as this would not be aligned with S2.

Cross-industry metric disclosures (paragraphs 29(b)–29(g))

***Question 12*.** We consider that the cross-industry metric disclosures set out in paragraphs 29(b)–29(g) of IFRS S2 (and [draft] ASRS 2) would provide useful information to users, particularly international investors, about an entity's performance in relation to its climate-related risks and opportunities.

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

***Question 13*.** We agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose the information described in the points in ED SR1. This would result in information useful to users being provided.

This information would put remuneration disclosures into the business context of the required governance, strategy and risk management disclosures in S2 and can be cross-referenced to more detailed information in the remuneration report (refer also to our response to Question 32 – material remuneration disclosures will be contained in the performance section of integrated reports prepared in accordance with the Integrated Reporting Framework).

Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19–AusB63.1 and Australian application guidance) - Definition of greenhouse gases

***Question 14*.** We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Accordingly, we agree with the AASB's proposal to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification.

Converting greenhouse gases into a CO2 equivalent value

Question 15. We agree with the AASB's view that an Australian entity should be required to convert greenhouse gases using GWP values in line with the reporting requirements under the NGER Scheme legislation as this would be consistent with S2.

Market-based Scope 2 GHG emissions

***Question 16*.** We agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2. They do not represent a departure from S2 as they require additional disclosures complementing the location-based disclosure requirements of S2, brought in on a phased basis. This will limit the ability for entities to 'cherry pick' whether they provide market-based disclosures or not.

GHG emission measurement methodologies

Question 17. We agree with the AASB's position on the basis that S2 would allow this practice.

Providing relief relating to Scope 3 GHG emissions

Question 18. We agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2 as it would comply with S2.

Scope 3 GHG emission categories

***Question 19*.** We make no comment on this question.

Financed emissions

***Question 20*.** We make no comment on this question.

Superannuation entities

***Question 21*.** We make no comment on whether there are circumstances specific to superannuation entities that would cause challenges for superannuation entities to comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2.

Carbon credits

***Question 22*.** We agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2 as this would not be inconsistent with S2.

Questions specific to not-for-profit entities

***Question 23*.** We make no comment in relation to not-for-profit entities. However, we see no reason why S1 and S2 would not be appropriate for not-for-profit entities.

Question 24. We support the provision of additional guidance in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures. Not-for-profit entities, along with SME businesses, will require most assistance in preparing themselves to make disclosures under Australian equivalents of IFRS Sustainability Disclosure Standards. That guidance would summarise and cross-reference to various sources of international guidance, including getting started guidance, provided by the ISSB and other bodies such as IFAC and ACCA; as well as local guidance from bodies such as CAANZ and CPA Australia. This will be of great assistance for those least resourced to do the required research to find relevant and useful sources of guidance.

Questions 25 and 26. We make no comment in relation to not-for-profit entities. However, we see no reason why S1 and S2 would not be appropriate for not-for-profit entities.

Question 27. Not applicable.

Questions specific to not-for-profit public sector entities

Questions 28 and 29. We make no comment in relation to public sector not-for-profit entities. However, we see no reason why S1 and S2 would not be appropriate for public sector not-for-profit entities.

General matters for comment

Question 30. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Accordingly, proper application of the AASB Sustainability Reporting Standard-Setting Framework (September 2023) should have resulted in fully aligned ASRS 1 and ASRS 2.

Question 31. In our view, the following regulatory or other issues arising in the Australian environment may affect the implementation of the proposals:

- The lack of recognition of Australia by the ISSB for providing Australian Sustainability Reporting Standards which are sufficiently aligned with IFRS Sustainability Disclosure Standards.
- The stalled momentum for integrated reporting adoption in Australia given the IFRS Foundation not yet providing definitive signals on the future of integrated reporting now that it owns the Integrated Reporting Framework; and the lack of an integrated reporting mandate in Australia, either under legislation, standards, regulation or under 'if not, why not?' Recommendations 4.3 and 7.4 of the ASX Corporate Governance Principles and Recommendations.
- This is a whole-of-system issue. It is not just about legislation, regulation and standards.

  The capacity of all market participants to make and use the required reporting in the envisaged timeframes is not clear. This includes preparers, assurance practitioners, investors, data providers, advisors, the FRC, AASB and AUASB, the professional accounting bodies named in the ASIC Act (Chartered Accountants Australia and New Zealand, CPA Australia and the IPA), ASIC as regulator, and universities and other education providers. In this regard we refer to the Deakin University submission on Treasury's 2022-23 discovery consultation.
- The applicability of the Registered Company Auditor regime to sustainability reporting and assurance. Such a regime will be essential if compliance with Australian Sustainability Reporting Standards is to be effectively enforced.

Question 32. The objective set out in paragraph 30 of the proposed ASRS 2 (and like paragraphs in other standards) and application guidance in Appendix B are a practical way of approaching the difficulties of assembling the required information, particularly in early years when processes and systems are not fully mature:

> Paragraph 2 of ASRS 2: "In preparing disclosures to meet the requirements in paragraph 29(b)–(d), an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort."
>
> "B8. Reasonable and supportable information used by an entity in preparing its climate-related financial disclosures shall cover factors that are specific to the entity as well as general conditions in the external environment. In some cases—such as in identifying climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects—reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. Other Australian Sustainability Reporting Standards may specify what is reasonable and supportable information in specific cases.
>
> B9. An entity may use various sources of data that may be both internal and external. Possible data sources include the entity's risk management processes; industry and peer group experience; and external ratings, reports and statistics. Information that is used by the entity in preparing its financial statements, operating its business model, setting its strategy and managing its risks and opportunities is considered to be available to the entity without undue cost or effort.
>
> B10. An entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change."

These paragraphs will require the exercise of significant professional judgement by preparers and assurance practitioners. It will also the exercise significant judgement by ASIC as regulator. ASIC will need to be able to strike the right balance in the early years of adoption of Australian Sustainability Reporting Standards when processes and systems will be maturing in evaluating how such provisions have been applied – what is an 'exhaustive search'? What is 'undue cost and effort'? What are the benefits for primary users? What circumstances may change? The FRC, AASB, AUASB and ASIC, will need to provide guidance on how they see these matters.

In our view the proposals do not create any other auditing or assurance challenges in their own right. Challenges in relation to assurance will relate more to the location in which ASRS 1 and ASRS 2 disclosures are located in general purpose financial reporting.

Such disclosures would be best located in the strategic business context of an integrated report prepared in accordance with the Integrated Reporting Framework. Such reports would contain a director responsibility statement under paragraph 1.20 of the Integrated Reporting Framework, and a Basis of Preparation and Presentation under Section 4H of the Integrated Reporting Framework which will contain:

- A brief summary of the organisation's materiality determination process.
- A description of the reporting boundary and how it has been determined.
- A summary of the significant frameworks and methods used to quantify or evaluate material matters. This would include the Integrated Reporting Framework, Australian Sustainability Reporting Standards and Australian Accounting Standards.

  It would also describe entity-defined ways of measuring other business-critical metrics in relation to performance – for example, in relation to governance and strategic management, customer satisfaction and innovation. It should also describe the entity's reporting process, including processes for ensuring the integrity of corporate reports and the information included therein.

  This will be consistent with disclosures made under Recommendation 4.3 of the ASX Corporate Governance Principles and Recommendations and the process disclosures recommended in paragraph 1.24 of the Integrated Reporting Framework.

Question 33. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Subject to our responses being accepted the proposals would result overall in climate-related financial information that is useful to users.

In relation to SME's and not-for-profits the information would be useful depending on who the users are. In some circumstances for SME's there may only be one shareholder who will see the report in which ASRS disclosures are located. In this circumstance the information may not be helpful. However, if the report is made public it would be useful for a wider range of stakeholders i.e. customers, suppliers, employees etc. There could also then be a commercial benefit for preparing climate-related financial information.

In specific relation to non-for-profits, it would be helpful for a range of users, especially those who provide grants and funding.

Question 34. We re-iterate our recommendation that Australia needs to be aligned with the ISSB and its standards to the maximum extent possible. Subject to our responses being accepted the proposals are in the interests of the Australian economy.

The information required to be disclosed will give users more understanding of the risks and opportunities that an entity faces. It will also help those charged with governance to understand the entity's carbon footprint, which in the long term may help with pollution and waste, which may have a flow on effect on benefit the health of individuals and put less strain on the health system.

Question 35. Our recommendations are directed to the main objects set out in section 224 of the ASIC Act and are directed to benefits in terms of the cost of capital, international competitiveness and confidence in Australian capital markets, particularly by major international investors.