Emmanuel Faber
Chair
International Sustainability Standards Board
IFRS Foundation
Colombus Building
7 Westferry Circus
Canary Wharf, London E14 4HD
UNITED KINGDOM

28 July 2022

Dear Mr Faber,

ISSB Exposure Drafts on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*

The Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) are pleased to have the opportunity to provide comments on the International Sustainability Standards Board (ISSB) Exposure Drafts on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures* published 31 March 2022.

The AASB and AUASB have publicly expressed support for the establishment and ongoing work of the ISSB. Sustainability-related disclosure standards fall within the scope of external reporting in Australia, with the AASB and AUASB's mandate covering the development, issuance and maintenance of accounting, external reporting, auditing and assurance standards and guidance that are principles-based, meet the needs of external report users and are enforceable.

In formulating this response, the views of Australian stakeholders were sought and considered. This consultation included:

- Consultation with the AASB's User Advisory Committee;
- Consultation with the AASB-AUASB Sustainability Reporting Project Advisory Panel, which comprises subject matter experts across a range of stakeholder groups (including regulators);
- Publication of the ISSB's Exposure Drafts in Australia,[1] to which the AASB received 29 comment letters and 17 survey responses; and
- Consultation on the ISSB's Exposure Drafts. We conducted 15 roundtables and public outreach events, as well as a number of individual stakeholder meetings. Overall, we met with over 200 stakeholders, representing a wide range of Australian stakeholders, including preparers of financial statements and sustainability-related disclosures, assurance providers, professional and industry bodies, regulators, academics and users.

The AASB and AUASB acknowledge the efforts of the ISSB to address the globalisation and standardisation of sustainability-related financial reporting. Overall, we support the intended scope

[1] In April 2022 the AASB published ED 321 Requestion for Comment on ISSB [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*. ED 321 was also accompanied by a survey.

and direction of the ISSB's work. However, we are of the view that the proposals in the Exposure Draft of [Draft] IFRS S1 and [Draft] IFRS S2 will not, in their current form, achieve the intended objective of improving consistency, comparability and transparency of sustainability-related financial reporting. In particular, we have some significant concerns regarding the proposed structure and content of [Draft] IFRS S1 and [Draft] IFRS S2, as noted below.

Defining sustainability

The AASB and AUASB observe that [Draft] IFRS S1 lacks a definition or explanation for what is meant by 'sustainability' in the context of the IFRS Sustainability Disclosure Standards. There are many different (sometimes conflicting) definitions and interpretations of sustainability. Accordingly, there are many different interpretations of the intended scope of the IFRS Sustainability Disclosure Standards. To achieve consistency and comparability in reporting sustainability-related financial information, especially in the absence of a full suite of standards, we recommend that the ISSB define in [Draft] IFRS S1 what 'sustainability' means in the context of its ongoing work.

Scalability of the IFRS Sustainability Disclosure Standards

Given the complexity of the proposed requirements in both [draft] standards and the scale of reporting needed to achieve compliance, we are concerned that many small-to-medium entities (SMEs) would be unable to apply the IFRS Sustainability Disclosure Standards. We recommend that the ISSB reconsider its proposals to support the widespread application of its standards through:

(a) learning from the International Accounting Standards Board (IASB) regarding the understandability and accessibility of their IFRS Accounting Standards;
(b) using consistent language throughout the proposed and future standards to support understandability and translation into other languages;
(c) ensuring key terms are clearly defined and consistently used throughout the proposed and future standards to support understandability and translation into other languages;
(d) considering the complexity and granularity of the requirements in the proposed and potential future standards, some disclosures are ‘nice to have’ rather than necessary. Further, some complex disclosure requirements could be simplified by requiring qualitative information rather than quantitative information; and
(e) considering that the complexity and granularity of the requirements in proposed and future standards present a particular challenge for auditors and assurance providers to SMEs. These entities may not have the capability or capacity to obtain evidence supporting the required disclosures, especially in the initial implementation periods as systems, processes, and controls are developed.

Conceptual framework versus general requirements

[Draft] IFRS S1 appears to act as both a conceptual framework and a standard addressing general disclosure requirements. In the AASB and AUASB's view, the standard should focus only on general requirements, with elements relating to conceptual principles being located in a separate conceptual framework. We note that the conceptual elements included in [Draft] IFRS S1 align with the IFRS Foundation's *Conceptual Framework for Financial Reporting* (*Conceptual Framework*), so we question the need to duplicate these conceptual elements in [Draft] IFRS S1. We recommend that the IASB and the ISSB work together to amend the *Conceptual Framework,* which governs the IFRS Foundation's standard-setting activities for general purpose financial reporting.

Boundary of reporting and the value chain

The AASB and AUASB received significant feedback from Australian stakeholders regarding what the proposed boundary of reporting is when considered in conjunction with the 'value chain'. The proposed value chain definition lacks clarity to the extent that there is no clear or consistent understanding of what information falls within an entity's value chain. We recommend that the 'value chain' concept be limited to activities, resources and relationships over which the reporting entity has control. We further recommend that the ISSB provide sufficient guidance to ensure that the value chain concept is consistently understood and applied.

Definition of material

The AASB and AUASB agree with the proposed definition of material and its alignment with the definition of material in the IFRS Foundation's *Conceptual Framework*. However, we have concerns about the consistent application of the definition in the context of sustainability-related financial reporting. Sustainability-related matters are not traditionally reported under, prepared, or used by individuals with a strong understanding of IFRS Accounting Standards. For example, the relevant preparers for much of this information will likely be legal and professional experts that work in the fields of, for example, climate and environmental sciences, human rights and modern slavery. Furthermore, as evidenced by the work of the IASB, users are often not familiar with financial accounting concepts and definitions.

Consequently, while financial accountants are familiar with the existing definition of material and the related supporting guidance in IFRS Practice Statement 2 *Making Materiality Judgements*, the individuals to which these proposed requirements are most relevant may not be. We recommend that the ISSB add guidance on the application of the definition of material to help ensure consistent application by stakeholders. We also recommend the ISSB and IASB work together to consider amending and modifying IFRS Practice Statement 2 *Making Materiality Judgements* to make clear the applicability of that guidance to IFRS Sustainability Disclosure Standards and broader general purpose financial reporting.

Enterprise value and connectivity with the financial statements

The AASB and AUASB note a lack of clarity around the interaction of sustainability-related financial disclosures and general purpose financial statements. In particular, feedback from Australian stakeholders indicates that there is confusion about:

(a) where the financial statements fit in with users' assessments of enterprise value; and
(b) how sustainability-related financial disclosures will be used in users' assessments of enterprise value.

Enterprise value is a fundamental concept in the ISSB's current and ongoing work. We recommend that the ISSB develop additional explanation and guidance on enterprise value and how it interacts with general purpose financial reporting and statements as part of a conceptual framework or through amending the existing *Conceptual Framework*.

Effective date

Consultation with preparers and assurance providers in Australia indicates that the effective date of the [draft] standards should be, at minimum, two to three years after the date of issue with early application permitted. This effective date will help ensure that entities that can do so can apply the requirements while also providing sufficient time for others to develop the capabilities, systems and processes needed to comply with the [draft] standards. This is because:

(a) **The current skill and resource gap in the market is significant.** There is a lack of sufficiently skilled resources in the global and domestic market, and it will take time to develop and educate the resources required to support widespread compliance with sustainability-related reporting requirements.
(b) **The current quality of data in the sustainability reporting space is poor.** The [draft] standards would force the quality of relevant data to improve in the long-term, but the quality of the data that currently exists would not be sufficient to comply with the proposals.
(c) **Many of the systems and processes needed to collect the necessary data to comply with the [draft] standards do not exist.** The systems and processes required to collect and report on all an entity's sustainability-related risks and opportunities will need to be developed and built over time to ensure reporting can occur at the scale necessary to comply with the [draft] standards.
(d) **The proposals in the [draft] standards are complex.** The transition to IFRS Sustainability Disclosure Standards will not be simple and, in some cases, will require entities to significantly alter their business operations (for example, through internal restructuring to develop reporting teams capable of supporting sustainability reporting in the long-term) which requires time.
(e) **Entities will benefit from additional time to implement systems and processes effectively before they are subject to independent assurance.** Recognising the complexity and qualitative nature of the requirements, extending the effective date allows entities additional capacity to develop effective systems, processes and controls to support sustainability reporting before they need to be scrutinised by auditors or assurance providers.

Appendix B to [Draft] IFRS S2

The AASB and AUASB strongly disagree with the proposed industry-based requirements in Appendix B to the [draft] standard. While we note that many Australian stakeholders are of the view that industry-based metrics would be helpful, based on the feedback from those stakeholders and our own initial assessment, we are of the view that the proposals in Appendix B to the [draft] standard are not currently appropriate for use in the Australian market. Furthermore, the SASB Standards from which the proposed metrics were taken have not previously been exposed for public consultation in Australia. Consequently, we recommend that Appendix B be removed from [Draft] IFRS S2 and referred to only as non-mandatory guidance outside the [draft] standard until the ISSB has the time to consult on, review and amend the proposed content appropriately.

We are specifically concerned about:

(a) **the insufficient public consultation period for Australian stakeholders to be able to appropriately consider the proposals** in Appendix B in addition to the body of [Draft] IFRS S2 and also [Draft] IFRS S1—that is, the public consultation of both Exposure Drafts overlaps with

Australia's financial year-end and, as a result, stakeholders could not commit resources to respond to all of the ISSB's proposals;

(b) **the appropriateness of the proposed industry descriptions and industry-based requirements for use in Australia**. Feedback indicated that many of the proposals are US-centric and not representative of the Australian or global markets;

(c) **the volume of content being proposed in Appendix B to [Draft] IFRS S2.** We question how stakeholders, including national standard-setters, would be able to keep up and comply with future standards if each thematic standard is accompanied by several hundred pages of detailed industry-based requirements that must be reviewed and maintained. We also question the capacity and ability of the ISSB to maintain that volume of work while also working to develop new standards and requirements; and

(d) **how the proposed industry-based metrics relate to climate.** Because of a lack of definition of 'climate' in the [draft] standards, it is unclear what the boundary of the [Draft] IFRS S2 is. Furthermore, feedback indicates that many proposed metrics do not relate to climate.

Permitting the application of professional judgement is the foundation of principles-based standard setting. It is impossible to develop rules-based requirements for every scenario, such as those proposed in Appendix B to [Draft] IFRS S2. Furthermore, given the early stage of development of the IFRS Sustainability Disclosure Standards, greater flexibility is needed to ensure the evolution of best practice reporting can be realised rather than inhibited by detailed rules-based reporting requirements.

Permitting the application of jurisdictional legislation relating to greenhouse gas emissions disclosures

The AASB and AUASB agree that the IFRS Sustainability Disclosure Standards should reference the GHG Protocol as a global baseline. However, to the extent possible, entities should be permitted to apply the jurisdictional GHG protocols or standards relevant to their operations. Many jurisdictions, including Australia, already legislate and regulate the regular reporting of GHG emissions. In the case of Australia, the National Greenhouse and Energy Reporting Act 2007 (NGER Act) is more stringent and accompanied by more guidance and support than the GHG Protocol. In particular, we are concerned that should such optionality not be permitted, entities would be required to report their GHG emissions under two different protocols depending on where those disclosures are being made. Consequently, we recommend that entities be permitted to use relevant jurisdictional GHG protocols or standards so long as they align with the GHG Protocol or are not of a lower quality than the GHG Protocol.

Provisions for first-time application

The AASB and AUASB acknowledge the relief the ISSB proposes in the first year of application, permitting entities not to disclose comparative information. However, we are of the view that the first-time application relief does not go far enough and should be addressed in a separate standard providing additional relief for entities in the first year of application. The AASB and AUASB consider the need for a first-time application standard to be integral to the success of the ISSB in the future—in particular, because such relief would support:

(a) **small to medium-sized entities** that would need more time than large entities to transition to full compliance with IFRS Sustainability Disclosure Standards; and

(b) **the ongoing transition to IFRS Sustainability Disclosure Standards in future years**. Because entities will be applying the IFRS Sustainability Disclosure Standards for the first time in future years, we think detailed transition requirements in individual standards are not helpful. Instead, we recommend that the first-time application provisions are isolated in a single standard that supports the ongoing transition to IFRS Sustainability Disclosure Standards in future.

We have provided our detailed recommendations and responses to the specific questions for respondents in the Appendices to this letter.

If you have any questions regarding this letter, please contact Siobhan Hammond, AASB Senior Manager (shammond@aasb.gov.au) or Nikole Gyles, AASB Technical Director (ngyles@aasb.gov.au).

Yours sincerely,

Dr Keith Kendall

Chair

Australian Accounting Standards Board

Bill Edge

Chair

Auditing and Assurance Standards Board

Appendix A—AASB and AUASB response to the Exposure Draft on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Question 1—Overall approach

(a) Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?

The AASB and AUASB agree that the Exposure Draft states clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which an entity is exposed, even if a specific IFRS Sustainability Disclosure Standard does not address such risks and opportunities. However, the guidance that supports that statement is currently insufficient for an entity to be able to meet that requirement. The AASB and AUASB note the following key matters would require further clarity for an entity to meet the proposed requirement:

The intended scope of the ISSB's work: defining 'sustainability'

Paragraphs BC29-30 of the Basis for Conclusions to [Draft] IFRS S1 highlight that 'it is useful to consider sustainability-related financial information in the context of definitions and interpretations of 'sustainability'' and goes on to refer specifically to the concept of sustainability as linked to the definition of 'sustainable development' from the 1987 Brundtland Commission[2]. However, [Draft] IFRS S1 lacks a definition or explanation for what is meant by 'sustainability' in the context of the IFRS Sustainability Disclosure Standards.

Whilst we understand that ISSB Board members have previously publicly commented that the ISSB does not feel it is necessary to define the term, we disagree with such a conclusion. This disagreement is because, as already highlighted in BC29, there are many different (sometimes conflicting) definitions and interpretations of what sustainability means. Therefore, there are many different interpretations of the intended scope of the IFRS Sustainability Disclosure Standards. To achieve consistency and comparability in reporting sustainability-related financial information, especially in the absence of a full suite of standards, we strongly recommend the ISSB define what 'sustainability' means in the context of its ongoing work. In our view, such a definition would be best placed in an overarching conceptual framework. However, without a conceptual framework, it should form part of the proposals in [Draft] IFRS S1. Regardless of whether stakeholders agree with the definition, it will communicate the scope of the ISSB's current and future work and provide all stakeholders with a point of reference on which to work.

Furthermore, while we understand the reasoning behind using the term 'sustainability-related financial information', consistent with the definition of material in IFRS Accounting Standards, material information can be financial or non-financial. Applying the definition of material in paragraph 56 to

[2] World Commission on Environment and Development, The Brundtland report: *Our Common Future*, Oxford University Press, Oxford, 1987.

non-financial sustainability-related information could also reasonably be expected to influence decisions that primary users make.

Rather than relying on the use of terms such as 'financial' and 'non-financial' to communicate the scope of the IFRS Sustainability Disclosure Standards, we recommend clarifying the scope of the standards by defining 'sustainability' and better aligning the definition of material in paragraph 56 with the definition of material in paragraph 2.11 of the *Conceptual Framework*.

Significant versus material[3]

An issue the IASB is familiar with is the confusion around the terms 'significant' versus 'material' in IFRS Accounting Standards.[4] This confusion has now been extended to the use of both terms throughout the ISSB's proposals. The AASB and AUASB note that many Australian stakeholders questioned whether the terms mean something different, or are interchangeable. Overall, it is evident that there is no clear or consistent understanding of what is intended by the use of the term 'significant', with two predominant views being held by stakeholders:

(a) that the term is intended to be interchangeable with 'material'—such an approach implies there is no difference between the terms 'significant' and 'material'; and
(b) it is a higher threshold than 'material' and is intended to help control the volume of disclosure by ensuring that an entity would report on only the most critical sustainability-related risks and opportunities.

If the ISSB intends that these terms be interchangeable, we recommend that the ISSB avoid confusion by using the defined term 'material' consistently throughout the [draft] standards.

Some Australian stakeholders suggested that the ISSB define 'significant'. However, we note that the IASB already considered doing so as part of its Disclosure of Accounting Policies project, where it decided not to define 'significant' due to the potential unintended consequences of every use of the term throughout the IFRS Accounting Standards. We think the same concerns apply in this instance. If 'significant' were to be defined in the context of sustainability-related financial reporting by the ISSB, it would likely have the same unintended consequences on the IFRS Accounting Standards as if the IASB had defined the term.

Consequently, if the ISSB intends that significant be a higher threshold than the definition of material and to avoid unintended consequences, we recommend that the ISSB clarify that intention by using a different term, such as 'critical', and then defining that term and explaining how its application differs from the definition of material.

[3] For comments on the definition of material see our response to question 8(a).

[4] As a result of this confusion, the IASB sought to replace the concept of significance with that of material in the context of accounting policy disclosures in its Disclosure Initiative—Accounting Policies project.

Question 1—Overall approach

(b) Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?

The AASB and AUASB agree that the proposed requirements in [Draft] IFRS S1 meet the proposed objective in paragraph 1. However, we disagree that the proposed objective in paragraph 1 is appropriate for the [draft] standard. The proposed objective in paragraph 1 serves as an overarching disclosure objective for the core content of the [draft] standard and is not relevant outside of that context. Furthermore, we note the guidance in paragraphs 2, 3, 5 and 6 does not relate to the objective of the [draft] standard. Consequently, we recommend that:

(a) Paragraph 1 be relocated to the core content section of the [draft] standard and clearly linked with that content; and
(b) The objective section of the [draft] standard be limited to stating and explaining the objective of the [draft] standard, as already done so in paragraphs 4 and 7—that is, remove paragraphs 2, 3, 5 and 6 from the objective section of the [draft] standard.

Question 1—Overall approach

(c) Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [draft] IFRS S2 *Climate-related Disclosures*? Why or why not? If not, what aspects of the proposals are unclear?

The AASB and AUASB are of the view that the interaction of [Draft] IFRS S1 with proposed and future thematic standards is unclear. Whilst [Draft] IFRS S1 and [Draft] IFRS S2 can be applied together, the interaction of general and thematic standards should be addressed as part of a conceptual framework, not as part of a standard addressing general requirements.

Furthermore, we think that [Draft] IFRS S1 seeks to achieve multiple objectives, as it appears the intention is for the standard to act as a:

(a) conceptual framework;
(b) transition standard for the first-time application of IFRS Sustainability Disclosure 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.

In our view, the current combination within [Draft] IFRS S1 of conceptual guidance and specific disclosure creates difficulties for implementation and compliance. We strongly recommend that the ISSB approaches each of the matters listed above separately to clarify the proposals.[5]

[5] Commentary on points (c) and (d) are addressed as part of our response to question 11.

Conceptual framework

The IFRS Foundation's existing *Conceptual Framework* is an essential tool in ensuring consistency in standard-setting. The AASB and AUASB are of the view that a conceptual framework is needed to:

(a) ensure consistency in standard-setting in the ISSB and communicate overarching principles that will guide future development of sustainability-related financial reporting requirements, standards and guidance; and
(b) assist all stakeholders in understanding and interpreting IFRS Sustainability Disclosure Standards.

However, we also understand that the current timing will mean that a conceptual framework would not be able to be developed (or the existing *Conceptual Framework* amended) before the final [Draft] IFRS S1 and [Draft] IFRS S2 are issued. In the absence of a specific sustainability-related conceptual framework (or the amendment of the *Conceptual Framework*), we recommend that in the interim, the ISSB utilises (or refers directly to aspects of) the existing *Conceptual Framework* to which it purports to align. We further recommend that the ISSB dedicates resources to developing an appropriate conceptual framework as a matter of urgency. For example, such a recommendation would remove paragraphs 3, 5, 37 and Appendix C from [Draft] IFRS S1, which would be appropriately relocated into a conceptual framework.

Transition standard for the first-time application of IFRS Sustainability Disclosure Standards

[Draft] IFRS S1 currently provides some relief for first-time application of the standards, for example, by permitting entities not to disclose comparative information in the first year of application. Similar to the IASB's approach with the development of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, we recommend that transition relief for first-time application be isolated in a separate standard. We also recommend that the ISSB provides more guidance on transitioning to IFRS Sustainability Disclosure Standards as part of this separate standard. This is because, while some entities have commenced their sustainability reporting journey, many have not and would require a more phased approach to allow them to develop the necessary systems and processes to apply IFRS Sustainability Disclosure Standards. Such an approach would:

(a) help with future adoption of IFRS Sustainability Disclosure Standards for entities seeking to apply the full suite of standards, who would be more able to do so through a phased approach;
(b) help with creating consistency in preparation for the application of future IFRS Sustainability Disclosure Standards (including [Draft] IFRS S1 and [Draft] IFRS S2);
(c) be a more convenient mechanism to support entities new to sustainability-related financial reporting in engaging with the IFRS Sustainability Disclosure Standards; and
(d) allow the ISSB to better support preparers without unduly diluting the requirements in the standards. For example, such a standard could permit entities not to disclose their Scope 3 greenhouse gas emissions in the first year of application.

We understand that such a standard would need to be added to and amended over time as the ISSB develops additional standards. However, we remain of the view that such a standard is necessary to support entities transitioning to a full suite of IFRS Sustainability Disclosure Standards in the future.

Question 1—Overall approach

(d) Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?

Note that the AASB and AUASB are responding to this question in the context that this [draft] standard has not been field tested, and the reporting outcomes from applying these proposals are yet unknown.

We consider that, in theory, the requirements proposed in [Draft] IFRS S1 may provide a suitable basis for assurance providers and regulators to determine whether an entity has complied with all proposals. However, additional clarity is necessary to ensure the disclosures required by [Draft] IFRS S1 can be effectively assured or reviewed by third parties. This is because, similar to a number of points raised throughout this comment letter, the nature and extent of information required to support the proposals in the [draft] standard are not sufficiently clear to determine what information needs to be disclosed. However, we are also of the view that these matters can be resolved. In addition to our recommendations throughout this comment letter, we also think there is room for improvement in helping ensure the proposals can be assured regardless of the required level of assurance.

As the ISSB redeliberates the proposals in [Draft] IFRS S1, we recommend that the ISSB considers the requirements auditors need to apply when complying with ISA 540 *Auditing Accounting Estimates and Related Disclosures*. While the International Auditing and Assurance Standards Board (IAASB) is still determining its approach to the assurance of sustainability information and responding to the work of the ISSB, we are confident ISA 540 provides the ISSB with a good framework to consider when evaluating what the disclosure and evidentiary requirements in the IFRS Sustainability Disclosure Standards should be. In particular, we recommend the ISSB consider paragraphs 23-25 of ISA 540:

> …
>
> *Methods*
>
> 23 In applying the requirements of paragraph 22, with respect to methods, the auditor's further audit procedures shall address:
>
> a. Whether the method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate;
>
> b. Whether judgements made in selecting the method give rise to indicators of possible management bias;
>
> c. Whether the calculations are applied in accordance with the method and are mathematically accurate;
>
> d. When management's application of the method involves complex modelling, whether judgements have been applied consistently and whether, when applicable:
>
> i. The design of the model meets the measurement objective of the applicable financial reporting framework, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances; and

ii. Adjustments to the output of the model are consistent with the measurement objective of the applicable financial reporting framework and are appropriate in the circumstances; and

e. Whether the integrity of the significant assumptions and the data has been maintained in applying the method.

Significant Assumptions

24 In applying the requirements of paragraph 22, with respect to significant assumptions, the auditor's further audit procedures shall address:

a. Whether the significant assumptions are appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate;
b. Whether judgements made in selecting the significant assumptions give rise to indicators of possible management bias;
c. Whether the significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit; and
d. When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so.

Data

25 In applying the requirements of paragraph 22, with respect to data, the auditor's further audit procedures shall address:

a. Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate;
b. Whether judgements made in selecting the data give rise to indicators of possible management bias;
c. Whether the data is relevant and reliable in the circumstances; and
d. Whether the data has been appropriately understood or interpreted by management, including with respect to contractual terms.

…

Whilst we understand these are predominantly audit and assurance concepts and, therefore, outside the scope of the ISSB's work, it would help assurance practitioners and regulators if the ISSB could:

(a) Adapt and better utilise the guidance in paragraphs 125-133 of IAS 1 *Presentation of Financial Statements,* which includes more robust guidance around the disclosures needed to support management's significant judgements and assumptions.
(b) Explicitly refer to neutrality in the body of the [draft] standard rather than in an appendix to the [draft] standard, or include neutrality as part of a conceptual framework addressing sustainability-related financial reporting (or by amending the existing *Conceptual Framework* to

make clear its applicability in preparing and disclosing sustainability-related financial disclosures).

Additional comments concerning the audit and assurance of the ISSB's proposals are included in response to question 17.

Question 2—Objective (paragraphs 1-7)

(a) Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?
(b) Is the definition of 'sustainability-related financial information' clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?

The proposed objective and definition of disclosing sustainability-related financial information is not clear. As explained in our response to question 1(a), the AASB and AUASB recommend the ISSB define 'sustainability' to clarify the scope and objective of [Draft] IFRS S1.

Furthermore, the objective section of the [draft] standard includes requirements about what information to disclose and guidance on enterprise value. Consistent with our response to question 1, we recommend that overarching principles, such as guidance on enterprise value and how it should be interpreted form part of a conceptual framework and not part of a standard. We also recommend that requirements on what to disclose are not included as part of the objective of the standard. See our response to question 1(b) for our recommended amendments to the proposals in paragraphs 1-7 of [Draft] IFRS S1.

Question 3— Scope (paragraphs 8-10)

Do you agree that the proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP (rather than only those prepared in accordance with IFRS Accounting Standards)? If not, why not?

The scope of Australian Accounting Standards is broader than IFRS Accounting and Sustainability Disclosure Standards in that they also address general purpose financial statement preparation for not-for-profit public and private sector (NFP sector) entities and for-profit sector entities.

We note that the AASB has not yet considered the application of such standards to NFP sector entities. However, consistent with our approach to standard-setting for Australian Accounting Standards, if IFRS Sustainability Disclosure Standards are to be applied by NFP sector entities in Australia, it is envisaged that modification of the IFRS Sustainability Disclosure Standards would be needed to the proposals. For example, as part of our outreach on the AASB's *Agenda Consultation 2022-26*, stakeholders from the NFP sectors highlighted that the focus on enterprise value is not appropriate for sustainability reporting in those sectors. Consequently, we are looking to work with other international standard-setters, such as the International Public Sector Accounting Standards Board (IPSASB), when considering sustainability reporting for other entities in the scope of Australian Accounting Standards. To the extent practicable, we will seek to align this future work with the work of the ISSB.

Drafting considerations

We recommend removing paragraph 9 of the [draft] standard because it:

(a) relates to the application of the definition of material; and
(b) duplicates proposed paragraph 60 of the [draft] standard.

Question 4—Core content (paragraphs 11-35)

(a) Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?

The AASB and AUASB agree that the disclosure objectives for governance, strategy, risk management and metrics and targets are clearly and appropriately defined. Furthermore, the AASB and AUASB agree with these objectives because they align with the Recommendations of the Taskforce on Climate-related Financial Discloses (TCFD Recommendations), which are widely supported in Australia and, therefore, familiar to many of our stakeholders.

However, we recommend the ISSB ensure that:

(a) the objectives in paragraphs 11, 12, 14, 25 and 27 of the [draft] standard are better aligned; and
(b) the requirements in the core content section align with the definition of material. For example, the requirement in paragraph 15(a) of the [draft] standards conflicts with the definition of material in paragraph 56.

Appendix C of this submission presents a complete set of recommended amendments to [Draft] IFRS S1.

Question 4—Core content (paragraphs 11-35)

(b) Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?

The response below should be read in conjunction with the AASB and AUASB's response to the Exposure Draft on [Draft] IFRS S2.

The disclosure requirements for governance, strategy, risk management and metrics and targets are appropriate to their stated objective. However, we note that while there is guidance and disclosure requirements addressing sustainability-related risks, the same cannot be said for sustainability-related opportunities—for example, the section on resilience focuses only on the management of sustainability-related risks.

In our view, an entity must have a balanced approach to provide users with a holistic understanding of their business. We consider sustainability-related risks and opportunities to be equally important to consider as part of an entity's governance, strategy, and metrics and targets.

Consequently, we recommend that the ISSB expand the proposals in [Draft] IFRS S1 by adding guidance that addresses sustainability-related opportunities. The 2021 TCFD Implementing Guidance is a helpful starting point for the ISSB to consider in relation to guidance that better balances risk and opportunity.

Question 5—Reporting entity (paragraphs 37-41)

(a) Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?

The AASB and AUASB agree that sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements because we consider this proposal:

(a) will add a great deal of clarity to users of general purpose financial reporting;
(b) supports users' views that equal prominence is provided to sustainability-related financial information as financial statement information;
(c) supports the integration of sustainability into entities' business considerations; and
(d) supports the long-term objective of achieving integrated reporting.

However, many Australian stakeholders expressed confusion about the concept of the reporting entity in the context of sustainability-related financial reporting. In particular, these stakeholders were concerned that overall, the proposals in [Draft] IFRS S1 and [Draft] IFRS S2 do not align with the reporting entity concept applied in the preparation of the financial statements—that is, in their view, the proposals consistently go beyond the reporting entity boundary. Consistent with paragraph SP1.3 of the *Conceptual Framework* we are of the view that deviations from fundamental concepts are at times necessary to meet the objective of general purpose financial reporting. That is, unless otherwise stated in our response to [Draft] IFRS S1 and [Draft] IFRS S2, we agree with those deviations the ISSB has proposed, including those which go beyond the reporting entity boundary, such as those related to the consideration of an entity's value chain. However, we think that the ISSB's proposals would be enhanced by clearly explaining the reasoning which supports those proposals. Consequently, we recommend the ISSB:

(a) explain in the Basis for Conclusions the reasoning for departing from the reporting entity concept in some instances; and
(b) improve the guidance around those proposals which deviate from the reporting entity concept to ensure that the proposals are consistently understood and applied.

Question 5—Reporting entity (paragraphs 37-41)

(b) Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?

The requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and the use of resources along its value chain is unclear. It is not capable of being consistently applied. Consistent with feedback from Australian stakeholders, the definition of the value chain and related guidance proposed in [Draft] IFRS S1 lacks the specificity needed to ensure the boundary of reporting is consistently understood and applied—that is, from outreach with Australian stakeholders, we observed the lack of consistent interpretation of the definition and the extent of information that would be required to comply with disclosures relating to an entity's value chain. For example, Australian stakeholders expressed mixed views on whether:

(a) the definition (and therefore related proposals) applied only to those aspects of an entity's value chain which are controlled by the reporting entity or whether the definition extended to all aspects of the reporting entity's value chain, regardless of control;
(b) preparers should apply the definition of material when considering an entity's value chain and whether that would affect an entity's ability to comply with the proposals; and
(c) the definition and guidance could be applied to future standards for which there may be conflicting definitions of value and supply chain (i.e. how the definition and guidance proposed in [Draft] IFRS S1 would interact with value and supply chain when considering social matters such as modern slavery for which the concept of value chain has already been established).

We recommend that the ISSB consider that the value chain is limited to activities, resources and relationships over which the reporting entity has control. We also recommend that the ISSB provide sufficient guidance to ensure that the value chain concept is consistently understood and applied. For example, an entity controls which suppliers and customers it engages with and where it operates. Furthermore, we recommend that such guidance include an explanation that the value chain should be considered through the lens of materiality. We understand that the ISSB would sometimes need to depart from this more limited value chain concept (such as when an entity is required to disclose its Scope 3 greenhouse gas emissions). However, we think the foundational concept should be limited initially to support more consistent application both in the absence of a full suite of IFRS Sustainability Disclosure Standards and future standards.

Paragraph 41 of [Draft] IFRS S1 refers preparers to other IFRS Sustainability Disclosure Standards when considering how an entity is to disclose or measure its significant sustainability-related risks and opportunities, including those related to its associates, joint ventures and other financial investments, and those related to its value chain. This implies that the approach to disclosing and measuring sustainability-related risks and opportunities related to an entity's associates, joint ventures and other financial investments will depend upon the standard being applied and permits for inconsistencies with other sustainability-related financial disclosures and the financial statements. Furthermore, whilst this requirement could be applied in the context of a full suite of IFRS Sustainability Disclosure Standards, it cannot be complied with in the absence of that full suite of standards. We recommend that the ISSB remove this paragraph and instead develop an approach to disclosing and measuring sustainability-related risks and opportunities related to associates, joint ventures and financial investments consistent with the approach in IFRS Accounting Standards.

Question 5—Reporting entity (paragraphs 37-41)

(c) Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?

The AASB and AUASB agree with the proposed requirement for identifying the related financial statements. This will provide clarity where sustainability-related financial disclosures are not made as part of an entity’s annual financial reporting package.

Question 6—Connected information (paragraphs 42-44)

(a) Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?

The AASB and AUASB agree that the requirement in paragraph 42 is clear but given the lack of supporting guidance in [Draft] IFRS S1 we do not think an entity would be able to comply with this requirement.

Outreach with Australian stakeholders indicated confusion regarding how an entity would comply with the requirements in paragraph 42 and 43 of the proposals. In particular, there were mixed views on the:

(a) boundary of reporting—that is, there were mixed views about whether the information relating to the financial statements would be financial statement information and therefore already be required to be disclosed as part of an entity's general purpose financial statements; and
(b) relationship between enterprise value and the basis of preparation of the financial statements.

Boundary of reporting

Outreach with Australian stakeholders indicated there is confusion around the boundary of reporting between the financial statements and sustainability-related financial reporting. In particular, stakeholders highlighted that information on the effect of sustainability-related risks and opportunities on the related financial statements would already be disclosed in those financial statements. Stakeholders questioned the benefits of isolating or duplicating that information outside the financial statements when the primary users are the same for both general purpose financial statements and reporting. Furthermore, there is confusion about how a preparer could comply with such a requirement without undermining their financial statements. For example, a few stakeholders questioned whether the ISSB had considered the consequences for general purpose financial statements of disclosing anticipated short, medium and long-term effects of sustainability-related risks and opportunities on an entity's financial position, financial performance and cash flows.

We recommend that the ISSB:

(a) assist the IASB in developing more robust requirements and guidance addressing significant judgements and assumptions in IFRS Accounting Standards. We are not recommending that such requirements and guidance address specific sustainability-related matters (e.g. climate-related matters) but consider that a consistent approach across both IFRS Accounting and Sustainability Disclosure Standards is required in how sustainability-related and other emerging risks are considered in general purpose financial reporting;
(b) clarifies the boundary of reporting as part of a conceptual framework, or by amending the existing *Conceptual Framework*; and
(c) field tests the proposals in the [draft] standards to ensure there are no unintended consequences on general purpose financial statements.

Enterprise value

As already noted in our discussion on the boundary of reporting, there is confusion about the interaction of sustainability-related financial disclosures and general purpose financial statements. In particular, feedback indicated that there is confusion about:

(a) where the financial statements fit in with users' assessments of enterprise value; and
(b) how sustainability-related financial disclosures will be used in users' assessments of enterprise value.

Enterprise value is a fundamental concept in the ISSB's current and ongoing work. We recommend that the ISSB develop additional explanation and guidance on enterprise value and how it interacts with general purpose financial reporting and statements as part of a conceptual framework or through amending the existing *Conceptual Framework*. This is because, in addition to being a fundamental concept for ISSB stakeholders, enterprise value should form the basis of all future standard-setting activities by the ISSB. We recommend that this guidance at a minimum:

(a) explain the role of enterprise value in broader financial reporting;
(b) explain the expected interaction between sustainability-related financial reporting and general purpose financial reporting; and
(c) explain the expected interaction between sustainability-related financial reporting and general purpose financial statements.

Such guidance would also help address the confusion regarding the boundary of reporting.

Sustainability-related financial information disclosed elsewhere

Jurisdictional legislation and external reporting requirements exist for sustainability-related matters such as modern slavery, human rights, animal welfare and water. In the absence of specific IFRS Sustainability Disclosure Standards, we recommend that entities be required to make explicit references to sustainability-related reporting they do outside general purpose financial reporting and where that reporting is located.

Question 6—Connected information (paragraphs 42-44)

(b) Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?

The AASB and AUASB agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements. We think that the success of sustainability-related financial reporting depends on the ISSB's ability to articulate to capital markets the impact such reporting has. Part of this articulation is done through ensuring that sustainability-related financial disclosures can speak to an entity's financial statements and vice versa.

As mentioned in our response to question 6(a), for an entity to comply with the requirements related to connected information, additional guidance and explanation are needed on the boundary of reporting and enterprise value.

Question 7—Fair presentation (paragraphs 45-55)

(a) Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?

The proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, is clear. However, the AASB and AUASB disagree that overarching principles be set out in a standard intended for widespread application. We recommend paragraph 45 of the [draft] standard refer to a conceptual framework (or the existing *Conceptual Framework*) where these principles should be located (or already are) and appropriately explained rather than added to a general requirements standard. See also our response to question 1(c).

Equal prominence of disclosures

We are of the view that equal prominence of disclosures is integral to ensuring entities are balanced in their reporting. This includes ensuring that sustainability-related disclosures are equally prominent in an entity's financial statements. We recommend the ISSB:

(a) add the following paragraph to the section addressing fair presentation in the [draft] standard:

> XX An entity shall present with equal prominence all sustainability-related financial disclosures in a complete set of sustainability-related disclosures.

(b) develop as part of a conceptual framework (or part of the existing *Conceptual Framework*) guiding principles on the equal prominence of all information disclosed as part of an entity's general purpose financial reporting package.

Non-compliance with requirements of IFRS Sustainability Disclosure Standards in rare and exceptional circumstances

We note that [Draft] IFRS S1 does not permit for non-compliance with the requirements of IFRS Sustainability Disclosure Standards in the rare circumstances in which an entity may conclude that compliance with a requirement would conflict with the objective of general purpose financial reporting (set out in the existing *Conceptual Framework*) and the objective of the [draft] standard (set out in proposed paragraphs 1-7). We recommend providing for such non-compliance to help ensure fair presentation. We recommend the ISSB uses paragraphs 19-24 of IAS 1 as a helpful starting point to develop such requirements.

Achieving fair presentation over third-party data and information

The AASB and AUASB question how a reporting entity could comply with the requirements relating to fair presentation when relying on third-party information over which it has no control. In expressing their concern over this issue, many Australian stakeholders (in particular preparers) highlighted jurisdictional differences in:

(a) the quality of information systems and processes available; and
(b) regulatory and assurance frameworks—for example, third-party data and information may meet the regulatory and assurance requirements in their own jurisdictions but be insufficient to meet another jurisdiction's regulatory and assurance requirements.

These stakeholders also questioned how a reporting entity could be expected to instruct third parties in its value chain to provide information to a particular level of quality (and subject to regulatory scrutiny and assurance) when it has no control over those entities. This would be an issue should third parties operate in jurisdictions that adopt differing sustainability-related reporting requirements or in jurisdictions that do not have a sustainability-related reporting framework that would require them to develop the necessary systems and processes to obtain that data.

As discussed in response to question 5(b), we think this issue could, in part, be addressed by improving the value chain definition.

Question 7—Fair presentation (paragraphs 45-55)

(b) Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

The AASB and AUASB do not agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures as listed in paragraph 51 of the [draft] standard. This is because:

(a) Proposed paragraph 51 is worded in such a way that implies this is not guidance but rather a compliance requirement. Given the current resource and skill gap in the sustainability reporting space, such a requirement would not be achievable and encourages cherry-picking from other standards and frameworks whose scope aligns with that of the ISSB; and
(b) SASB Standards (identified in proposed paragraph 51(a)) are not globally representative. They would currently fall into the same category as proposed in paragraph 51(d) relating to sustainability-related risks and opportunities identified by entities that operate in the same industries or geographies. See our response to the Exposure Draft on [Draft] IFRS S2.

Appendix C of this submission presents a complete set of recommended amendments to [Draft] IFRS S1.

Question 8—Materiality (paragraphs 56-62)

(a) Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?

Overall, the AASB and AUASB agree with the proposed definition of material and its alignment with the definition of material in the IFRS Foundation's *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). In particular, Australian stakeholders highlighted the recent announcement by the IFRS Foundation to work towards integrated reporting as a key reason why alignment of financial reporting concepts (including the definition of material) is essential. However, we think the guidance accompanying the definition could be improved. We further recommend that the guidance from IAS 1 is incorporated where relevant.

There are also concerns about how to apply the definition in the context of sustainability-related financial reporting. Sustainability-related matters are not traditionally reported under, prepared, or used by individuals with a strong understanding of IFRS Accounting Standards. For example, the relevant preparers for much of this information will likely be legal and professional experts that work in the fields of, for example, climate and environmental sciences, human rights, and modern slavery. Furthermore, as evidenced by the work of the IASB, users are often not familiar with financial accounting concepts and definitions. Consequently, while accountants are familiar with the existing definition of material and the related supporting guidance in IFRS Practice Statement 2 *Making Materiality Judgements* (IFRS Practice Statement 2), the individuals to which these proposed requirements are most relevant are not. As a result, Australian stakeholder feedback indicated that:

(a) preparers of sustainability-related financial disclosures require more guidance on how to assess what sustainability-related financial information is and is not material; and
(b) primary users need additional disclosure addressing an entity's assessment of what sustainability-related financial information is and is not material (that is, how an entity assesses what information should be disclosed).

We recommend the ISSB reconsiders the draft disclosures to take into account the feedback by:

(a) adding to the proposals in [Draft] IFRS S1 guidance on applying the definition of material such as that included in IAS 1 and the *Conceptual Framework*. We recommend this guidance provide sufficient direction to non-accountants so that the same outcomes would be achieved as if an accountant were applying that guidance. For example, the four-step materiality process identified in IFRS Practice Statement 2 is equally applicable to assessing the materiality of sustainability-related information and the materiality of financial statement information. We recommend incorporating the guidance in paragraphs 33 to 65 of IFRS Practice Statement 2 into an appendix to [Draft] IFRS S1. Currently, IFRS Practice Statement 2 is only briefly mentioned in IG6 of the Illustrative Guidance which accompanies [Draft] IFRS S1; and
(b) amending and modifying existing IFRS Foundation guidance such as IFRS Practice Statement 2 to make clear the applicability of that guidance to IFRS Sustainability Disclosure Standards and broader general purpose financial reporting.

Appendix C of this submission presents a complete set of recommended amendments to [Draft] IFRS S1.

Question 8—Materiality (paragraphs 56-62)

(b) Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?

Consistent with our response to question 1(a), we think that the proposed definition and application of materiality will not capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time. This is because the definition of material has been adapted from the financial reporting definition of material which has limited application with regards to being applicable to past transactions, other events or conditions. We are of the view that some of the confusion relating to the definition of material in the context of sustainability-related financial information is because:

(a) often, there is no past transaction, other event or condition from which to anchor the application of the definition; and
(b) in considering sustainability-related risks in the long-term, these risks can potentially be mitigated to the extent where the risk is not significant—that is, the materiality of information about possible future events is debatable depending on the time horizon applied.

We recommend that the ISSB provide additional guidance on applying the definition to forward-looking information.

Question 8—Materiality (paragraphs 56-62)

(c) Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?

The AASB and AUASB are of the view that the Exposure Draft and related Illustrative Guidance are not useful for identifying material sustainability-related financial information. In addition to the points raised in our response to questions 1(a) and 8(b), we consider the Illustrative Guidance to not be useful because:

(a) it draws predominantly from IFRS Practice Statement 2 without making explicit reference to the guidance in IFRS Practice Statement 2 that is relevant and useful to apply the definition of material such as:
    (i) the four-step materiality process; and
    (ii) the qualitative and quantitative factors that can be applied when assessing the materiality of information;
(b) paragraph IG9 of the Illustrative Guidance conflicts with paragraphs 62 and 92 of the [draft] standard;
(c) paragraph IG11 of the Illustrative Guidance conflicts with the definition of material which is user-centric and does not refer to an entity independently assessing the sustainability-related risks and opportunities which could reasonably be expected to affect its enterprise value;
(d) the Illustrative Guidance focuses only on the materiality of quantitative information;
(e) there is a lack of guidance about how an entity should deal with more than one standard or framework for the same disclosure topic. The Illustrative Guidance focuses only on applying a single standard/framework rather than considering how an entity might use guidance from multiple locations to assess the materiality of its sustainability-related financial information.

We recommend the ISSB amends the Illustrative Guidance to address the issues identified.

Question 8—Materiality (paragraphs 56-62)

(d) Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?

The AASB and AUASB agree with the proposal to relieve an entity from disclosing information otherwise required by the [draft] standard if local laws or regulations prohibit the entity from disclosing that information.

Question 9—Frequency of reporting (paragraphs 66-71)

Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?

The AASB and AUASB agree with the proposal that sustainability-related financial disclosures be required to be provided at the same time as the financial statements to which they relate.

However, we also acknowledge that this requirement needs to be carefully worked towards over time and for which the ISSB will need to be flexible. Many sustainability-related matters are currently addressed by jurisdictional legislation independently from the financial reporting cycle (i.e. for which the reporting periods do not necessarily align). Whilst we are not aware of any existing Australian legislation that does not permit an entity to align the relevant reporting periods, we cannot say with certainty that this would be the case for all sustainability-related legislation and guidance in Australia. Consequently, where such an exception exists, an entity would either need to obtain permission from the relevant regulator (or regulators) to report under a different reporting period, or the legislation would need to be amended to align with the financial reporting cycle. Both options would require a period of time, potentially longer than the allowed transition period, to achieve.

Furthermore, Australian stakeholders' feedback highlighted the market's resource and skill gap. Almost all stakeholders highlighted that it would take time to align the financial reporting and sustainability reporting cycles due to resourcing constraints—being both resourcing constraints within an entity. In particular, not all entities have the resources to complete high-quality sustainability-related and financial reporting requirements. This issue also exists outside of an entity because there are not sufficiently qualified sustainability resources to meet the reporting demand. Consequently, as explained in our response to question 13, we recommend the ISSB consider assisting entities through the development of transition requirements similar to those in IFRS 1.

Question 10—Location of information (paragraph 72-78)

(a) Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?

The AASB and AUASB agree with the proposals about the location of sustainability-related financial disclosures because it draws on the existing understanding of general purpose financial reporting in the *Conceptual Framework* to which most Australian stakeholders supported alignment. However, as discussed in question 6(a), we recommend more explicit reference is made to cross-referencing to sustainability-related financial information disclosed in meeting jurisdictional laws and regulations.

For example, in Australia, there is a range of sustainability-related reporting required by legislative mandates, including:

(a) *National Greenhouse and Energy Reporting Act 2007*—accompanied by a specific auditing standard as developed by the AUASB;
(b) *Water Act 2007*—accompanied by the Australian Water Accounting and Auditing Standards[6] as developed by the Water Accounting Standards Board and the AUASB;
(c) *Modern Slavery Act 2018*; and
(d) *Workplace Gender Equality Act 2012*.

Reference to management commentary

Paragraph 73 of the [draft] standard states that management commentary provides insight into the factors that have affected the entity's financial performance and financial position and the factors that could affect the entity's ability to create value and generate cash flows. Given that management commentary can be regulated and subject to jurisdictional specificities which may not align with the description proposed, we recommend softening the language to read:

> 73 … It can provide ~~provides~~ insights into the factors that have affected the entity's financial performance and financial position and the factors that could affect the entity's ability to create value and generate cash flows…

Aggregation of common items of information

Paragraph 78 of the [draft] standard is critical to ensuring that entities do not disaggregate common items of information to meet detailed and specific disclosures requirements in subsequent thematic standards. Furthermore, it relates more to connected information than it does to the location of information. We recommend paragraph 78 is relocated to the section addressing connected information and made bold.

Appendix C of this submission presents a complete set of recommended amendments to [Draft] IFRS S1.

Question 10—Location of information (paragraph 72-78)

(b) Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?

See our response to questions 6(a) and 9 concerning aligning reporting cycles for sustainability-related reporting subject to legislation. While we raised this issue as part of transition and effective date, we note that this could also make it difficult for an entity to provide the information required by the [draft] standards despite the proposals on location.

[6] See the Australian Water Accounting *Conceptual Framework for the Preparation and Presentation of General Purpose Water Accounting Reporting*, Australian Water Accounting Standard 1 *Preparation and Presentation of General Purpose Water Accounting Reports* and Australian Water Accounting Standard 2 / ASAE 3610 *Assurance Engagements on General Purpose Water Accounting Reports*.

Question 10—Location of information (paragraph 72-78)

(c) Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced? Why or why not?

We support the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general purpose financial reporting on the same terms and at the same time as the information to which it is cross-referenced. However, we acknowledge that this will be a complex requirement. In addition to the current misalignment of reporting cycles for some sustainability-related matters (see also our response to questions 6(a), 9 and 10(b)), permitting cross-referencing to information outside general purpose financial reporting could create:

(a) confusion for users—such an approach makes it difficult to clearly understand and identify what sustainability-related financial disclosures have been subject to audit or assurance and the level of that assurance. For example, if the level of assurance differs depending on the sustainability-related financial disclosure made. This could be where audit or assurance standards already exist to support reporting under a specific piece of legislation but have yet to be developed for other sustainability-related matters.

(b) additional costs for preparers—such an approach would be costly to maintain and assure especially if, for example, the level of assurance differs depending on the sustainability-related financial disclosure made or the level of assurance provided needs to accompany every sustainability-related financial disclosure made outside general purpose financial reporting.

Question 10—Location of information (paragraph 72-78)

(d) Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?

The AASB and AUASB are of the view that it is unclear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities. Consistent with our response to question 10(a), we recommend paragraph 78 of the [draft] standard be relocated to the section addressing connected information and made bold. We also note that the requirements of [Draft] IFRS S2 conflicts with this as it proposes that entities be required to specifically identify and quantify those aspects of governance, strategy, risk management, and metrics and targets specifically relevant to climate. In thinking about future standards, we question whether entities would be expected to do the same for sustainability-related matters such as nature, biodiversity and modern slavery? In particular, we are of the view that it is unclear what granularity the ISSB aims to achieve with the proposals in both [draft] standards. We note that more granular information does not necessarily mean that that information is more useful. We recommend the ISSB:

(a) carefully consider the level of granularity needed to meet user needs—in many cases, higher level qualitative disclosures could achieve the same level of usefulness and relevance of more granular information for users without creating unnecessary cost burdens on preparers; and
(b) remove the duplication of requirements from [Draft] IFRS S2—that is, disclosure requirements that would be reasonably be expected to be required regardless of the thematic standard applied should be isolated in [Draft] IFRS S1 and not duplicated with specific reference to the topic being addressed in every thematic standard. Thematic standards, such as [Draft] IFRS S2, should cross-reference to those broader requirements in [Draft] IFRS S1 and supplement those requirements only where specific thematic requirements or application guidance is necessary (see also our response to the Exposure Draft on [Draft] IFRS S2).

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63-65, 79-83 and 84-90)

(a) Have these general features been adapted appropriately into the proposals? If not, what should be changed?

Comparative information

Requirements relating to comparative information (paragraphs 63-65 of the [draft] standard) have been appropriately adapted from existing financial reporting concepts and requirements. However, consistent with paragraph 38 of IAS 1, the ISSB may consider building in a caveat should future standards depart from such requirements:

63 Except when IFRS Sustainability Disclosure Standards permit or require otherwise, an ~~An~~ entity shall disclose comparative information in respect of the previous period for all metrics disclosed in the current period. When such information would be relevant to an understanding of the current period's sustainability-related financial disclosures, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial disclosures.

Sources of estimation and outcome uncertainty

We recommend the drafting of the section addressing sources of estimation and outcome uncertainty be reconsidered. As currently drafted, the section is difficult to follow because the main requirements in bold are not grouped and do not read as relating to one another. For example,

(a) proposed paragraph 83 reads as if it is a postscript to the section; and
(b) proposed paragraphs 81 and 82 relate to application guidance for the definition of material, rather than guidance on sources of estimation and outcome uncertainty.

Overall, as currently drafted, this section appears to be in the nature of application guidance rather than overarching requirements on sources of estimation and outcome uncertainty.

Paragraph 79 of the [draft] standard refers only to sources of estimation uncertainty in the context of metrics. Sustainability-related financial disclosures are subject to a significant degree of uncertainty through applying judgement and assumptions by an entity's management and experts. We recommend aligning these paragraphs more closely with the requirements in paragraphs 125 to 133 of IAS 1. Appendix C of this submission presents a complete set of recommended amendments to [Draft] IFRS S1.

We also recommend relocating the guidance in paragraph 81 to the section specifically addressing materiality as the guidance proposed in paragraph 81 relates to applying the definition of material.

Errors

Proposed requirements about errors (paragraphs 84-85 of the [draft] standard) have been appropriately adapted from existing financial reporting concepts and requirements. However, consistent with paragraph 41 of IAS 1, and to help mitigate against the risk of greenwashing, we recommend it be clarified that sustainability-related financial disclosures are not compliant if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's sustainability-related financial disclosures. We recommend adding the following paragraph to the section addressing errors:

> XX Sustainability-related financial disclosures do not comply with IFRS Sustainability Disclosure Standards if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of such disclosures.

We also recommend removing paragraph 86 of the [draft] standard, which provide examples of errors—an explanation of what is meant by 'error' is already included in paragraph 85.

Consistency of presentation

We note that the [draft] standard currently does not refer to the consistent presentation of sustainability-related financial disclosures in general purpose financial reporting. We recommend that the ISSB consider adding such a requirement to better support future consistency or comparably of sustainability-related financial disclosures. For example, such a requirement could be adapted from paragraph 45 of IAS 1 and read as follows:

> XX As far as is practicable, an entity shall retain the presentation of sustainability-related financial disclosures from one period to the next unless:
>
> (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial reporting, that another presentation would be more appropriate; or
>
> (b) an IFRS Sustainability Disclosure Standard requires a change in presentation.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63-65, 79-83 and 84-90)

(b) Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?

The AASB and AUASB agree that if an entity has a better measure of a metric reported in the prior year, it should disclose the revised metric in its comparatives because this will support the consistency and comparability of sustainability-related financial disclosures in the long-term.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63-65, 79-83 and 84-90)

(c) Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?

The AASB and AUASB agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible. We are unaware of any circumstances where this requirement would not be able to be applied. Such a requirement supports:

(a) the connectivity between an entity's sustainability-related financial disclosures and its general purpose financial statements; and
(b) the consistency and comparability of sustainability-related disclosures in the long-term.

However, consistent with our response to question 1(a), not all information included or used in the general purpose financial statements is strictly or clearly identifiable as being financial in nature. We recommend removing the reference to 'financial' from this requirement.

Question 12— Statement of compliance (paragraphs 91-92)

Do you agree with this proposal? Why or why not? If not, what would you suggest and why?

The AASB and AUASB agree with the proposals in paragraphs 91-92 because a statement of compliance is a valuable tool through which an entity can communicate that its sustainability-related financial disclosures have been prepared on the same basis as its general purpose financial statements.

Question 13—Effective date (Appendix B)

(a) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.

The AASB and AUASB recommend that the effective date of the [draft] standard should be two to three years after the date of issue with early application permitted. Consultation with preparers and assurance providers in Australia indicated that this approach would help ensure that entities that are able to do so can apply the requirements while also providing sufficient time for others to develop the capabilities, systems and processes needed to comply with the [draft] standard. This is because:

(a) The present skill and resource gap in the market is significant. There is a lack of sufficiently skilled resources in the global and domestic market, and it will take time to develop and educate the resources required to support widespread compliance with sustainability-related reporting requirements.

(b) The current quality of data in the sustainability reporting space is poor. The [draft] standard would force the quality of relevant data to improve in the long-term, but the quality of the data that currently exists would not be sufficient to comply with the proposals.
(c) Many of the systems and processes needed to collect the necessary data to comply with the [draft] standard do not exist. The systems and processes required to collect and report on all an entity's sustainability-related risks and opportunities will need to be developed and built over time to ensure reporting can occur at the scale necessary to comply with the [draft] standard.
(d) The proposals in [Draft] IFRS S1 and [Draft] IFRS S2 are complex. The transition to IFRS Sustainability Disclosure Standards will not be simple and, in some cases, will require entities to significantly alter their business operations (for example, through internal restructuring to develop reporting teams capable of supporting sustainability reporting in the long-term) which requires time.
(e) Entities will benefit from additional time to implement systems and processes effectively before they are subject to independent assurance. Recognising the complexity and qualitative nature of the requirements, extending the effective date allows entities additional capacity to develop effective systems, processes and controls to support sustainability reporting before they need to be scrutinised by auditors or assurance providers.

As already noted in our response to question 1(c), because of the complexities expected in transitioning to IFRS Sustainability Disclosure Standards, we strongly urge the ISSB to consider developing a first-time application standard to provide relief to those entities in the first year of application. Such a standard would also support the application of IFRS Sustainability Disclosure Standards by smaller reporting entities that will potentially need to build their capabilities over a longer period.

See our response to the Exposure Draft on [Draft] IFRS S2.

Question 13—Effective date (Appendix B)

(b) Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?

The AASB and AUASB agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application. However, as discussed in our response to question 1(c), we recommend that this relief be removed from [Draft] IFRS S1 and relocated to a separate standard addressing transition relief for the first-time application of all future IFRS Sustainability Disclosure Standards.

Question 14—Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

We have not identified any particular aspects of the proposals in the [draft] standard that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a global baseline.

See our response to the Exposure Draft on [Draft] IFRS S2.

Question 15—Digital reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

The AASB and AUASB note that many jurisdictions are developing taxonomies to address the disclosure of sustainability-related information (for example, the United Kingdom and the European Union). We are of the view, consistent with the development of sustainability-related financial reporting requirements, a global baseline upon which jurisdictions can build should be developed for the taxonomy to ensure consistency in electronically tagging a minimum set of disclosures. We think this will be critical to facilitating wide-spread use of digital reporting and taxonomies for sustainability-related financial reporting.

Question 16—Costs, benefits and likely effects

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?

Given the limited time for public consultation on the [draft] standards, we cannot quantify the likely benefits, costs and effects. As already discussed in response to question 6(a), we recommend the ISSB field test the proposals in this [draft] standard to better understand the costs, benefits and likely effects of applying it.[7]

We expect the likely benefits of applying IFRS Sustainability Disclosure Standards will be improved comparability, consistency and transparency of sustainability-related financial disclosures. However, we anticipate that these benefits will only begin to be realised three to five years after the [draft] standards become effective and reporting has had some time to mature.

We expect the likely implementation cost of these proposals to be significant for the reasons already described in our response to question 13(a) and because of:

(a) how broad this [draft] standard is. The [draft] standard encompasses all sustainability-related financial information and will consequently be costly to implement in addition to high compliance costs (for example, audit or assurance costs); and
(b) compliance costs. The audit and assurance of the disclosures resulting from applying the [draft] standard. The cost of compliance with IFRS Accounting Standards is already considered burdensome by preparers of general purpose financial statements.

We also expect that the likely implementation cost will be significantly higher for smaller entities, given many of them will not yet have had access to the resources they need to have started considering reporting on sustainability. Furthermore, competition for those limited resources will likely increase the cost of those resources, unfairly burdening smaller entities. For example, one stakeholder noted that implementing the systems and processes necessary to gather the relevant data

[7] The AASB has commenced the field testing of proposals in [Draft] IFRS S2 and will be looking to complete this work by the end of 2022.

on a cattle operation of several thousand hectares would cost, at minimum, AUD35,000 to 40,000 without considering compliance costs and competing for resources.

See our response to the Exposure Draft on [Draft] IFRS S2.

Question 16—Costs, benefits and likely effects

(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

Whilst we have no evidence, the AASB and AUASB expect the costs of ongoing application would be similar to the costs of ongoing application of the IFRS Accounting Standards. We recommend the ISSB field test the proposals in the [draft] standard to quantify the expected ongoing costs of their application.

Question 17—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

There is significant support for the scope and direction of the ISSB's ongoing work on sustainability-related financial reporting and implementing ISSB-aligned reporting in Australia. As part of the AASB's public consultation on the ISSB's two Exposure Drafts, stakeholders highlighted:

Enterprise value and primary users of general purpose financial reporting

The AASB and AUASB support the ISSB's focus on enterprise value and primary users of general purpose financial reporting because we think it provides appropriate boundaries for reporting and a structured approach to thinking about sustainability-related financial reporting that is needed to support the transition.

We observed overall stakeholder support for the ISSB's focus on enterprise value and primary users of general purpose financial reporting in its IFRS Sustainability Disclosure Standards. Furthermore, while not all stakeholders were supportive of the focus on enterprise value and primary users of general purpose financial reporting, most agreed that the ISSB's more limited scope was, at the very least, the best place to start. A few stakeholders highlighted the following potential alternatives to the ISSB's approach:

(a) Focusing on broader multi-stakeholder sustainability reporting. For example, a few stakeholders said the ISSB should instead align itself to the approach taken by the European Union and the Global Reporting Initiative and referred to the concept of 'double' or 'dynamic' materiality; and

(b) Natural capital accounting. Natural capital accounting has existed for some time and uses concepts and principles consistent with financial reporting to recognise, measure and quantify natural capital such as biodiversity assets and carbon obligations. However, it was also noted that natural capital accounting would likely follow from the work of the ISSB.

Scalability of the IFRS Sustainability Disclosure Standards

Given the complexity of the proposed requirements in both [draft] standards and the scale of reporting needed to achieve compliance, there is a concern that many SMEs entities would be unable to apply the IFRS Sustainability Disclosure Standards.

This is of particular concern in Australia, as many SMEs are listed on the Australian Stock Exchange (ASX) or required to prepare general purpose financial reports, which could potentially be subject to compliance with IFRS Sustainability Disclosure Standards. SME entities already struggle with the burden of applying IFRS/Australian Accounting Standards because of their limited resources. Consequently, we recommend that the ISSB reconsider its proposals to support the widespread application of its standards through:

(a) learning from the IASB regarding the understandability and accessibility of their IFRS Accounting Standards;
(b) using consistent language throughout the proposed and future standards to support understandability and translation into other languages;
(c) ensuring key terms are clearly defined and consistently used throughout the proposed and future standards to support understandability and translation into other languages;
(d) considering the level of complexity and granularity of the requirements in proposed and future standards, some disclosures are 'nice to have' rather than necessary. Further, some complex disclosure requirements could be simplified by requiring qualitative information rather than quantitative information; and
(e) considering that the complexity and granularity of the requirements in proposed and future standards present a particular challenge for auditors and assurance providers to SMEs. These entities may not have the capability or capacity to obtain evidence supporting the required disclosures, especially in the initial implementation periods as systems, processes, and controls are developed.

Due process considerations

The AASB and AUASB are concerned by the limited time provided to consider appropriately:

(a) the proposals being put forward in the ISSB's initial two Exposure Drafts (both in terms of volume and complexity); and
(b) how to implement the proposals within Australia and globally.

In our view, it appears that insufficient consideration has been provided to those jurisdictions:

(a) whose financial reporting cycles are not aligned with the calendar year—that is, for those jurisdictions with financial reporting periods ending during the public consultation period; and
(b) that do not have experience in widespread sustainability reporting within their capital markets.

We also question the limited public consultation period because we are concerned about the:

(a) quality of feedback the ISSB could receive given the time and resource constraints; and
(b) expectation that these [draft] standards will be issued as final by the end of 2022. For example, per existing due process, if major changes are made to the proposals, they would be required to be re-exposed before being finalised. Consequently, we question how the ISSB is planning to appropriately address feedback which may result in major changes to the structure or requirements of the proposals.

Alignment with existing financial reporting concepts

The AASB and AUASB support the alignment of the ISSB's work with existing financial reporting concepts in the *Conceptual Framework* where practicable. Consistent with stakeholder feedback, the AASB is of the view that the alignment of conceptual elements for general purpose financial reporting is essential to ensuring the longevity of the IFRS Sustainability Disclosure Standards.

We recommend that, in the absence of its own conceptual framework, the IFRS Sustainability Disclosure Standards refer directly to the existing *Conceptual Framework* instead of trying to incorporate conceptual elements into individual standards or requirements. As a matter of urgency, we also recommend that the IASB and ISSB work together to amend the existing *Conceptual Framework* to ensure it is fit for both IFRS Accounting and Sustainability Disclosure Standards.

Primary users of general purpose financial reporting versus investors

Consistent with the IFRS Foundation's *Conceptual Framework*, Appendix A to [Draft] IFRS S1 defines 'primary users of general purpose financial reporting' as existing and potential investors, lenders and other creditors. We agree with the definition of primary users as taken from the *Conceptual Framework*. However, unlike the *Conceptual Framework* and the IFRS Accounting Standards, it is unclear how the perspectives of existing and potential lenders and other creditors have been incorporated into the ISSB's proposals. It has not been made clear by the proposals, or through the ISSB's outreach, whether the views of primary users other than investors have been considered—indeed the ISSB's messaging outright dismisses primary users other than investors and assumes that investors' information needs are representative of the information needs of lenders and other creditors.

Audit and assurance over time

Whilst not within the remit of the ISSB, almost all Australian stakeholders commented on the potential approach to the audit and assurance of the IFRS Sustainability Disclosure Standards. The AASB and AUASB have included this feedback in case the ISSB will find it useful as part of its redeliberation of the [draft] standards. Most stakeholders indicated that any approach to audit and assurance should ideally be phased in over time to support the transition to IFRS Sustainability Disclosure Standards—for example, by not requiring assurance over disclosures in the first year of application, initially only requiring a limited level of assurance (review) in the next year/s of application, and then moving to a reasonable level of assurance (audit) over time. We are of the view this will be important to the ISSB to consider as it will need to ensure that the [draft] standards (and any future standards) are written in such a way that can be subject to varying levels of assurance—that is, that the [draft] standards can be applied with confidence by entities regardless of what level of assurance is required at the jurisdictional level. This would also provide entities with the opportunity to determine the correct nature and extent of the disclosure without being immediately concerned with having these disclosures subject to the highest levels of assurance.

Appendix B—AASB and AUASB response to the Exposure Draft on [Draft] IFRS S2 *Climate-related Disclosures*

Question 1—Objective of the Exposure Draft (paragraphs 1-2)

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

(b) Does the objective focus on the information that would enable users of general purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

The AASB and AUASB agree with the objective established in paragraph 1 of the [draft] standard.

However, we recommend redrafting aspects of the paragraph to provide clarity and avoid duplication within the [draft] standard. As currently drafted, proposed paragraphs 1(b) and 1(c) are separate to a user's assessment of enterprise value rather than part of that assessment. These paragraphs could, therefore, be interpreted as requiring more information than would be needed when applying [Draft] IFRS S1. Accordingly, we recommend that proposed paragraph 1(a) be incorporated into the body of paragraph 1 of the [draft] standard.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 1—Objective of the Exposure Draft (paragraphs 1-2)

(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

In the context of our responses to the questions in this comment letter, the AASB and AUASB agree that, excluding Appendix B to the [draft] standard, the disclosure requirements set out in the [draft] standard meet the objectives proposed in paragraph 1.

See our response to questions 3 and 11 for comments in relation to Appendix B of the [draft] standard.

Question 2—Governance (paragraphs 4-6)

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities? Why or why not?

The AASB and AUASB agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities (see also our response to the Exposure Draft on [Draft] IFRS S1).

However, we question the need to duplicate these requirements in [Draft] IFRS S2. That is, we question the need to duplicate such requirements in each thematic standard issued by the ISSB in the future. Such an approach facilitates the application of a single standard independently from [Draft] IFRS S1 and other IFRS Sustainability Disclosure Standards. Furthermore, as is the case with IFRS Accounting Standards, such an approach makes it more complex than necessary to maintain the standards, especially if, for example, these requirements are duplicated in each subsequent thematic standard. Consequently, we recommend that the ISSB avoids duplication where possible and provide only a reference to [Draft] IFRS S1 where relevant. We recommend that proposed paragraph 5 be replaced with a reference to paragraphs 12-13 of [Draft] IFRS S1). We also recommend that proposed paragraph 6 be moved to the section addressing scope to avoid duplication throughout the [draft] standard.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 3—Identification of climate-related risks and opportunities (paragraphs 7-11)

(a) Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear? Why or why not?

The AASB and AUASB agree that the proposed requirements to identify and disclose a description of significant climate-related risks and opportunities are sufficiently clear. However, as noted in our response to question 2, we recommend the ISSB avoid duplicating the disclosure requirements in [Draft] IFRS S2. That is, we recommend removing paragraphs 8(a), 8(b) and 8(d) such that paragraph 8 only provides incremental requirements relating to strategy. A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 3—Identification of climate-related risks and opportunities (paragraphs 7-11)

(b) Do you agree with the proposed requirement to consider the applicability of disclosure topics (defined in the industry requirements) in the identification and description of climate-related risks and opportunities? Why or why not? Do you believe that this will lead to improved relevance and comparability of disclosures? Why or why not? Are there any additional requirements that may improve the relevance and comparability of such disclosures? If so, what would you suggest and why?

The AASB and AUASB disagree with the proposed requirement to consider the applicability of disclosure topics in identifying and describing climate-related risks and opportunities. In particular, we strongly disagree with the mandatory nature of Appendix B to the [draft] standard for the reasons discussed in our response to question 11. Furthermore:

(a) the drafting of proposed paragraph 10 makes the industry descriptions and industry-based metrics proposed in Appendix B compliance requirements rather than a consideration of the applicability of disclosure topics identified in Appendix B to the [draft] standard; and
(b) Appendix B is inconsistent with a principles-based standard-setting approach. In addition, Appendix B makes the assessment that all disclosure topics identified are material, rather than allowing management to apply judgement in determining what information is material and should be disclosed. In our view, it should be management making this assessment.

Consequently, we recommend:

(a) consistent with our response to questions 2 and 3(a), remove duplication of the requirements in [Draft] IFRS S1; and
(b) removing paragraph 10 of the [draft] standard, or amending the paragraph to refer to paragraphs 16-20 of [Draft] IFRS S1 rather than to Appendix B.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain (paragraph 12)

(a) Do you agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain? Why or why not?
(b) Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative? Why or why not? If not, what do you recommend and why?

The AASB and AUASB agree with the proposed disclosure requirements about the effects of significant climate-related risks and opportunities on an entity's business model and value chain. We also agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative.

However, we note that paragraph 12 of the [draft] standard duplicates paragraph 20 of [Draft] IFRS S1. In the absence of specific or additional guidance on the application of paragraph 20 of [Draft] IFRS S1 to climate-related risks and opportunities, we recommend removing the duplication (i.e. we recommend removing paragraph 12 of the [draft] standard).

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 5—Transition plans and carbon offsets (paragraph 13)

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

The AASB and AUASB agree with the proposed disclosure requirements for transition plans as:

(a) transition plans are a critical element of understanding an entity's strategy in responding to significant climate-related risks and opportunities; and
(b) these requirements provide a useful way for entities to communicate with primary users of general purpose financial reporting how they plan to transition to a lower-carbon economy.

However, we also observe that paragraph 13 of the [draft] standard is complicated to read and, therefore, difficult to understand and apply. We recommend simplifying proposed paragraph 13 by separating the requirements into individual paragraphs where possible rather than creating lists of requirements within lists of requirements. That is, we recommend the proposed requirements of paragraph 13 (a) and (b) of the [draft] standard are separated from paragraph 13 into individual paragraphs placed with the following requirements. A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 5—Transition plans and carbon offsets (paragraph 13)

(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

The AASB and AUASB have not identified any additional disclosures related to transition plans that are so significant as to require inclusion in the [draft] standard. Nor have we identified any of the proposed requirements related to transition plans that are irrelevant and, therefore, should be removed from the [draft] standard.

Question 5—Transition plans and carbon offsets (paragraph 13)

(c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

The AASB and AUASB agree that the proposed carbon offset disclosures will assist users of general purpose financial reporting in understanding an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets.

In particular, feedback from Australian stakeholders on these disclosures indicated that carbon offsetting is a critical part of transitioning to a lower-carbon economy in the short to medium-term. Accordingly, it is an important part of an entity's strategy when considering its response to climate change. However, it is noted that carbon offsetting is not an adequate long-term approach to mitigating climate-related risks. We recommend that the disclosure requirements addressing carbon offsetting are revisited as part of a post-implementation review to help ensure the disclosures remain relevant.

Question 5—Transition plans and carbon offsets (paragraph 13)

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

Given the limited time for public consultation on the proposed standards, we cannot quantify the likely benefits, costs and effects of this [draft] standard or the proposed disclosure requirements (see also our response to question 12). However, as discussed in our response to question 5(c), feedback from Australian stakeholders indicated overall support for the proposed requirements related to carbon offsetting as part of an entity's transition plans to a lower-carbon economy.

Consistent with our response to [Draft] IFRS S1, we recommend that the ISSB field test the proposals in both Exposure Drafts to understand better and quantify the costs, benefits and likely effects of applying them.

Question 6—Current and anticipated effects (paragraph 14)

(a) Do you agree with the proposal that entities shall disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so, in which case qualitative information shall be provided (see paragraph 14)? Why or why not?

The AASB and AUASB disagree with the proposal that entities disclose quantitative information on the current and anticipated effects of climate-related risks and opportunities unless they are unable to do so.

In particular, outreach with Australian stakeholders indicated that entities could not currently isolate and quantify the effects of climate on their financial position, financial performance and cash flows, and it was not clear whether such capability would be developed in the short to medium-term. That is, stakeholders (including users and preparers) noted that such disclosure would be ideal but were concerned that entities would be unable to comply with the requirement and would, as a result, default to providing qualitative disclosures.

Furthermore, we note that the current effects on the financial position, financial performance and cash flows should already be disclosed as part of an entity's financial statements and question the need to duplicate or isolate such disclosure outside the financial statements.

While we understand what the ISSB is aiming to achieve with these proposed disclosure requirements, we are of the view that they should be drafted to permit more flexibility and accompanied by:

(a) a definition of what is meant by 'climate' in the context of the [draft] standard; and
(b) guidance (or illustrative examples) which demonstrates the process required to isolate current and anticipated effects of climate-related and other emerging risks and opportunities.

We also recommend removing the duplication of requirements in [Draft] IFRS S2—that is, removing paragraph 14(a)-(e) and instead including a reference to paragraph 22 of [Draft] IFRS S1.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 6—Current and anticipated effects (paragraph 14)

(b) Do you agree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period? If not, what would you suggest and why?

The AASB and AUASB disagree with the proposed disclosure requirements for the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period.

Such disclosures should already be disclosed as part of an entity's financial statements. While we acknowledge that such disclosure is currently not ideal, we are of the view that matters relating to the general purpose financial statements should remain in the purview of IASB and be disclosed in the financial statements and not duplicated or isolated outside the financial statements.

Furthermore, many different risks can affect an entity's financial position, financial performance and cash flows. Where an entity is subject to multiple significant risks, some of which may not necessarily relate to climate or sustainability, we question:

(a) how an entity can isolate those effects that relate only to climate or some other sustainability-related matter to the extent that is makes a clear and unreserved statement on those effects; and
(b) how an entity can quantify those effects when it is unable to isolate them.

We recommend that:

(a) the paragraph is re-drafted in a way that provides entities with more flexibility in meeting those requirements—for example, by permitting the use of quantitative or qualitative disclosures rather than requiring quantitative disclosures only;
(b) they are accompanied by guidance that clearly demonstrates how the ISSB expects these requirements to be applied; and
(c) an explicit reference to information disclosed in an entity's financial statements is made.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 6—Current and anticipated effects (paragraph 14)

(c) Do you agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term? If not, what would you suggest and why?

The AASB and AUASB agree with the proposed disclosure requirements for the anticipated effects of climate-related risks and opportunities on an entity's financial position and financial performance over the short, medium and long term.

However, as discussed in our response to question 6(b), we question how an entity would be able to isolate the anticipated effects of climate or other sustainability-related risks and opportunities to the extent that could produce disclosures that meet the qualitative characteristics of useful information as required by the *Conceptual Framework* and [Draft] IFRS S1.

Question 7—Climate resilience (paragraph 15)

(a) Do you agree that the items listed in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy? Why or why not? If not, what do you suggest instead and why?
(b) The Exposure Draft proposes that if an entity is unable to perform climate-related scenario analysis, that it can use alternative methods or techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) instead of scenario analysis to assess the climate resilience of its strategy.

(i) Do you agree with this proposal? Why or why not?

The AASB and AUASB agree that the items listed in paragraph 15(a) of the [draft] standard reflect what users need to understand about the climate resilience of an entity's strategy. However, we disagree with the proposal that permits the use of alternative methods or techniques instead of scenario analysis to assess the climate resilience of an entity's strategy.

Feedback from Australian stakeholders (including preparers and users) indicated that, while complex, climate-related scenario analysis is the most helpful way for entities to communicate with users about the resilience of their strategy. These stakeholders also noted that permitting the use of alternative methods:

(a) will create complexity for users; and
(b) will likely result in inconsistent and incomparable information about an entity's climate resilience.

We recommend that the ISSB remove this optionality from paragraph 15 of the [draft] standard and instead develop guidance to assist entities of varying sizes in climate-related scenario analysis.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 7—Climate resilience (paragraph 15)

(b)(ii) Do you agree with the proposal that an entity that is unable to use climate-related scenario analysis to assess the climate resilience of its strategy be required to disclose the reason why? Why or why not?

(b)(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience? If mandatory application were required, would this affect your response to Question 14(c) and if so, why?

The AASB and AUASB agree that in some rare and exceptional circumstances, it would be impracticable for an entity to use climate-related scenario analysis to assess the climate resilience of its strategy. We also agree that in such circumstances, an entity must disclose that fact and how it reached that conclusion.

Question 7—Climate resilience (paragraph 15)

(c) Do you agree with the proposed disclosures about an entity's climate-related scenario analysis? Why or why not?

The AASB and AUASB agree with the proposed disclosures about an entity's climate-related scenario analysis. However, as noted in our response to question 5(a), listing requirements within lists of requirements makes the [draft] standard challenging to read and understand. We recommend the ISSB simplifies the structure of these by breaking up the lists into paragraphs where possible to do so.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 7—Climate resilience (paragraph 15)

(d) Do you agree with the proposed disclosure about alternative techniques (for example, qualitative analysis, single-point forecasts, sensitivity analysis and stress tests) used for the assessment of the climate resilience of an entity's strategy? Why or why not?

As discussed in our response to question 7(b), we disagree with the proposal that permits the use of alternative methods or techniques instead of scenario analysis to assess the climate resilience of an entity's strategy. However, if the ISSB does not remove the optionality in paragraph 15 and permits entities to apply alternative methods and techniques to climate-related scenario analysis, we agree with the proposed disclosure about alternative techniques.

As discussed in question 5(a), we note that listing requirements within a list of requirements several times makes it difficult to read and understand. Should the ISSB not remove the option to apply alternative methods and techniques to climate-related scenario analysis (and therefore not remove paragraph 15(b)(ii) of the [draft] standard) we recommend simplifying the structure of these requirements by breaking up the lists into paragraphs where possible to do so.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 7—Climate resilience (paragraph 15)

(e) Do the proposed disclosure requirements appropriately balance the costs of applying the requirements with the benefits of information on an entity's strategic resilience to climate change? Why or why not? If not, what do you recommend and why?

As already discussed in our response to questions 5(d) and 12, given the limited time provided for public consultation on not one, but two, major standards, we are unable to quantify the benefits, costs and effects of this [draft] standard or specific disclosure requirements being proposed. However, feedback from Australian stakeholders indicated overall support for the proposed requirements related to using climate-related scenario analysis to assess the climate resilience of an entity's strategy.

Consistent with our response to the Exposure Draft on [Draft] IFRS S1, we recommend that the ISSB field test the proposals in both Exposure Drafts to understand better and quantify the costs, benefits and likely effects of applying them.

Question 8—Risk management (paragraphs 16 to 18)

Do you agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities? Why or why not? If not, what changes do you recommend and why?

The AASB and AUASB agree with the proposed disclosure requirements for the risk management processes that an entity uses to identify, assess and manage climate-related risks and opportunities (see also our response to the Exposure Draft on [Draft] IFRS S1). However:

(a) paragraph 16 of this [draft] standard should aligned with paragraph 25 in [Draft] IFRS S1;

(b) paragraph 17 of this [draft] standard unnecessarily duplicates paragraph 26 of [Draft] IFRS S1;
(c) paragraph 18 duplicates paragraph 6 of this [draft] standard.

Consequently, we recommend to:

(a) amend proposed paragraph 16 to align with the related paragraph 25 in [Draft] IFRS S1;
(b) replace proposed paragraphs 17(a)-(f) with a reference to paragraphs 25-26 of [Draft] IFRS S1; and
(c) remove proposed paragraph 18.

A complete set of recommended amendments to [Draft] IFRS S2 is attached in Appendix D to this submission.

Question 9—Cross-industry metric categories and greenhouse gas emissions (paragraphs 19-24)

(a) The cross-industry requirements are intended to provide a common set of core, climate-related disclosures applicable across sectors and industries. Do you agree with the seven proposed cross-industry metric categories including their applicability across industries and business models and their usefulness in the assessment of enterprise value? Why or why not? If not, what do you suggest and why?

Greenhouse gas emissions

The AASB and AUASB agree with the cross-industry metric category relating to greenhouse gas (GHG) emissions. Overall, there was strong support from Australian stakeholders (including preparers and users) in relation to the requirements around the disclosure of an entity's Scope 1, Scope 2 and Scope 3 GHG emissions. These stakeholders also agreed that GHG emissions disclosures should be considered as part of cross-industry metric categories rather than addressed at industry level. Some stakeholders also commented on proposed paragraph 21(a)(ii) and suggested the ISSB refer specifically to emissions intensity per dollar of revenue as opposed to referring to 'per unit of economic output'.

A few stakeholders disagreed with the requirement to disclose an entity's Scope 3 GHG emissions. These stakeholders provided the following reasons why they disagreed:

(a) They questioned the usefulness of Scope 3 GHG emissions information given the highly subjective nature of the information—that is, Scope 3 GHG emissions information is subject to a greater degree of uncertainty than that is generally accepted for general purpose financial reporting given the significant judgements and assumptions that need to be applied in calculating those emissions. These stakeholders questioned how useful the resulting information really is given that that uncertainty can significantly affect the emissions disclosures; and
(b) They questioned the usefulness of Scope 3 GHG emissions information, given that the reporting entity has no control over those emissions and would, as a result, not be able to reduce those emissions.

Transition and physical risks

The AASB and AUASB agree with the cross-industry metric categories relating to transition and physical risks. However, we note that the disclosure requirements relate only to quantitative information (being the amount and percentage of assets or business activities vulnerable to transition and physical risks). Such information is not useful when disclosed in isolation—rather, it should be considered in the context of qualitative information, such as what transition and physical risks an entity is exposed to and how it is mitigating those risks.

While we note that there are requirements addressing connected information in [Draft] IFRS S1, we recommend paragraphs 21(b) and 21(c) be improved by:

(a) expanding on the proposals to require (or refer to) accompanying qualitative information; or
(b) developing illustrative examples demonstrating the type of disclosure that would be considered best practice in applying this requirement.

Climate-related opportunities

The AASB and AUASB agree with the cross-industry metric category relating to climate-related opportunities. However, the disclosure requirement relates only to quantitative information (the amount and percentage of assets or business activities aligned with climate-related opportunities). Such information is not useful when disclosed in isolation—rather, it should be considered in the context of qualitative information such as what climate-related opportunities the disclosure is referring to.

While we note that there are requirements addressing connected information in [Draft] IFRS S1, we recommend paragraph 21(d) be improved by:

(c) expanding on the proposals to require (or refer to) accompanying qualitative information; or
(d) developing illustrative examples demonstrating the type of disclosure that would be considered best practice in applying this requirement.

Capital deployment

The AASB and AUASB agree with the cross-industry metric category relating to capital deployment. However, we recommend a specific requirement to link this information to other related disclosures required by the [draft] standard (for example, disclosures related to current and anticipated effects on the entity's financial position, financial performance and cash flows).

Internal carbon prices

The AASB and AUASB agree with the cross-industry metric category relating to internal carbon prices. However, Australian stakeholders' feedback indicated some confusion over what is meant by 'internal carbon price'. We note a definition and guidance for internal carbon price is proposed in Appendix A to the [draft] standard. Given the confusion, we recommend elevating and relocating that definition and explanatory paragraphs into the body of the [draft] standard.

While overall stakeholders agreed with this cross-metric industry category, some disagreed with it and its accompanying disclosure requirements because, in their view, such a requirement goes beyond what would be required for general purpose financial statements. For example, a few of these stakeholders referred to internal transfer prices used by entities, which are not required to be disclosed by entities applying IFRS Accounting Standards. They questioned the difference between internal carbon prices and internal transfer prices and how the costs and benefits of disclosing internal carbon prices differed from disclosing internal transfer prices.

Remuneration

The AASB and AUASB disagree with the cross-industry metric category relating to remuneration. Many jurisdictions, including Australia, already have detailed remuneration reporting requirements.[8] In particular, in Australia, remuneration reporting requirements for an entity's key management personnel (which includes both executive and non-executive management) are legislated in s300A of the Corporations Act 2001 and s2M.3.03 of the Corporations Regulations 2001 and have requirements under which an entity must include a discussion of the relationship between the remuneration policy and the entity's performance. Furthermore:

(a) explicitly linking executive remuneration to climate does not necessarily impact an entity's climate or sustainability-related performance;
(b) we question how detailed information on executive remuneration could reasonably be expected to influence users' assessments of an entity's enterprise value; and
(c) if we are to expect similar requirements in future standards, we question how an entity subject to multiple significant sustainability-related risks would be able to demonstrate performance through metrics related to executive remuneration—that is, we cannot expect an entity to link executive remuneration to the entity's performance against every significant sustainability-related risk to which they are exposed.

Question 9—Cross-industry metric categories and greenhouse gas emissions (paragraphs 19-24)

(b) Are there any additional cross-industry metric categories related to climate-related risks and opportunities that would be useful to facilitate cross-industry comparisons and assessments of enterprise value (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful to users of general purpose financial reporting.

The AASB and AUASB have not identified any additional cross-industry metric categories related to climate-related risks and opportunities. However, some stakeholders observed disclosure topics and requirements duplicated across multiple industries in Appendix B to the [draft] standard. These stakeholders questioned why such disclosure topics and requirements (especially those relating to GHG emissions and intensity) were being duplicated rather than being considered as part of cross-industry metric categories and requirements.

Question 9—Cross-industry metric categories and greenhouse gas emissions (paragraphs 19-24)

(c) Do you agree that entities should be required to use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions? Why or why not? Should other methodologies be allowed? Why or why not?

The AASB and AUASB agree that, as a global baseline, the IFRS Sustainability Disclosure Standards should refer to the GHG Protocol. However, to the extent possible, entities should be permitted to

[8] See AASB Staff Paper *Review of Executive Remuneration Disclosure Requirements* (September 2021).

apply the jurisdictional GHG protocols or standards relevant to their operations. Many jurisdictions, including Australia, already legislate and regulate the regular reporting of GHG emissions. In the case of Australia, the National Greenhouse and Energy Reporting Act 2007 (NGER Act) is more stringent and is also accompanied by more guidance and support than the GHG Protocol. We are concerned that should such optionality not be permitted, entities would be required to report their GHG emissions under two different protocols depending on where those disclosures are being made. However, we also acknowledge that jurisdictional GHG protocols or standards, including Australia's NGER Act, typically address only Scope 1 and Scope 2 GHG emissions.

We recommend that the requirement in proposed paragraph 21(a)(i) be modified to permit the use of jurisdictional GHG protocols or standards so long as they align with the GHG Protocol or are not of a lower quality than the GHG Protocol.

Question 9—Cross-industry metric categories and greenhouse gas emissions (paragraphs 19-24)

(d) Do you agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO_2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH_4) separately from nitrous oxide (NO_2))?

The AASB and AUASB agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2, and Scope 3—expressed in CO_2 equivalent.

Question 9—Cross-industry metric categories and greenhouse gas emissions (paragraphs 19-24)

(e) Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?

The AASB and AUASB agree with the proposal that entities be required to disclose Scope 1 and Scope 2 GHG emissions separately for the consolidated entity. However, we disagree with the proposed requirement for the reporting entity to separately disclose the Scope 1 and 2 GHG emissions for any associates, joint ventures, unconsolidated subsidiaries and affiliates. This is because such information should already be disclosed as part of an entity's Scope 3 GHG emissions, so we question the need to duplicate such disclosure as being proposed. Furthermore, as noted in our response to the Exposure Draft on [Draft] IFRS S1, we are of the view that a consistent approach to the treatment of associates, joint ventures, unconsolidated subsidiaries and affiliates should be developed for IFRS Sustainability Disclosure Standards rather than addressed within each thematic standard.

Question 9—Cross-industry metric categories and greenhouse gas emissions (paragraphs 19-24)

(f) Do you agree with the proposed inclusion of absolute gross Scope 3 emissions as a cross-industry metric category for disclosure by all entities, subject to materiality? If not, what would you suggest and why?

The AASB and AUASB agree with the proposed inclusion of absolute gross Scope 3 GHG emissions as a cross-industry metric category for disclosure by all entities, subject to materiality for those reasons discussed in response to question 9(a).

Question 10—Targets (paragraph 23)

(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

The AASB and AUASB agree with the disclosures about climate-related targets as proposed in paragraph 23 of the [draft] standard.

Question 10—Targets (paragraph 23)

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

The AASB and AUASB are of the view that the proposed definition of 'latest international agreement on climate change' is not clear for the following reasons:

(a) it is not clear in the body of the [draft] standard that this term is defined. All other defined terms have been clearly identified through italics, but this has not been the case for the term 'latest international agreement on climate change'; and
(b) there is a direct reference to third-party standards and frameworks in Appendix B to the [draft] standard. We see no reason why the definition in Appendix A cannot refer directly to the latest international agreement on climate change.

Accordingly, we recommend:

(a) the term 'latest international agreement on climate change' be italicised to be clearly identifiable as a defined term'; and
(b) the definition in Appendix A to the [draft] standard refers directly to the latest international agreement on climate change.

Question 11—Industry-based requirements (paragraph 20 and Appendix B)

(a) Do you agree with the approach taken to revising the SASB Standards to improve the international applicability, including that it will enable entities to apply the requirements regardless of jurisdiction without reducing the clarity of the guidance or substantively altering its meaning? If not, what alternative approach would you suggest and why?

The AASB and AUASB disagree with the approach taken to revising the SASB Standards to improve their international applicability. There was no approach to internationalisation other than to remove references to specific pieces of US-based legislation, regulations or guidance. Furthermore, the SASB Standards from which the metrics were taken have not previously been exposed for public consultation in Australia. In our view, further work is needed to :

(a) align the structure and content of the SASB Standards included in Appendix B to the body of the [draft] standard. That is, the approach to principles-based versus rules-based standard-setting differs substantially. We note that the content in Appendix B to the [draft] standard has been developed based on a rules-based approach and, as a result, is structured and reads as being rules-based which conflicts with the way the body of the [draft] standard has been written applying a principles-based approach.

(b) help ensure that the industry descriptions and industry-based metrics being proposed in Appendix B are globally appropriate. For example, the Australian Bureau of Statistics governs the industry categories and descriptions applied in Australia which may not necessarily align with the proposed industry descriptions and categories.

As already discussed in our response to questions 5(d), 7(g) and 12 and our response to the Exposure Draft on [Draft] IFRS S1, we also note that insufficient time has been provided as part of this public consultation to ensure that the content proposed in Appendix B could be appropriately analysed and considered. For example, sufficient time has not been provided for:

(a) an analysis of the differences and similarities between the industry categories and descriptions in Appendix B to the [draft] standard and the Australian and New Zealand Standard Industrial Classification 2006; and

(b) the suitability of the industry-based metrics for Australian and multi-national entities.

Question 11—Industry-based requirements (paragraph 20 and Appendix B)

(b) Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements? If not, why not?

The AASB and AUASB agree with the amendments made to the SASB Standards per Appendix B to the [draft] standard. However, as discussed in our response to question 11(a), these amendments have not gone far enough in ensuring the international applicability of the proposals in Appendix B to the [draft] standard.

Question 11—Industry-based requirements (paragraph 20 and Appendix B)

(c) Do you agree that the proposed amendments will enable an entity that has used the relevant SASB Standards in prior periods to continue to provide information consistent with the equivalent disclosures in prior periods? If not, why not?

It is our understanding that very few entities in Australia apply SASB Standards. However, we assume that given none of the industry descriptions or industry-based metrics have been amended, those entities that currently apply SASB Standards would not be affected by the amendments.

Question 11—Industry-based requirements (paragraph 20 and Appendix B)

(d) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

The AASB and AUASB agree with the proposed industry-based disclosure requirements for financed and facilitated GHG emissions. However, we note that this requirement duplicates the cross-industry requirement to disclose Scope 3 GHG emissions, so it is not necessary.

We acknowledge that the proposed industry-based requirements for financed and facilitated GHG emissions provide guidance that is useful for entities to refer to when applying the proposed cross-industry metric requirements.

As noted in our response to the Exposure Draft on [Draft] IFRS S1, there are concerns around current data availability and quality that could affect such disclosures' usefulness. As noted in our response to question 14, when considering the effective date of the [draft] standard, the ISSB should provide:

(a) sufficient time for development of the systems and processes needed to obtain the relevant data; and
(b) transition relief through the development of a first-time application standard—that is, support transition to IFRS Sustainability Disclosure Standards by providing relief for certain disclosures for which systems and processes may take a longer than anticipated timeframe to develop and implement.

Question 11—Industry-based requirements (paragraph 20 and Appendix B)

(e) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?
(f) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?
(g) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?
(h) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?
(i) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?

See our response to question 11(j).

Question 11—Industry-based requirements (paragraph 20 and Appendix B)

(j) Do you agree with the proposed industry-based requirements? Why or why not? If not, what do you suggest and why?

The AASB and AUASB strongly disagree with the proposed industry-based requirements in Appendix B to the [draft] standard.

While we note that many Australian stakeholders said that industry-based metrics would be useful, based on the feedback from stakeholders and our initial assessment, we are of the view that these are not currently appropriate for use in the Australian market. Specifically, we have concerns about:

(a) the public consultation period being insufficient for Australian stakeholders to be able to appropriately consider the proposals in Appendix B in addition to the body of the [draft] standard and [Draft] IFRS S1. That is, the public consultation of both Exposure Drafts overlaps with Australia's financial year-end and, as a result, stakeholders could not commit resources to respond to all of the ISSB's proposals (see also our response to questions 5(d), 7(g) and 12 and the Exposure Draft on [Draft] IFRS S1);

(b) the appropriateness of the proposed industry descriptions and industry-based requirements for use in Australia. As discussed in Appendix E to this submission, feedback indicated that the proposals are US-centric and not representative of the Australian or global market;

(c) the volume of content proposed in Appendix B to the [draft] standard. We question how stakeholders, including national standard-setters, would be able to keep up and comply with future standards if each thematic standard is accompanied by several hundred pages of detailed industry-based requirements which need to be reviewed and maintained. We also question the capacity and ability of the ISSB to maintain that volume of work while also working to develop new standards and requirements; and

(d) how the proposed industry-based metrics relate to climate—because of a lack of definition of 'climate' in the [draft] standard, it is not clear what the boundary of the [draft] standard is. Furthermore, as discussed in Appendix E to this submission, feedback indicated that many of the proposed metrics do not relate to climate.

Consequently, we recommend that Appendix B be removed from [Draft] IFRS S2 and referred to only as non-mandatory guidance outside the [draft] standard until the ISSB has the time to consult on, review and amend the proposed content appropriately. That is, we would not be opposed to industry-based requirements being developed or being part of the body of a standard in the future. However, it will not be possible for these proposals to be adopted in the Australian market until they have undergone the appropriate due process.

Should these proposals be made into non-mandatory guidance outside the [draft] standard we recommend that the proposals be accompanied by an explanation of how primary users would use the resulting information and how that information links to the assessment of an entity's enterprise value. This is because these proposals will be new to many entities, and issues regarding 'connected information' have already been identified (see our response to the Exposure Draft on [Draft] IFRS S1). Therefore we are of the view that additional explanation would be beneficial and support long-term application of the IFRS Sustainability Disclosure Standards.

Question 11—Industry-based requirements (paragraph 20 and Appendix B)

(k) Are there any additional industry-based requirements that address climate-related risks and opportunities that are necessary to enable users of general purpose financial reporting to assess enterprise value (or are some proposed that are not)? If so, please describe those disclosures and explain why they are or are not necessary.

(l) In noting that the industry classifications are used to establish the applicability of the industry-based disclosure requirements, do you have any comments or suggestions on the industry descriptions that define the activities to which the requirements will apply? Why or why not? If not, what do you suggest and why?

See our response to question 11(j) and Appendix E to this submission.

Question 12—Costs, benefits and likely effects

(a) Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?
(b) Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?
(c) Are there any disclosure requirements included in the Exposure Draft for which the benefits would not outweigh the costs associated with preparing that information? Why or why not?

Given the limited time provided for public consultation on not one, but two major standards, we cannot quantify the benefits, costs and effects of this [draft] standard. As already discussed in our response to the Exposure Draft on [Draft] IFRS S1, we recommend the ISSB field test the proposals in this [draft] standard to understand better and quantify the costs, benefits and likely effects of applying it.[9]

We expect the benefits of applying IFRS Sustainability Disclosure Standards will be improved comparability, consistency and transparency of sustainability-related financial disclosures. However, we anticipate that these benefits will only begin to be realised three to five years after the [draft] standards become effective and reporting has had some time to mature.

We expect the implementation cost of the proposals to be significant for the reasons already described in our response to the Exposure Draft on [Draft] IFRS S1 and because:

(a) many of the proposals in this [draft] standard require significant levels of judgement and assumptions from a broad range of expertise that go beyond traditional financial reporting; and
(b) high compliance costs. The cost of audit and assurance of the disclosures resulting from applying the [draft] standard will be high. The cost of compliance with IFRS Accounting Standards is already considered to be burdensome by many preparers of general purpose financial statements.

We also expect that the likely implementation cost will be significantly higher for smaller entities since many of them will not yet have access to the resources they need to start considering climate reporting. Furthermore, competition for those limited resources will increase the cost of those resources, unfairly burdening smaller entities.

See our response to the Exposure Draft on [Draft] IFRS S1.

[9] The AASB has commenced the field testing of proposals in [Draft] IFRS S2 and will be looking to complete this work by the end of 2022.

Question 13—Verifiability and enforceability

Are there any disclosure requirements proposed in the Exposure Draft that would present particular challenges to verify or to enforce (or that cannot be verified or enforced) by auditors and regulators? If you have identified any disclosure requirements that present challenges, please provide your reasoning.

We are responding to this question in the context that this [draft] standard has not been field tested and the reporting outcomes from applying these proposals are not yet fully understood or known.

In theory, the requirements proposed in [Draft] IFRS S2 would not present any significant issues in relation to assurance and enforceability. However, we are also of the view that there is room for improvement in ensuring the proposals can be assured regardless of the level of assurance that could be required.

As the ISSB redeliberates the proposals in [Draft] IFRS S2, we recommend the ISSB considers the requirements auditors need to apply when complying with ISA 540 *Auditing Accounting Estimates and Related Disclosures*. While the International Auditing and Assurance Standards Board (IAASB) is still determining its approach to the assurance of sustainability reporting and responding to the work of the ISSB, we are confident ISA 540 provides the ISSB with a good framework to consider when evaluating what the disclosure and evidentiary requirements in the IFRS Sustainability Disclosure Standards should be. We recommend the ISSB consider paragraphs 23-25 of ISA 540:

> …
>
> *Methods*
>
> 24 In applying the requirements of paragraph 22, with respect to methods, the auditor's further audit procedures shall address:
>
> a. Whether the method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate;
>
> b. Whether judgements made in selecting the method give rise to indicators of possible management bias;
>
> c. Whether the calculations are applied in accordance with the method and are mathematically accurate;
>
> d. When management's application of the method involves complex modelling, whether judgements have been applied consistently and whether, when applicable:
>
> iii. The design of the model meets the measurement objective of the applicable financial reporting framework, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances; and
>
> iv. Adjustments to the output of the model are consistent with the measurement objective of the applicable financial reporting framework and are appropriate in the circumstances; and
>
> e. Whether the integrity of the significant assumptions and the data has been maintained in applying the method.

Significant Assumptions

25 In applying the requirements of paragraph 22, with respect to significant assumptions, the auditor's further audit procedures shall address:

a. Whether the significant assumptions are appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate;
b. Whether judgements made in selecting the significant assumptions give rise to indicators of possible management bias;
c. Whether the significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit; and
d. When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so.

Data

26 In applying the requirements of paragraph 22, with respect to data, the auditor's further audit procedures shall address:

a. Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate;
b. Whether judgements made in selecting the data give rise to indicators of possible management bias;
c. Whether the data is relevant and reliable in the circumstances; and
d. Whether the data has been appropriately understood or interpreted by management, including with respect to contractual terms.

…

While we understand these are audit and assurance concepts, and therefore outside the scope of the ISSB's work, it would help assurance practitioners and regulators if the ISSB could:

(a) Adapt and better utilise the guidance in paragraphs 125-133 of IAS 1 *Presentation of Financial Statements,* which includes more robust guidance around the disclosures needed to support management's significant judgements and assumptions.
(b) Explicitly refer to neutrality in [Draft] IFRS S1, or include neutrality as part of a conceptual framework addressing sustainability-related financial reporting (or by amending the existing *Conceptual Framework* to make clear its applicability in preparing and disclosing sustainability-related financial disclosures).

Question 14—Effective date

(a) Do you think that the effective date of the Exposure Draft should be earlier, later or the same as that of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? Why?

On balance, we think that [Draft] IFRS S2 can be applied independently of [Draft] IFRS S1 so long as a direct reference to the IFRS Foundation's *Conceptual Framework for Financial Reporting* is made in the absence of [Draft] IFRS S1.

We acknowledge that such an approach would have the benefit of allowing the ISSB more time to address the issues with [Draft] IFRS S1 (see also our response to the Exposure Draft on [Draft] IFRS S1) while still meeting the demand for climate-related disclosure requirements in the short-term. However, we also note that, overall, Australian stakeholders did not support an approach that would see the effective date of [Draft] IFRS S1 differing from that of [Draft] IFRS S2.

Question 14—Effective date

(b) When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer including specific information about the preparation that will be required by entities applying the proposals in the Exposure Draft.

The AASB and AUASB recommend that the effective date of the [draft] standard should be two to three years after the date of issue with early application permitted. Consultation with preparers and assurance providers in Australia indicated that this approach will help ensure that entities that can do so, can apply the requirements immediately while also providing sufficient time for others to develop the capabilities, systems and processes needed to comply with the [draft] standard. This is because:

(a) The current skill and resource gap in the market is significant. There is a lack of sufficiently skilled resources in the global and domestic market, and it will take time to develop the necessary resources for support widespread compliance with the requirements being proposed in this [draft] standard.

(b) The current quality of data in the climate reporting space is poor. The [draft] standard would force the quality of relevant data to improve in the long-term, but the quality of the data that currently exists may not be sufficient to comply with the [draft] standard.

(c) Many of the systems and processes needed to collect the necessary data to comply with the [draft] standard are still being developed. The systems and processes needed to collect and report on an entity's climate-related risks and opportunities would still need further development and refinement to ensure reporting can occur at the scale necessary to comply with the [draft] standard.

(d) The proposals in [Draft] IFRS S2 are complex. The transition to IFRS Sustainability Disclosure Standards will not be simple and, in some cases, will require entities to significantly alter their business operations (for example, through internal restructuring to develop teams that can support sustainability reporting in the long-term) which requires time.

(e) Entities will benefit from additional time to implement systems and processes effectively before they are subject to independent assurance. Recognising the complexity and qualitative nature of the requirements, extending the effective date allows entities additional capacity to develop effective systems, processes and controls to support sustainability reporting before they need to be scrutinised by auditors or assurance providers

Because of the complexities expected in transitioning to IFRS Sustainability Disclosure Standards, we strongly urge the ISSB to consider developing a first-time application standard to provide relief to those entities in the first year of application. Such a standard would also support the application of IFRS Sustainability Disclosure Standards by smaller reporting entities that will potentially need to build their capabilities over a longer period.

See also our response to the Exposure Draft on [Draft] IFRS S1.

Question 14—Effective date

(c) Do you think that entities could apply any of the disclosure requirements included in the Exposure Draft earlier than others? (For example, could disclosure requirements related to governance be applied earlier than those related to the resilience of an entity's strategy?) If so, which requirements could be applied earlier and do you believe that some requirements in the Exposure Draft should be required to be applied earlier than others?

The AASB and AUASB do think entities could apply some of the proposed disclosure requirements in the [draft] standard earlier than others. Whilst we do not have any specific examples, we note that such an approach (i.e. building the necessary capabilities over time) appears to be popular in implementing the TCFD Recommendations in Australia.

See also our response to the Exposure Draft on [Draft] IFRS S1.

Question 15—Digital reporting

Do you have any comments or suggestions relating to the drafting of the Exposure Draft that would facilitate the development of a Taxonomy and digital reporting (for example, any particular disclosure requirements that could be difficult to tag digitally)?

See our response to question 15 of the Exposure Draft on [Draft] IFRS S1.

Question 16— Global baseline

Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?

The AASB and AUASB have not identified any aspects of the proposals in the [draft] standard that would limit the ability of IFRS Sustainability Disclosure Standards to be used as a global baseline. However, 'global baseline' implies that this [draft] standard could be built upon at a jurisdictional level. We note that the [draft] standard is comprehensive and, as such, does not leave room for jurisdictions to build upon it.

Appendix C—Drafting recommendations for [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

Objective

1 This [draft] Standard sets out how an entity is required to disclose sustainability-related financial information in order to provide the primary users of general purpose financial reporting with a sufficient basis to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value. ~~The objective of [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is to require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity.~~

~~2 A reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality shall be made in the context of the information necessary for users of general purpose financial reporting to assess enterprise value.~~

~~3 An entity's general purpose financial reporting shall include a complete, neutral and accurate depiction of its sustainability-related financial information.~~

~~4 This [draft] Standard sets out how an entity is required to disclose sustainability-related financial information in order to provide the users of that information with a sufficient basis to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value.~~

~~5 Enterprise value reflects expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital. Information that is essential for assessing the enterprise value of an entity includes information that is provided by the entity in its financial statements and sustainability-related financial information.~~

~~6 Sustainability-related financial information is broader than information reported in the financial statements and could include information about:~~

~~(a) an entity's governance of sustainability-related risks and opportunities, and its strategy for addressing them;~~

~~(b) decisions made by the entity that could result in future inflows and outflows that have not yet met the criteria for recognition in the related financial statements;~~

~~(c) the entity's reputation, performance and prospects as a consequence of the actions it has undertaken, such as its relationships with people, the planet and the economy, and its impacts and dependencies on them; and~~

~~(d) the entity's development of knowledge-based assets.~~

7 This [draft] Standard also prescribes the basis for disclosing sustainability-related financial information that:

(a) is comparable both with the entity's sustainability-related financial information of previous periods and with the sustainability-related financial information from other entities; and

(b) is connected to the other information in the entity's general purpose financial reporting.

Scope

….

X A reporting entity shall disclose material information about the significant sustainability-related risks and opportunities to which it is exposed (see paragraphs 56-62).

~~9 Sustainability-related risks and opportunities that cannot reasonably be expected to affect assessments of an entity's enterprise value by primary users of general purpose financial reporting are outside the scope of this [draft] Standard.~~

…

Core content

XX To meet the objective of this [draft] standard an entity shall disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity.

11 Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity shall provide disclosures about:

...

(c) risk management—the processes the entity used to identify, assess and manage sustainability-related risks and opportunities; and

…

Strategy

14 The objective of sustainability-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's ~~strategy~~ approach for addressing significant sustainability-related risks and opportunities that could affect the entity's business model and strategy over the short, medium and long term.

15 To achieve this objective, an entity shall disclose information about:

(a) the significant sustainability-related risks and opportunities that ~~it~~ could reasonably ~~expects could~~ be expected to affect ~~its~~ users' assessments of its enterprise value, which include its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 16–19);

(b) the effects of those significant sustainability-related risks and opportunities identified in paragraph 15(a) on its business model and value chain (see paragraph 20);

(c) the effects of those significant sustainability-related risks and opportunities identified in paragraph 15(a) on its strategy and decision-making (see paragraph 21);

(d) the effects of those significant sustainability-related risks and opportunities identified in paragraph 15(a) on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how those sustainability-related risks and opportunities are included in the entity's financial planning (see paragraph 22); and

(e) the resilience of its strategy (including its business model) to those significant sustainability-related risks identified in paragraph 15(a) (see paragraphs 23–24).

…

Metrics and targets

27 **The objective of sustainability-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity ~~measures~~ assesses, monitors and manages its significant sustainability-related risks and opportunities over time. These disclosures shall enable users to understand how the entity ~~assesses~~ measures its performance, including progress towards the targets it has set.**

...

Identifying sustainability-related risks and opportunities and disclosures

~~50 This [draft] Standard requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed (see paragraph 2).~~

51 To identify sustainability-related risks and opportunities about which information could reasonably be expected to influence decisions that the users of general purpose financial reporting make on the basis of that information, an entity shall refer to IFRS Sustainability Disclosure Standards, including identified disclosure topics. ~~In addition to IFRS Sustainability Disclosure Standards, an entity shall consider~~ In the absence of a relevant IFRS Sustainability Disclosure Standard, an entity may refer to:

~~(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 (such as those identified in the industry-based SASB Standards).

~~52~~ ~~To identify disclosures, including metrics, about a significant sustainability-related risk or opportunity, an entity shall refer to the relevant IFRS Sustainability Disclosure Standards.~~

…

Materiality

56 Sustainability-related ~~financial~~ information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides financial information about a specific reporting entity. This assessment shall be made in the context of information necessary for users of general purpose financial reporting to assess a specific reporting entity's enterprise value.

57 ~~Material sustainability-related~~ ~~financial~~ Sustainability-related information is material if, when considered with other information included in an entity's general purpose financial reporting, it ~~provides insights into factors that~~ could reasonably be expected to influence primary users' assessments of an entity's enterprise value. ~~The information relates to activities, interactions and relationships and to the use of resources along the entity's value chain if it could influence the assessment primary users make of its enterprise value. It can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes.~~

58 Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates~~,~~ in the context of the reporting entity's general purpose financial reporting taken as whole. Material information can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes. ~~This [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.~~

XX ~~The information relates~~ Information relating to activities, interactions and relationships and to the use of resources along the entity's value chain is material if it could reasonably be expected to influence ~~the assessment~~ primary users' assessments ~~make~~ of its enterprise value. It can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes.

59 An entity shall apply judgement to identify material sustainability-related ~~financial~~ information. Materiality judgements shall be reassessed at each reporting date ~~to take account of changed circumstances and assumptions~~. This [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.

XX Assessing whether information could reasonably be expected to influence primary users' assessments of an entity's enterprise value requires an entity to consider the characteristics of those users while also considering the entity's own circumstances. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reporting for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reporting are directed. General purpose financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena, including sustainability-related information.

XX Some IFRS Sustainability Disclosure Standards require the disclosure of information such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider:

(a) the potential effects of the events on the value, timing and certainty of the entity's future cash flows, including in the long term (the possible outcome); and

(b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

60 An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements.

61 An entity shall also consider whether to disclose additional information when compliance with the specific requirements in an IFRS Sustainability Disclosure Standard is insufficient to enable ~~users of general purpose financial reporting to assess the effect on enterprise value of the sustainability-related risks and opportunities to which the entity is exposed~~ primary users' assessments of the entity's enterprise value.

XX When applying this [draft] Standard and other IFRS Sustainability Disclosure Standards, an entity, after it has considered all relevant facts and circumstances, shall decide how to aggregate the information in its sustainability-related financial disclosures. An entity shall not reduce the understandability of its sustainability-related financial disclosures by obscuring material information with immaterial information or by aggregating material items that are dissimilar.

XX Information shall not be aggregated if doing so would obscure information that is material. Rather, aggregation and disaggregation shall be based on the characteristics of the sustainability-related risks and opportunities. Information shall be aggregated when it shares those characteristics and disaggregated when it does not share them. Information about sustainability-related risks and opportunities might need to be disaggregated, such as by geographical location or in consideration of the geopolitical environment. For example, to ensure that material information is not obscured, an entity might need to disaggregate disclosures about its use of water to distinguish between water drawn from abundant sources and water drawn from high-stress sources.

62 An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.

…

73 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reporting in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary when management commentary forms part of an entity's general purpose financial reporting. Management commentary complements an entity's financial statements. It can provide ~~provides~~ insights into the factors that have affected the entity's financial performance and financial position and the factors that could affect the entity's ability to create value and generate cash flows. Management commentary can be known by or incorporated in reports with various names, including management's discussion and analysis, operating and financial review, integrated report and strategic report.

…

Sources of estimation and outcome uncertainty

79 **~~When metrics cannot be measured directly and can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information. An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.~~ An entity shall disclose information about the assumptions it makes, and other major sources of estimation uncertainty, that have a significant risk of resulting in material adjustment to its sustainability-related financial disclosures. In respect of that information, sustainability-related financial disclosure shall include details of:**

(a) their source and nature;

(b) the factors affecting the uncertainties; and

(c) the degree of the uncertainty.

80 **When sustainability-related financial disclosures include ~~financial~~ data and assumptions, such ~~financial~~ data and assumptions shall be consistent with the corresponding ~~financial~~ data and assumptions in the entity's financial statements, to the extent ~~possible~~ practicable.**

XX When metrics cannot be measured directly and can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information. An entity shall identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.

XX The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 79 relate to estimates and other estimation uncertainties that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting possible future events increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to sustainability-related financial disclosures normally increases accordingly.

XX An entity presents the disclosures in paragraph 79 in a manner that helps users of general purpose financial reporting to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty; and
(b) the sensitivity of the sustainability-related financial disclosure to the methods, assumptions and estimates underlying their calculation, including the reason for the sensitivity.

XX Sometimes it is impracticable to disclose the extent of possible effects of an assumption or other source of estimation uncertainty at the time reporting occurs. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes that are different from the assumption could require a material adjustment to the sustainability-related disclosure affected by the assumption.

~~81 Some IFRS Sustainability Disclosure Standards require the disclosure of information such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider:~~

~~(a) the potential effects of the events on the value, timing and certainty of the entity's future cash flows, including in the long term (the possible outcome); and~~

~~(b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.~~

~~82 When considering possible outcomes, an entity shall consider all relevant facts and circumstances, and consider including information about low-probability and high-impact outcomes, which, when aggregated, could become material. For example, an entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption—such as disruptions to the entity's supply chain. Information about an individual~~

~~source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.~~

~~83~~ ~~An entity shall disclose information about the assumptions it makes about the future, and other sources of significant uncertainty, related to the information it discloses about the possible effects of sustainability-related risks or opportunities, when there is significant outcome uncertainty.~~

…

Appendix D—Drafting recommendations for [Draft] IFRS S2 *Climate-related Disclosures*

Objective

1 The objective of [draft] IFRS S2 *Climate-related Disclosures* is to require an entity to disclose information about its exposure to significant climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value. To meet this objective an entity shall disclose information enabling users:

~~(a) to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value;~~

(b) to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its significant climate-related risks and opportunities; and

(c) to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.

…

Scope

…

XX In preparing disclosures to fulfil the requirements in this [draft] Standard, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1. For example, although an entity shall provide the information required by this [draft] Standard, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, an entity shall provide integrated disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity to reduce duplication.

Governance

…

5 To achieve this objective, an entity shall disclose information consistent with that required in paragraphs 12-13 of [Draft] IFRS S1. ~~about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:~~

~~(a) the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities;~~

~~(b) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;~~

~~(c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities;~~

~~(d) how and how often the body and its committees (audit, risk or other committees) are informed about climate-related risks and opportunities;~~

~~(e) how the body and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required;~~

~~(f) how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, and monitor progress towards them (see paragraphs 23–24), including whether and how related performance metrics are included in remuneration policies (see paragraph 21(g)); and~~

~~(g) a description of management's role in assessing and managing climate-related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.~~

~~6 In preparing disclosures to fulfil the requirements in paragraph 5, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (see paragraph 78). For example, although an entity shall provide the information required by paragraph 5, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.~~

Strategy

…

8 To achieve this objective, an entity shall disclose information consistent with that required in paragraphs 14-24 of [Draft] IFRS S1. For example, to achieve the objective in paragraph 7 in the context of climate-related risks and opportunities an entity shall disclose information about:

~~(a) the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term (see paragraphs 9–11);~~

~~(b) the effects of significant climate-related risks and opportunities on its business model and *value chain* (see paragraph 12);~~

(c) the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans (see paragraph 13);

~~(d) the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects~~

~~over the short, medium and long term—including how climate-related risks and opportunities are included in the entity's financial planning (see paragraph 14); and~~

(e) the climate resilience of its strategy (including its business model) to significant physical risks and significant transition risks (see paragraph 15).

Climate-related risks and opportunities

9 An entity shall disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. In addition to the requirements in paragraph 16 of [Draft] IFRS S1, ~~Specifically,~~ the entity shall disclose~~:~~

~~(a) a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term.~~

~~(b) how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans.~~

~~(c)~~ whether the risks identified are physical risks or transition risks. For example, acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, and examples of chronic physical risks include rising sea levels or rising mean temperatures. Transition risks could include regulatory, technological, market, legal or reputational risks.

10 In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the requirements in paragraphs 16-20 of [draft] IFRS S1 ~~disclosure topics defined in the industry disclosure requirements (Appendix B)~~.

…

~~12 An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model. Specifically, an entity shall disclose:~~

~~(a) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and~~

~~(b) a description of where in its value chain significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).~~

Strategy and decision-making

13 Consistent with the requirements in paragraph 12 of [Draft] IFRS S1, an ~~An~~ entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans. Specifically, an entity shall disclose:

(a) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set. Related requirements are provided in paragraph XA. ~~This shall include:~~

~~(i) information about current and anticipated changes to its business model, including:~~

~~(1) about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for legacy assets, including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets.~~

~~(2) information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures).~~

~~(3) information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement).~~

~~(ii) how these plans will be resourced.~~

(b) information regarding climate-related targets for these plans. Related requirements are provided in paragraph XB. ~~including:~~

~~(i) the processes in place for review of the targets;~~

~~(ii) the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain;~~

~~(iii) the intended use of carbon offsets in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information including:~~

~~(1) the extent to which the targets rely on the use of carbon offsets;~~

~~(2) whether the offsets will be subject to a third-party offset verification or certification scheme (certified carbon offset), and if so, which scheme, or schemes;~~

~~(3) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and~~

~~(4) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).~~

(c) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods in accordance with paragraph 13(a)–(b). Related requirements are provided in paragraph 20.

XA In meeting the requirement in paragraph 13(a), an entity shall disclose information about:

(a) current and anticipated changes to its business model, including:
   (i) changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 9. For example, these changes could include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments.
   (ii) plans and critical assumptions for legacy assets, including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets;
   (iii) direct adaptation and mitigation efforts it is undertaking. For example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures;
   (iv) indirect adaptation and mitigation efforts it is undertaking. For example, by working with customers and supply chains or use of procurement;
(b) how these plans will be resourced.

XB In meeting the requirement in paragraph 13(b), an entity shall disclose information about:

(a) the processes in place for review of the targets;
(b) the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain;
(c) the intended use of carbon offsets in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information about:
   (i) the extent to which the targets rely on the use of carbon offsets;
   (ii) whether the offsets will be subject to a third-party offset verification or certification scheme (certified carbon offset), and if so, which scheme, or schemes;
   (iii) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and
   (iv) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).

Financial position, financial performance and cash flows

14 Unless disclosed as part of an entity's general purpose financial statements, an ~~An~~ entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term—including how climate-related risks and opportunities are

included in the entity's financial planning. An entity can meet these requirements by providing quantitative or qualitative information, or a combination of both. ~~An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, an entity shall disclose:~~

~~(a) how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;~~

~~(b) information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;~~

~~(c) how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting:~~

~~(i) its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements);~~

~~(ii) its planned sources of funding to implement its strategy;~~

~~(d) how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the latest international agreement on climate change; physical damage to assets from climate events; and the costs of climate adaptation or mitigation); and~~

~~(e) if the entity is unable to disclose quantitative information for paragraph 14(a)–(d), an explanation of why that is the case.~~

XX An entity shall disclose information consistent with that required in paragraph 22 of [Draft] IFRS S1.

Climate resilience

15 An entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use climate-related scenario analysis to assess its climate resilience unless it is impracticable ~~unable~~ to do so. ~~If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an entity can disclose single amounts or a range~~.

XX Specifically, an ~~the~~ entity shall disclose:

(a) the results of the analysis of climate resilience, which shall enable users to understand:

(i) the implications, if any, of the entity's findings for its strategy, including how it would need to respond to the effects identified in paragraph 15(b)(i)(8) or 15(b)(ii)(6);

(ii) the significant areas of uncertainty considered in the analysis of climate resilience;

(iii) the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of:

(1) the availability of, and flexibility in, existing financial resources, including capital, to address climate-related risks, and/or to be redirected to take advantage of climate-related opportunities;

(2) the ability to redeploy, repurpose, upgrade or decommission existing assets; and

(3) the effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience.

(b) how the climate-related scenario analysis has been conducted, including:

~~(i) when climate-related scenario analysis is used:~~

(1) which scenarios were used for the assessment and the sources of the scenarios used;

(2) whether the analysis has been conducted by comparing a diverse range of climate-related scenarios;

(3) whether the scenarios used are associated with transition risks or increased physical risks;

(4) whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change;

(5) an explanation of why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities;

(6) the time horizons used in the analysis;

(7) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the scenario analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions); and

(8) assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology.

~~(ii) when climate-related scenario analysis is not used:~~

~~(1) an explanation of the methods or techniques used to assess the entity's climate resilience (for example, single-point forecasts, sensitivity analysis or qualitative analysis);~~

~~(2) the climate-related assumptions used in the analysis including whether it includes a range of hypothetical outcomes;~~

~~(3) an explanation of why the entity has decided that the chosen climate-related assumptions are relevant to assessing its resilience to climate-related risks and opportunities;~~

~~(4) the time horizons used in the analysis;~~

~~(5) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions);~~

~~(6) assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology; and~~

~~(7) an explanation of why the entity was unable to use climate-related scenario analysis to assess the climate resilience of its strategy.~~

XY Where an entity has concluded that it is impracticable to use climate-related scenario analysis to assess its climate resilience it shall disclose that fact, including an explanation of how it is impracticable.

Risk management

16 The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed. These disclosures shall enable users to assess whether those processes are integrated into the entity's overall risk management processes and to evaluate the entity's overall risk profile and risk management.

17 To achieve this objective, an entity shall disclose information consistent with that required in paragraphs 25-26 of [Draft] IFRS S1.~~:~~

~~(a) the process, or processes, it uses to identify climate-related:~~

~~(i) risks; and~~

~~(ii) opportunities;~~

~~(b) the process, or processes, it uses to identify climate-related risks for risk management purposes, including when applicable:~~

~~(i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);~~

~~(ii) how it prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools);~~

~~(iii) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and~~

~~(i) whether it has changed the processes used compared to the prior reporting period;~~

~~(c) the process, or processes, it uses to identify, assess and prioritise climate-related opportunities;~~

~~(d) the process, or processes, it uses to monitor and manage the climate-related:~~

~~(i) risks, including related policies; and~~

~~(ii) opportunities, including related policies;~~

~~(e) the extent to which and how the climate-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and~~

~~(f) the extent to which and how the climate-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process.~~

~~18 In preparing disclosures to fulfil the requirements in paragraph 17, an entity shall avoid unnecessary duplication in accordance with [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (see paragraph 78). For example, although an entity shall provide the information required by paragraph 17, when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated risk management disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.~~

Appendix E—Detailed feedback on Appendix B to [Draft] IFRS S2 *Climate-related Disclosures*

Feedback on the proposals to Appendix B of the [draft] standard has been collated from responses to the AASB's Exposure Draft 321 Request for Comment on ISSB [Draft] IFRS S1 and [Draft] IFRS S2[10] and outreach events. In addition to hosting one-to-one meetings with relevant industry representatives and participants, the AASB hosted five industry-based roundtable discussions with the following key Australian industries:

- Extractive activities—minerals, oil and gas and energy;
- Food, beverage and agriculture;
- Financial services, banking, superannuation and insurance;
- Consumer goods and manufacturing; and
- Property, real estate and construction.

Industry descriptions

Feedback indicated that many stakeholders had not had the time to appropriately consider the industry categories and descriptions proposed in Appendix B to the [draft] standard and how they compare with what they currently apply and what is required to be applied when providing information to the Australian Bureau of Statistics, Australian Taxation Office and Australian Securities and Investments Commission and reporting under the NGER Act 2007 and other legislation (e.g. Australian entities are required to apply ANZSIC 2006). However:

(a) one preparer from the telecommunications industry noted that the industry description for the telecommunication services industry was not appropriate as it was too narrow in scope. In particular, this stakeholder observed that the description is representative of the US telecommunications market, but not the Australian telecommunications market or other jurisdictional markets. In their view, the industry description should not refer to or identify particular technologies if it is to be applied globally—for example, public switchboards no longer exist in Australia as this type of telephone network was replaced by Australia's National Broadband Network. This stakeholder suggested that the industry description focus on the service being delivered rather than the infrastructure/technology being used to delivery that service; and

(b) another stakeholder noted that implementing SASB's Sustainable Industry Classification System (SICS) in Australia would be problematic given the conceptual basis that underpins ANZSIC 2006 is aligned with the International Standard Industrial Classification of All Economic Activities (ISIC) which does not align with SASB's SICS.

Industry-based metrics—metrics not relevant to the Australian market or climate

Feedback indicated that many stakeholders had not had the time to appropriately consider the industry-metrics proposed in Appendix B to the [draft] standard. However, stakeholders highlighted

[10] AASB ED 321 asked specifically whether the proposed industry-based disclosure requirements in Appendix B to [Draft] IFRS S2 are relevant for Australian industries and sectors.

some specific examples where they were of the view that the industry-based metric being proposed is either irrelevant for the Australia market or not related to climate:

Industry	Disclosure topic	Metric	Reason provided
Coal operations	Reserves valuation & capital expenditure	Estimated carbon dioxide emissions embedded in coal reserves	• Disclosing coal reserves doesn't equate to extracting those reserves—i.e. this metric is only relevant where an entity has made a clear and legally binding commitment to extracting reserves • Emissions level is dependent on how the coal is used so this disclosure in isolation will not provide useful information
Coal operations	Greenhouse gas emissions	Gross global Scope 1 emissions, percentage covered under emissions-limiting regulations	Lacks sufficient specificity to result in comparable disclosures—e.g. what gasses are covered as this will differ jurisdictionally if not specified
Coal operations	Greenhouse gas emissions	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	As above
Construction materials	Air quality	Air emissions of the following pollutants: (1) NO_x (excluding N_2O), (2) SO_x, (3) particulate matter (PM_{10}), (4) dioxins/ furans, (5) volatile organic compounds (VOCs), (6) polycyclic aromatic hydrocarbons (PAHs), and (7) heavy metals	Not relevant to climate—e.g. what impact do heavy metals have on climate change?
Construction materials	Waste management	Amount of waste generated, percentage	Not relevant to climate

Industry	Disclosure topic	Metric	Reason provided
		hazardous, percentage recycled	
O&G—Exploration & Production	Water management	Percentage of hydraulically fractured wells for which there is public disclosure of all fracturing fluid chemicals used	Fracking is not common practice outside of the US
O&G—Exploration & Production	Water management	Percentage of hydraulic fracturing sites where ground or surface water quality deteriorated compared to a baseline	As above
Gas Utilities & Distributors/Electric Utilities & Power Generators	End-use efficiency	Customer gas/electricity savings from efficiency measures, by market	Not relevant to climate
Engineering & Construction Services	Structural integrity & safety	Amount of defect and safety-related rework costs	Not relevant to climate—e.g. legal obligations on these items are generally limited to one year following the build and are intended to cover any issues occurring within the build, not because of the building's climate resilience
Engineering & Construction Services	Structural integrity & safety	Total amount of monetary losses as a result of legal proceedings associated with defect- and safety-related incidents	As above
Telecommunication services	Managing systemic risks from technology disruptions	Discussion of systems to provide unimpeded service during service interruptions	Not relevant to climate—e.g. would be more useful if the metric focused on a qualitative overview of impact to telecommunications infrastructure as a result of climate-related events.
Telecommunication services	-	Number of wireless subscribers	• Not relevant to climate • Not representative of the range of telecommunications services available (i.e. definition is very narrow in scope)

Industry	Disclosure topic	Metric	Reason provided
Telecommunication services	-	Number of wireline subscribers	As above
Telecommunication services	-	Number of broadband subscribers	As above
Telecommunication services	-	Network traffic	As above
Alcoholic beverages & Non-alcoholic beverages	Ingredient sourcing	Percentage of beverage ingredients sourced from regions with High or Extremely High Baseline Water Stress	Not relevant for all beverages—e.g. potentially suitable for beverages such as teas, coffees and water products but not suitable for syrup concentrates, energy and sports drinks
Alcoholic beverages & Non-alcoholic beverages	Ingredient sourcing	List of priority beverage ingredients and description of sourcing risks due to environmental and social considerations	• Not relevant to climate • Commercially confident information
Alcoholic beverages & Non-alcoholic beverages	Environmental & social impacts of ingredient supply chain	Suppliers' social and environmental responsibility audit (1) non-conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformances	Not relevant to climate
Alcoholic beverages & Non-alcoholic beverages	-	Volume of products sold	Not relevant to climate
Alcoholic beverages & Non-alcoholic beverages	-	Number of production facilities	Not relevant to climate
Insurance	Policies designed to incentivise responsible behaviour	Discussion of products and/or product features that incentivise health, safety and environmentally responsible actions and/or behaviours	Will be difficult to analyse and provide useful information on as they cannot easily be measured
Insurance	Physical risk exposure	Total amount of monetary losses attributable to insurance payouts from (1) modelled natural	The metric overlaps significantly with business-as-usual capital management, reinsurance requirements and pricing and will be challenging

Industry	Disclosure topic	Metric	Reason provided
		catastrophes and (2) non-modelled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance)	to implement in a manner that provides useful additional information on the financial effects of climate change
Restaurants	Supply chain management & food sourcing	Percentage of (1) eggs that originated from a cage-free environment and (2) pork that was produced without the use of gestation crates	Not relevant to climate

Industry-based metrics—missing information

Feedback indicated that many stakeholders had not had the time to appropriately consider the industry-metrics proposed in Appendix B to the [draft] standard and what metrics could be missing. However, stakeholders highlighted some specific examples where they were of the view that metrics were missing from Appendix B:

Industry	Disclosure topic	Metric	Reason provided
Engineering & construction services, Home builders and Real estate	Waste management	Tonnes of waste produced and associated diversion rate	Waste management is considered to be related to climate for other industries—what is reasoning behind why it was not included as part of these industries?
Engineering & construction services	Climate change adaptation	Number of lots located in 100-year flood zones	Equally as important for this industry as it is for the Home builders and Real estate industries. For example, entities in this industry are responsible for choosing/signing-on to build in those locations and there would be reputational and legal risks to an entity being associated with developing assets in areas that may not be suitable for habitation in the medium to long term
Engineering & construction services	Land use & ecological impacts	Number of (1) lots and (2) buildings delivered in regions with High or Extremely High Baseline Water Stress	Equally as important for this industry as it is for the Home builders and Real estate industries. For example, how will water consumption for the build impact on the local area?

Industry	**Disclosure topic**	**Metric**	**Reason provided**
Home builders	Lifecycle impacts of buildings & infrastructure	Number of (1) commissioned projects certified to a third-party multi-attribute sustainability standard and (2) active projects seeking such certification	Is equally relevant to Home builders as it is to Engineering & construction services industries.
Engineering & construction service, Home builders	Energy management	All energy management metrics included in Real estate	Energy management is material for all industries as it may contribute to climate change and also has reputational impacts
Engineering & construction, Home builders and Real estate	Water management	All metrics related to water stress and consumption	Water management is relevant to all three industries and should be reported on by all three industries
Meat, poultry and dairy	Supply chain management & food sourcing	Percentage of (1) eggs that originated from a cage-free environment and (2) pork that was produced without the use of gestation crates	Producers of these products would not be required to declare what percentage of their outputs fall into these categories. If these are metrics that provide insight into the resiliency of a business which utilises these inputs, the manufacturer should also be required to make such disclosures
Meat, poultry and dairy	Fleet fuel management	Fleet fuel consumed, percentage renewable	Industries such as meat and poultry typically transport product (whether live or processed) in dedicated fleets owned by the company.
Agricultural products and Meat, poultry and dairy	Environmental & social impacts of ingredient supply chain	Suppliers' social and environmental responsibility audit (1) non-conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformances	The agriculture and meat, poultry and dairy sectors should also have to report against this topic because both utilise supply chains (and are in some cases the producers themselves) of ingredient inputs which have the propensity for major social and environmental non-conformities

Furthermore, some stakeholders observed the following:

(a) the industry description for non-alcoholic beverages does not refer to cordials which are a popular product in Australia but do not fall within the scope of 'syrups';
(b) it is unclear where defence (e.g. weapons manufacturing), textiles, road operators and alternative milks (e.g. soy, rice, almond, and oat milks) would be addressed as none of the industry descriptions or industry-based metrics make explicit reference to these industries or have industry-based metrics which would be relevant;
(c) specific reference should be made to the retirement fund/superannuation industries or services. For example, the superannuation industry in Australia is a significant industry but it is not clear where they would fit in with the existing industry descriptions and industry-based metrics and on what they should report.

Industry-based metrics—improvements

Feedback indicated that many stakeholders had not had the time to appropriately consider the industry-metrics proposed in Appendix B to the [draft] standard. However, stakeholders highlighted some specific examples where metrics could be improved:

Industry	Disclosure topic	Metric	Suggested improvement
Home builders	Land use & ecological impacts	Number of lots and homes delivered on redevelopment sites	Would be more useful if it were reported on by distinguishing between greenfield, brown and greyfield sites
Engineering & construction services, Home builders	Lifecycle impacts of buildings & infrastructure	Number of (1) commissioned projects certified to a third-party multi-attribute sustainability standard and (2) active projects seeking such certification	Would be more useful if it were reported on distinguishing between projects with control of brief and design vs no control of brief and design
Insurance	Policies designed to incentivise responsible behaviour	-	Policies should include wider ESG factors such as governance, code of conduct and privacy training
Insurance	Physical risk exposure	Total amount of monetary losses attributable to insurance payouts from (1) modelled natural catastrophes and (2) non-modelled natural catastrophes, by type of event and geographic segment	• Further clarity is needed on measuring monetary losses attributable to insurance payouts from modelled natural catastrophes • There is currently no differentiation between the future climate change component and

Industry	Disclosure topic	Metric	Suggested improvement
		(net and gross of reinsurance)	existing natural catastrophes
Insurance	Transitional risk exposure	(1) Gross exposure to carbon-related industries, by industry (2) total gross exposure to all industries, and (3) percentage of total gross exposure to each carbon-related industry	Disclosing gross-exposure to carbon related industries should be accompanied by a transition plan to demonstrate the full picture of an entity's transition journey to a lower carbon economy
Insurance	Transitional risk exposure	For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions) For each industry by asset class: (1) gross emissions intensity of (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	The requirement to disclose Scope 1 and 2 financed GHG emissions is unclear as financed GHG emissions are defined as indirect Scope 3 emissions that can be related to loans, underwriting, investments, and any other forms of financial services (i.e. excluding Scope 1 and 2 GHG emissions)

A few stakeholders observed that there are still occasions when US-based measurements are used within Appendix B to the [draft] standard (for example, square feet, pounds etc.). We recommend that all the content in Appendix B be converted so that they solely use the metric system to allow international application.

Other comments—Defining mineral and oil and gas reserves

The AASB and AUASB disagree with the definitions of reserves in paragraphs 2.5-2.7 of the section addressing Coal Operations. We refer to the recent work of the IASB on its Extractive Activities project and agree with the reasons why the IASB decided not to pursue a project which would incorporate such definitions into a standard addressing extractive activities. Furthermore, we question why the Coal Operations industry refers to embedded definitions of what is meant by 'reserves' when the oil and gas industry requirements (specifically paragraph 3 of the section addressing Oil and Gas—Exploration & Production) refers entities to the applicable jurisdictional requirements for the definition and classification of oil and gas reserves. In this instance, we question the different approaches used by the ISSB and recommend that these are made to be consistent. Specifically, we recommend that any definitions of reserves are removed from all ISSB content and instead refer to the relevant jurisdictional requirements for defining and classifying reserves.

Other comments—Disclosure topics versus thematic standards

Some stakeholders questioned whether some disclosure topics were so significant that they should be addressed by their own thematic standard. These stakeholders highlighted water as an example of a disclose topic that should be addressed by its own thematic standard rather than being considered as part of climate and addressed only in terms of an entity's water management. For example, one preparer that had experience in developing Australia's Water Accounting Standards noted that water-based metrics can be complex and the capability of businesses to understand common water metrics is already challenging. Consequently, these stakeholders suggested that the ISSB review the content of Appendix B to the [draft] standard and consider where some disclosure topics should be elevated to their own standard, allowing the ISSB to develop an appropriate level of guidance and additional requirements to address major sustainability-related matters such as water.

Other comments—Referring to third-part definitions and specific standards/frameworks

The AASB notes that there are several instances where the ISSB have referred to third-party definitions, standards and frameworks outside the scope of its standards. We question the appropriateness of such an approach for the following reasons:

(a) maintenance on ongoing application issues—we question what the ISSB's approach will be to changes being made to those third-party definitions, standards and frameworks to which its standards refer. For example, is the ISSB planning to develop a dedicated resource to monitor and consult on all changes made to all the third-party definitions, standards and frameworks to which their standards refer or are these references intended as fixed point-in-time references which could become outdated should the third-party definitions, standards or frameworks be updated?
(b) unintended consequences—has the ISSB considered what will happen should third-party definitions, standards or frameworks be altered to the extent that reporting outcomes from applying IFRS Sustainability Disclosure Standards are affected?

We recommend that where possible the ISSB internalise definitions, standards and frameworks rather than rely on third-party definitions, standards and frameworks.