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21 July 2022

Emmanuel Faber
Chair
International Sustainability Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Mr Faber

IFRS SUSTAINABILITY DISCLOSURE STANDARDS

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission in respect of:

- IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information (**Draft IFRS S1**)
- IFRS S2 Climate Related Disclosures (**Draft IFRS S2**)

(together, the **Draft Standards**).

Our responses to the specific questions in respect of Draft IFRS S1 and Draft IFRS S2 are at attachments one and two respectively, and our response to the Australian Accounting Standards Board is at attachment three.

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with over $1trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage. ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

ACSI welcomes the creation of the ISSB and the Draft Standards

ACSI welcomes the creation of the ISSB and the Draft Standards. Our members are some of the largest investors in Australia. They recognise that:

- **ESG performance is financially material for long-term investors**. However, the short-term outlook of many in the investment system means that present market prices do not always capture these risks and opportunities.
- **Markets do not always operate in the interest of long-term investors and their beneficiaries**. Fiduciary investors have an opportunity and a responsibility to engage with policy makers to better align the operation of the financial system with the interest of the beneficiaries.

As long-term investors, ACSI members need information on their investee companies' sustainability risks and opportunities, their approach to managing these risks and opportunities, including the relevant performance metrics. Such information is used by investors in risk assessment, stewardship activity and investment decisions. Given our members invest across global markets, there is a strong appetite for consistency and comparability in the approach to disclosure. Therefore, we welcome the establishment of the ISSB and the development of Draft Standards, and we are pleased to be able to provide our feedback. Our expertise is primarily in respect of Australian listed equities, with focus on theASX300, and our comments reflect that end of the market. We do however recognise that there can be instances where different approaches should be taken for unlisted entities and those outside the top end of the market.

Overall, we welcome the Draft Standards, and our view is that they are sufficiently comprehensive, while maintaining flexibility for organisations to disclose only on the issues that are material to them.

ACSI welcomes the harmonisation and the detailed and integrated approach.

Consistent with existing Australian requirements

The approach set out in the Draft Standards requiring disclosure of material information about sustainability risks is consistent with existing requirements that apply to listed companies in Australia. In particular, a listed company in Australia is required by the Corporations Act to include in its directors' report information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position, business strategies and prospects for future financial years.[1]

Relevant regulatory guidance[2] effectively requires a company to disclose of material business risks, which include environmental, social and governance (ESG) risks, where those risks could affect the entity's achievement of its financial performance or outcomes, taking into account the nature and business of the entity and its business strategy. Therefore, effectively listed companies have an existing requirement to discuss material ESG risks in their annual disclosures.

Many companies already disclose material sustainability risks. In addition to fulfilling the legal requirements outlined above, many companies also prepare additional disclosures, such as a sustainability report, or other similar disclosures. ACSI has, since 2008, conducted research into the disclosure practices of ASX listed companies in respect of ESG reporting. Our research shows that in 2021, 140 of the ASX200 companies were rated 'detailed' or 'comprehensive' disclosers[3], indicating that these companies are likely to be better placed to disclose in accordance the Draft Standards.

Notwithstanding the existing requirements and practices in Australia, we welcome the framework proposed by the ISSB as it aims to drive a more consistent, comparable and detailed approach to disclosure.

ACSI supports the materiality definition and recommends increased focus on the long-term

We support the definition of materiality proposed and the implicit statement that sustainability risks and opportunities are financially material. We recommend that the Draft Standards should explicitly state this fact and increase the references to long-term perspectives.

In the context of the materiality discussion, we caution against promoting a false distinction between investors and the interests of other stakeholders. Over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. This approach was very well articulated by Justice Hayne in the Australian Financial Services Royal Commissions when he said:

> *The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage. And long-term financial advantage will more likely follow if the entity conducts its business according to proper standards, treats its employees well and seeks to provide financial results to shareholders that, in the long run, are better than other investments of broadly similar risk*[4].

Accordingly, we support the materiality definition proposed, however we recommend that the Draft Standards promote sufficient consideration of sustainability risks that are present over the long-term. While Draft IFRS S1 does incorporate reference to the long-term, there is opportunity to strengthen the Standard in this respect. We suggest that guidance be provided that encourages appropriate long-term approaches, specifies appropriate time frames and that preparers clearly disclose how they interpret short, medium and longer-term time frames.

We recommend that differences between the term 'significant' and 'material' be clarified.

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[1] *Corporations Act* (Cth) 2001 section 299A(1)

[2] ASIC Regulatory Guide 247 paragraphs 61-64

[3] ACSI ESG Reporting 2021 https://acsi.org.au/wp-content/uploads/2022/07/1ACSI-ESG-Reporting-Trends-in-the-ASX200-JUN22-.pdf

[4] Justice Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 at page 403

Interaction with other sustainability standards

We are aware of comments from some across the market suggesting that Draft IFRS S1 is broadly drafted, with concerns that it appears to require reporting entities to reference a wide variety of existing standards and practises (such as the SASB Standards, the CDSB Framework application guidance and the sustainability related risks and opportunities identified by entities that operate in the same industry or geography as set out paragraph 51) to identify risk.

Our view is that the Draft IFRS S1 is clear that reporting entities should apply judgement to identify material sustainability related financial information and that entities do not need to provide a specific disclosure that would otherwise be required by another Sustainability Disclosure Standard if the information is not material. This is the case even if the Standard sets out specific requirements or describes them as minimum requirements. We consider that it could be interpreted that Draft IFRS S1 merely references sources a reporting entity can refer to in order to understand the types of risks it might consider for assessment. Nonetheless, we recommend that the ISSB provide further clarification on this point.

ACSI supports clear statements on measurement uncertainty that provide comfort to entities in respect of forward-looking statements.

With the growth and focus across the market on sustainability issues, there have also been concerns raised by preparers in respect of forward-looking statements. Such concerns have been helpfully addressed in Australia within existing regulatory guidance, which makes it clear that preparers are unlikely to be found liable for misleading or deceptive forward-looking statements provided the statements are properly framed, they have a reasonable basis (which includes good governance at board level to sign off the statements) and there is ongoing compliance with disclosure obligations when circumstances change.

The statements in the Draft IFRS S1 on sources of estimation and outcome uncertainty (paragraphs 79-83) are consistent with the Australian regulatory guidance in this respect, as those sections in the Draft Standard outline the use of reasonable estimates and require disclosure of the sources and nature of estimation uncertainty. Paragraph 83 also requires disclosure of information about the assumptions a preparer makes about the future as well as disclosure of sources of significant uncertainty, where there is significant outcome uncertainty. Our view is that this is consistent with the Australian approach that requires proper framing of forward-looking statements so that they are not considered to be misleading. It makes sense that when considering whether a statement is misleading that the statement be considered in its entirety. Disclosures that are properly framed, with relevant and clear qualifications, and methodology outlined, so as to fully inform the reader of material information, significantly reduce the risk of being found misleading. They are capable of being supported with a reasonable basis, when considered in their entirety, and there are many relevant examples across the market. We therefore support the statements in Draft IFRS S1 that encourages disclosure on estimation and outcome uncertainty.

Together these provisions appropriately balance investors' needs for appropriate disclosure of material sustainability risks (for which preparers should remain accountable), with the inherent uncertainty of forward-looking information. In this respect, this reflects existing practice, with many Australian listed companies currently making and managing such forward-looking statements in disclosures such as TCFD reports and other climate change-related reporting. In the context of financial reporting, many organisations currently rely on forward looking assumptions when considering asset valuations or provisioning.

Our view is that a safe harbour for disclosures made under the Draft Standards is not necessary or appropriate. As outlined above, there are sufficient protections where disclosures are appropriately framed and have a reasonable basis. Investors need comfort that there is appropriate accountability for disclosures that are made. Nonetheless, investors do not expect preparers to predict the unpredictable, but instead make realistic and properly articulated disclosures that have a reasonable basis. Additional regulatory guidance on what constitutes a reasonable basis, or examples of appropriate framing may be helpful. In addition, appropriate transition time frames would support those preparers that are not already making such disclosures to put in place systems and processes to support their disclosures.

ACSI recommends adoption of the Standards in Australia

Current examples of good practice within listed companies in Australia provide a sound basis for adoption of the Draft Standards. Nonetheless, there will need to be appropriate transition arrangements for those areas of the market that are less mature, or to allow service providers (such as auditors) to scale up expertise to match expected demand. Accordingly, ACSI recommends a phase in period of two to three years to develop the systems and expertise necessary. We also recommend that any transition arrangements encourage consistent improvement across the market, such that where companies have existing good practice, they are encouraged to continue to progress. Furthermore, as outlined above, our view is that a safe harbour is unnecessary (whether transitional or otherwise), instead transition periods will allow entities to appropriately prepare for adoption of the Draft Standards.

I trust our comments are of assistance. Please contact me or Kate Griffiths, (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully

Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

Attachment One: Specific comments on Draft IFRS S1 General Requirements Standard

Question 1 Overall approach

We agree that Draft IFRS S1 states that an entity would be required to identify and disclose material information about sustainability related risks and opportunities. Our view is that the Exposure Draft limits this requirement to material risks, for example in paragraph 60. There is opportunity to further clarify that the identification and disclosure requirement relates to material sustainability risks, and that the assessment of materiality should consider short, medium and long-term.

In addition, the meaning of the term 'significant' when used in this context should be clarified and consideration be given to focus on 'material' instead.

Question 2 Objective

Is the proposed objective of disclosing sustainability-related financial information clear?

Our view is that the objective is clear.

Question 3 Scope

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?

No comment.

Question 4 Core Content

Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?
Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective?

We agree with the proposed requirement to disclose in relation to Governance, Strategy, Risk Management and Metrics and Targets. We agree with the recommendation that where relevant, preparers consolidate the disclosures in respect of different risks. We do however recommend that further emphasis on sustainability related opportunities (in addition to risks) be included in the Standard.

There is opportunity to require further disclosure on governance, including the related skills and competencies of the relevant governing body.

Question 5 Reporting

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?

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?

Do you agree with the proposed requirement for identifying the related financial statements?

We support consistency across financial statements and sustainability reporting. Accordingly, we agree with the proposed requirement to identify the related financial statements, which is important for investors to be able to assess the entity's approach and whether it is appropriately integrated.

Question 6 Connected Information

Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities?

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?

We recognise that the connectivity of issues is a challenging area. However, sustainability issues are financial in nature and cannot logically be separated from financial reporting, just as sustainability issues cannot be neatly isolated from each other. Rather they are interconnected. Therefore, it makes sense to consider and disclose the interdependencies. Preparers may benefit from guidance that outlines how to consider the connectivity of the issues.

In addition, we agree that connections between sustainability related risks and opportunities and financial statements should be identified. Investors are keen to understand companies' approaches to managing the risks and associated modelling, for example the use of a shadow carbon price in capital allocation decisions, or assumptions underpinning asset valuations. Such information provides insight to investors on how a company is taking the risks into account in executing its strategy.

Question 7 Fair presentation

Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear?
Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures?
Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.

We agree that preparers can look to other standard setting bodies and entities operating in the same industries or geographies to identify issues that may represent significant sustainability risks for them. However, it is reasonable to expect that many sophisticated preparers will have the clearest view on the sustainability related risks that affect their businesses, so we suggest that this be clearly framed as guidance - rather than a requirement to refer to the different standards.

Question 8 Materiality

Is the definition and application of materiality clear in the context of sustainability-related financial information?
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?
Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information?
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?

Our views on materiality are set out in our overarching comments above. In particular, we caution against promoting a false distinction between investors and the interests of other stakeholders. Our view is that over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. We support the definition of materiality proposed, however the use of the term 'significant' is creating confusion in the market and should be clarified. Our view is that the references to long-term perspectives in the Draft Standards should be increased.

Question 9 Frequency of Reporting

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?

Reporting sustainability related financial disclosures at the same time as financial statements and for the same reporting period promotes connectedness between the two. Appropriate transition periods for those entities not generally currently reporting could assist in planning to address any transitional workload constraints.

Question 10 Location of Information

Do you agree with the proposals about the location of sustainability-related financial disclosures?
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?
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?

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?

While ideally to promote comparability, information would be presented by different preparers in a similar manner, we recognise that this is not possible and that different jurisdictional requirements may mandate that information be disclosed in a particular location within the report. Accordingly, we support the flexibility on location of disclosures, although suggest that preparers use cross referencing, or other techniques to support users in locating disclosures. Further, we support the comments on integrated disclosures and avoiding duplication, where possible.

Question 11 Comparative Information, sources of estimation and outcome uncertainty, and errors

Have these general features been adapted appropriately into the proposals?
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?
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?

As set out above, we agree that sustainability related disclosures should be consistent with corresponding financial data. Our views on the measurement uncertainty provisions are set out in our introductory comments above – in particular, we support the provisions on the basis that there is an appropriate balance between investors' needs for disclosure of material sustainability risks, for which preparers must remain accountable, with the inherent uncertainty of forward-looking information. This balance is best achieved by relevant guidance as to appropriate qualifiers that accompany disclosures, as well as guidance on what forms a reasonable basis for disclosures.

Where an entity has a better measure of a metric reported in the prior year, it should disclose the change, the reasons for the change and any other information to assist investor understanding. It may not be practical to adjust historic reporting, for example, to reflect updates in data collection, however disclosures should explain the reasons why, and provide narrative disclosure on the range of potential consequences.

Question 12 Statement of compliance

The Exposure Draft proposes that for an entity to claim compliance with IFRS Sustainability Disclosure Standards, it would be required to comply with the proposals in the Exposure Draft and all of the requirements of applicable IFRS Sustainability Disclosure Standards. Furthermore, the entity would be required to include an explicit and unqualified statement that it has complied with all of these requirements. The Exposure Draft proposes a relief for an entity. It would not be required to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from disclosing that information. An entity using that relief is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards. Do you agree with this proposal?

Where an entity uses the relief proposed, it should clearly state the basis for that relief – that is, the specific reason and the law that prevents disclosure. Concern on forward looking statements and continuous disclosure obligations should not be considered an acceptable basis for lack of disclosure, given the measurement uncertainty provisions in the Draft Standard, and relevant regulatory guidance in Australia.

Question 13 Effective date

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

Our view on the effective date and transition periods are set out above. In particular, current examples of good practice within listed companies in Australia provide a sound basis for adoption of the Draft Standards. Nonetheless, there are good arguments to adopt a scaled approach, with the less mature end of the market given a longer period for transition. In addition, it is appropriate to provide a transition period that allows for a scale up of expertise to match expected demand. Accordingly, ACSI recommends a phase in period of two to three years to develop the systems and expertise necessary. Any transition periods should however encourage those already reporting to continue, and transition arrangements only to support compliance with the Draft Standards. Furthermore, as outlined above, our view is that a safe harbour is unnecessary (whether transitional or otherwise), instead transition periods will allow entities to appropriately prepare for adoption of the Draft 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?

Our view is that a global baseline is appropriate. Our view is that over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. Therefore, while a preparer may have stakeholders that do not represent material sustainability risks to the organisation, this assessment should be undertaken with a long-term view.

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)?

No comment.

Question 16 Costs, benefits and likely effects

The ISSB is committed to ensuring that implementing the Exposure Draft proposals appropriately balances costs and benefits.
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?
Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?

Our view is that the costs of not adopting the global baseline should be considered (when considering the costs of adoption). Good disclosure increases investor confidence and promotes open markets that reflect the cost of risk, and arguably therefore can be expected to lower the cost of capital. In addition, adoption of a global baseline will reduce the risk of market fragmentation and encourage those companies at the less mature end of the market to improve both their practices and disclosures, leading to more sustainable outcomes over the long-term.

Question 17 – Other comments

No comment.

Attachment Two: Specific comments on the Climate Disclosure Standard

Question 1 Objective of the Exposure Draft

Do you agree with the objective that has been established for the Exposure Draft
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?
Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1?

Our view is that the objective is clear and the disclosure requirements set out in the Exposure Draft would assist investors in understanding exposure to climate related risks and opportunities.

Question 2 Governance

Do you agree with the proposed disclosure requirements for governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities?

We agree that the disclosure requirements are consistent with the Taskforce for Climate-related Financial Disclosures (TCFD). The TCFD is generally accepted as a preferred framework for disclosure, and entities have been encouraged to use the TCFD by both regulators and investors[5]. ACSI research has found that the TCFD has been adopted by 103 entities across the ASX200[6], which will support those entities to be well placed for the implementation of Draft IFRS S2.

We recommend the required disclosure in respect of governance also address how the board's skills and experience align with the entity's risk profile and strategy, in respect of sustainability risks and opportunities.

Question 3 Identification of climate related risks and opportunities

Are the proposed requirements to identify and to disclose a description of significant climate-related risks and opportunities sufficiently clear?

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?

Do you believe that this will lead to improved relevance and comparability of disclosures? Are there any additional requirements that may improve the relevance and comparability of such disclosures?

Our view is that the requirements could be improved with better clarification on the term 'significant' and any difference intended between 'significant' and 'material'. In addition, the Standard should provide guidance on applicable time horizons and require preparers to disclose what they consider to be short, medium and longer-term.

The aims of using industry-based requirements to drive consistency and comparability are sound. However, there would be benefit in additional consultation and further guidance on how the relevant industry standards will apply, both across jurisdictions and where, for example, an entity straddles sectors. Additional consultation may also identify gaps in the applicable sectors.

Question 4 Concentrations of climate related risks and opportunities in an entity's value chain

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?

Do you agree that the disclosure required about an entity's concentration of climate-related risks and opportunities should be qualitative rather than quantitative?

We agree that disclosure requirements on the effects of significant climate-related risks and opportunities on an entity's business model and value chain are relevant to an entity's enterprise value.

Our view is that a mix of qualitative and quantitative disclosure is generally the most useful for investors. There

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[5] ASIC Regulatory Guide 247 Paragraph 66 and [ASX Corporate Governance Council's Corporate Governance Principles and Recommendations] Recommendation 7.4
[6] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

are of course, measurement challenges with respect to some (not all) metrics, however where organisations are using quantitative indicators internally, they should consider whether those indicators are material information relevant to an investor's understanding of the risks and opportunities (and therefore should be disclosed, with qualification or explanation where necessary).

Where there is measurement uncertainty, such uncertainty can be disclosed, so that investors have the opportunity to attribute appropriate weight to the information. The Draft Standard should also make allowance for future developments in quantitative measurement.

Question 5 Transition and Carbon Offsets

Do you agree with the proposed disclosure requirements for transition plans?
Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)?

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?

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?

We agree that where material, transition plans should be disclosed. Allowing investors to understand and assess transition plans will help unlock private capital to fund transitions where investors take the view that the transition plan is sound. We support the inclusion of information in relation to workforce adjustments, and recommend that further clarity be provided on appropriate disclosures, as investors are increasingly considering equitable transitions when considering climate related risk.

Currently, there is significant reliance on offsets as part of the shift to a low carbon economy. While there are well-respected principles for the use of offsets[7], the market has some way to go to understanding and implementing credible use of offsets consistently. It is widely recognised that the credibility of offsets is an issue. As set out in the Oxford Principles, *offsetting, if not done well, can result in greenwashing and create negative unintended impacts for people and the environment.*

Accordingly, we support the disclosure requirements in respect of offsets, as investors need to better understand this key (and at times necessary) aspect of many corporate transition plans.

Question 6 Current and anticipated effects

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)?

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?

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?

Our view is that a mix of qualitative and quantitative disclosure is generally the most useful for investors. Quantitative information is useful for investors, along with qualitative information that interprets and provides context. In this sense, the proposals are similar to existing financial reporting, where management explanation and notes are provided to assist with understanding of quantitative information.

The proposal to disclose the financial effects of climate-related risks and opportunities on an entity's financial performance, financial position and cash flows for the reporting period makes sense. This would allow an investor to understand how an entity is, for example, using a shadow carbon price or how the anticipated effects of climate change are incorporated into assumptions underpinning asset valuations, how risks are integrated into capital allocation decisions and where technology solutions are required, whether there is

[7] See, for example, the Oxford Principles for Net Zero Aligned Offsetting .

investment in corresponding research and development.

Over the medium and longer term, we agree that it is appropriate to allow for a range in respect of quantitative information or qualitative information where quantitative information is not available. Further guidance may be appropriate to support useful disclosures, that appropriately reflect uncertainty. Guidance should reflect that where companies have internal metrics available, they should consider whether those metrics constitute material information for investors to understand the risks and opportunities.

Question 7 Climate resilience

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?

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?
(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?
(iii) Alternatively, should all entities be required to undertake climate-related scenario analysis to assess climate resilience?

Do you agree with the proposed disclosures about an entity's climate-related scenario analysis?

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?

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?

Scenario analysis is an important tool for understanding a company's resilience to low carbon scenarios by highlighting key potential risks and opportunities such as how the company might absorb impacts from changes in demand, or address increased carbon costs. Across the ASX200, an increasing number of entities are using scenario analysis to assess how low carbon and high warming scenarios might affect business operations[8]. Companies are also refining and retesting their business against emerging scenarios, with some companies updating their scenario analysis every few years to reassess and recalibrate targets and strategy based on the new findings.

Accompanying disclosures include quantitative outcomes (net present value or cash flow assessment). We support the provision of quantitative information on the financial impact low carbon scenarios have on business models, and the drivers behind it, to support investor understanding of how the company's core and growth businesses might be affected, both negatively and positively. We do however recognise that scenario analysis is not a prediction of future events, but testing against possible futures, and should be disclosed as such. Therefore, disclosures should be appropriately framed, and accompanied by relevant context that explains the scenario analysis process and purpose, so that the disclosure are not confused with forward looking predictions.

While we recognise the data challenges and the potential costs at the smaller end of the market, our view is that scenario analysis should be supported. Therefore, for listed companies, we support disclosure of reasons why an entity may be unable to conduct scenario analysis. We also note the materiality overlay should operate to mean that organisations are conducting analysis on the issues of most importance to their strategy and business model.

Question 8 Risk Management

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?

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[8] In 2021, the number of companies having completed scenario analysis was almost half the ASX200 index at 88 companies, nearly 5 times the number of companies in 2018. Source: ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

We support the proposed disclosure requirements, on the basis that they will support investors' understanding of the process used to assess risk, which will allow investors to assess how robust those processes are, and in turn, the reliability of the accompanying disclosures.

Question 9 Cross-industry metric categories and greenhouse gas emissions

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?

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)?

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?

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 CO2 equivalent; or should the disclosures on Scope 1, Scope 2 and Scope 3 emissions be disaggregated by constituent greenhouse gas (for example, disclosing methane (CH4) separately from nitrous oxide (NO2))?

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?

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?

We support the cross-industry metrics proposed. We recognise the challenges involved with scope 3 reporting. We also agree with the statement in question 9 that despite the challenges, scope 3 reporting is becoming more common, with improved quality. ACSI has found 27 companies disclosing scope 3 targets and milestones across the ASX200 and 93 of the ASX200 reporting their Scope 3 emissions[9]. This reflects the growing consensus that Scope 3 emissions represent significant market risk, with products and services that may be impacted by the transition to a low-carbon economy.

The Draft Standard provides entities with the option to disclose emissions intensity expressed as metric tonnes of CO2 equivalent per unit of physical or economic output. This risks decreasing comparability of emissions intensity figures reported across entities, increasing the cost and complexity for investors in aggregating this data at portfolio-level. Therefore, entities should be recommended to disclose emissions intensity in terms of metric tonnes of CO2 equivalent per unit of total revenue and per unit of production.

Our view is that well-framed disclosure will acknowledge and detail the challenges and explain the methodologies and assumptions adopted to allow investors to understand and take into account any measurement uncertainty. Nonetheless, we acknowledge that a transition time period may be appropriate, particularly for entities at the smaller end of the market or with particularly complex financed emissions.

We do not support calls for a safe harbour (for scope 3 or other disclosures) as it would not appropriately balance accountability for disclosures. Uncertainty can instead be reflected in the form of the disclosure.

Question 10 Targets

Do you agree with the proposed disclosure about climate-related targets?

Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear?

We support references to the latest international agreement on climate change and the references to the Paris Agreement.

[9] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

However, given the Paris Agreement references limiting warming to both 'well below 2 degrees' and to '1.5 degrees', our view is that preparers should be clear which of these aims they are referring to when making their disclosures. Such disclosure is particularly important in light of the IPCC's Sixth Assessment report on climate change impacts, adaptation and vulnerability[10] which highlights the significance of physical climate-related impacts where emissions reduction targets are not sufficiently ambitious, including the effects of widespread droughts, extreme heatwaves and catastrophic flooding.

Question 11 Industry based requirements

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?

Do you agree with the proposed amendments that are intended to improve the international applicability of a subset of industry disclosure requirements?

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?

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?

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?

Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions?

Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions?

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?

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?

Do you agree with the proposed industry-based requirements?

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.

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?

We support the principle that industry-based classifications can support consistency and comparability across disclosures. However, while many across the market agree with this principle, we are aware of differing views on the applicability of the proposed classifications, on a global basis. We suggest that the industry-based classifications be considered for further consultation.

Question 12 Costs, benefits and likely effects

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?

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[10] IPCC, sixth assessment report https://www.ipcc.ch/report/ar6/wg2/

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

Our view is that the costs of not adopting the global baseline should be considered (when considering the costs of adoption). Good disclosure increases investor confidence and promotes open markets that reflect the cost of risk, and arguably therefore can be expected to lower the cost of capital. In addition, adoption of a global baseline will reduce the risk of market fragmentation and encourage those companies at the less mature end of the market to improve both their practices and disclosures, leading to more sustainable outcomes over the long-term.

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.

Given the provisions generally encourage a mix of quantitative and qualitative disclosure, our view is that disclosures can be appropriately framed such as to be verifiable. Where there is significant measurement uncertainty, where such uncertainty is clearly disclosed, the evidence for verification can reflect the uncertainty disclosed.

Question 14 Effective date

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?
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.
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?

Our view is that a transition period will be appropriate, in particular for the less developed end of the market. Where climate risks are material, there is effectively an existing disclosure requirement in Australia for listed companies. Therefore, many of listed entities will already be reporting (including under the TCFD) and can reasonably be expected to transition to reporting under DRAFT IFRS S2 more quickly. Accordingly, our view is that the length of the transition period should take into account market and sector maturity, and encourage those already reporting to continue to progress to compliance with DRAFT IFRS S2. With these principles in mind, a transition period of 2-3 years is reasonable, to allow appropriate expertise (both reporting and audit) to develop.

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)?

No comment.

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?

No comments.

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Attachment One
15 July 2022

Nikole Gyles
Technical Director
Australian Accounting Standards Board

Email: standard@aasb.gov.au

Dear Ms Gyles

IFRS SUSTAINABILITY DISCLOSURE STANDARDS

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to make a submission in respect of:

- IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information (**Draft IFRS S1**)
- IFRS S2 Climate Related Disclosures (**Draft IFRS S2**)

(together, the **Draft Standards**).

Our responses to the AASB's specific questions are at attachment one and a draft submission to the International Sustainability Standards Board is at attachment 2.

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with over $1trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage. ACSI members can achieve financial outcomes for their beneficiaries through genuine and permanent improvements to the environment, social and governance (ESG) practices of the companies in which they invest.

ACSI welcomes the creation of the ISSB and the Draft Standards

ACSI welcomes the creation of the ISSB and the Draft Standards. Our members are some of the largest investors in Australia. They recognise that:

- **ESG performance is financially material for long-term investors**. However, the short-term outlook of many in the investment system means that present market prices do not always capture these risks and opportunities.
- **Markets do not always operate in the interest of long-term investors and their beneficiaries**. Fiduciary investors have an opportunity and a responsibility to engage with policy makers to better align the operation of the financial system with the interest of the beneficiaries.

As long-term investors, ACSI members need information on their investee companies' sustainability risks and opportunities, and their approach to managing these risks and opportunities, including the relevant performance metrics. Such information is used by investors in risk assessment, stewardship activity and investment decisions. Given our members invest across global markets, there is a strong appetite for consistency and comparability in the approach to disclosure. Therefore, we welcome the establishment of the ISSB and the development of Draft Standards, and we are pleased to be able to provide our feedback. Our expertise is primarily in respect of Australian listed equities, with focus on theASX300, and our comments reflect that end of the market. We do however recognise that there can be instances where different approaches should be taken for unlisted entities and those outside the top end of the market.

Overall, we welcome the Draft Standards, and our view is that they are sufficiently comprehensive, while maintaining flexibility for organisations to disclose only on the issues that are material to them.

ACSI welcomes the harmonisation and the detailed and integrated approach.

Consistent with existing Australian requirements

The approach set out in the Draft Standards requiring disclosure of material information about sustainability risks is consistent with existing requirements that apply to listed companies in Australia. In particular, a listed company in Australia is required by the Corporations Act to include in its directors' report information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position, business strategies and prospects for future financial years.[11]

Relevant regulatory guidance[12] effectively requires a company to disclose material business risks, which include environmental, social and governance (ESG) risks, where those risks could affect the entity's achievement of its financial performance or outcomes, taking into account the nature and business of the entity and its business strategy. Therefore, effectively listed companies have an existing requirement to discuss material ESG risks in their annual disclosures.

Many companies already disclose material sustainability risks. In addition to fulfilling the legal requirements outlined above, many companies also prepare additional disclosures, such as a sustainability report, or other similar disclosures. ACSI has, since 2008, conducted research into the disclosure practices of ASX listed companies in respect of ESG reporting. Our research shows that in 2021, 140 of the ASX200 companies were rated 'detailed' or 'comprehensive' disclosers[13], indicating that these companies are likely to be better placed to disclose in accordance the Draft Standards.

Notwithstanding the existing requirements and practices in Australia, we welcome the framework proposed by the ISSB as it aims to drive a more consistent, comparable and detailed approach to disclosure.

ACSI supports the materiality definition and recommends increased focus on the long-term

We support the definition of materiality proposed and the implicit statement that sustainability risks and opportunities are financially material. We recommend that the Draft Standards should explicitly state this fact and increase the references to long-term perspectives.

In the context of the materiality discussion, we caution against promoting a false distinction between investors and the interests of other stakeholders. Over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. This approach was very well articulated by Justice Hayne in the Australian Financial Services Royal Commissions when he said:

> *The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage. And long-term financial advantage will more likely follow if the entity conducts its business according to proper standards, treats its employees well and seeks to provide financial results to shareholders that, in the long run, are better than other investments of broadly similar risk*[14].

Accordingly, we support the materiality definition proposed, however we recommend that the Draft Standards promote sufficient consideration of sustainability risks that are present over the long-term. While Draft IFRS S1 does incorporate reference to the long-term, there is opportunity to strengthen the Standard in this respect. We suggest that guidance be provided that encourages appropriate long-term approaches, specifies appropriate time frames and requires preparers to clearly disclose how they interpret short, medium and longer-term time frames.

We recommend that differences between the term 'significant' and 'material' be clarified.

Interaction with other sustainability standards

We are aware of comments from some across the market suggesting that Draft IFRS S1 is broadly drafted, with concerns that it appears to require reporting entities to reference a wide variety of existing standards and practises (such as the SASB Standards, the CDSB Framework application guidance and the sustainability related risks and opportunities identified by entities that operate in the same industry or geography as set out paragraph

[11] *Corporations Act* (Cth) 2001 section 299A(1)
[12] ASIC Regulatory Guide 247 paragraphs 61-64
[13] ACSI ESG Reporting 2021 https://acsi.org.au/wp-content/uploads/2022/07/1ACSI-ESG-Reporting-Trends-in-the-ASX200-JUN22-.pdf
[14] Justice Hayne in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 at page 403

51) to identify risk.

Our view is that the Draft IFRS S1 is clear that reporting entities should apply judgement to identify material sustainability related financial information and that entities do not need to provide a specific disclosure that would otherwise be required by another Sustainability Disclosure Standard if the information is not material. This is the case even if the Standard sets out specific requirements or describes them as minimum requirements. We consider that it could be interpreted that Draft IFRS S1 merely references sources a reporting entity can refer to in order to understand the types of risks it might consider for assessment. Nonetheless, we recommend that the ISSB provide further clarification on this point.

ACSI supports clear statements on measurement uncertainty that provide comfort to entities in respect of forward-looking statements.

With the growth and focus across the market on sustainability issues, there have also been concerns raised by preparers in respect of forward-looking statements. Such concerns have been helpfully addressed in Australia within existing regulatory guidance, which makes it clear that preparers are unlikely to be found liable for misleading or deceptive forward-looking statements provided the statements are properly framed, they have a reasonable basis (which includes good governance at board level to sign off the statements) and there is ongoing compliance with disclosure obligations when circumstances change.

The statements in the Draft IFRS S1 on sources of estimation and outcome uncertainty (paragraphs 79-83) are consistent with the Australian regulatory guidance in this respect, as those sections in the Draft Standard outline the use of reasonable estimates and require disclosure of the sources and nature of estimation uncertainty. Paragraph 83 also requires disclosure of information about the assumptions a preparer makes about the future as well as disclosure of sources of significant uncertainty, where there is significant outcome uncertainty. Our view is that this is consistent with the Australian approach that requires proper framing of forward-looking statements so that they are not considered to be misleading. It makes sense that when considering whether a statement is misleading that the statement be considered in its entirety. Disclosures that are properly framed, with relevant and clear qualifications and methodology outlined, so as to fully inform the reader of material information, significantly reduce the risk of being found misleading. They are capable of being supported with a reasonable basis, when considered in their entirety, and there are many relevant examples across the market. We therefore support the statements in Draft IFRS S1 that encourages disclosure on estimation and outcome uncertainty.

Together these provisions appropriately balance investors' needs for appropriate disclosure of material sustainability risks (for which preparers should remain accountable), with the inherent uncertainty of forward-looking information. In this respect, this reflects existing practice, with many Australian listed companies currently making and managing such forward-looking statements in disclosures such as TCFD reports and other climate change-related reporting. In the context of financial reporting, many organisations currently rely on forward looking assumptions when considering asset valuations or provisioning.

Our view is that a safe harbour for disclosures made under the Draft Standards is not necessary or appropriate. As outlined above, there are sufficient protections where disclosures are appropriately framed and have a reasonable basis. Investors need comfort that there is appropriate accountability for disclosures that are made. Nonetheless, investors do not expect preparers to predict the unpredictable, but instead make realistic and properly articulated disclosures that have a reasonable basis. Additional regulatory guidance on what constitutes a reasonable basis, or examples of appropriate framing may be helpful. In addition, appropriate transition time frames would support those preparers that are not already making such disclosures to put in place systems and processes to support their disclosures.

ACSI recommends adoption of the Standards in Australia

Current examples of good practice within listed companies in Australia provide a sound basis for adoption of the Draft Standards. Nonetheless, there will need to be appropriate transition arrangements for those areas of the market that are less mature, or to allow service providers (such as auditors) to scale up expertise to match expected demand. Accordingly, ACSI recommends a phase in period of two to three years to develop the systems and expertise necessary. We also recommend that any transition arrangements encourage consistent improvement across the market, such that where companies have existing good practice, they are encouraged to continue to progress. Furthermore, as outlined above, our view is that a safe harbour is unnecessary (whether transitional or otherwise), instead transition periods will allow entities to appropriately prepare for adoption of the Draft Standards.

I trust our comments are of assistance. Please contact me or Kate Griffiths, (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully

Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

Attachment One – AASB specific matters for comment

Part A: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S1

A1. Exposure Draft on [Draft] IFRS S1 is proposing that entities be required to disclose information that is material and gives insight into an entity's sustainability-related risks and opportunities that affect enterprise value. Is focusing on an entity's enterprise value the most appropriate approach when considering sustainability-related financial reporting? If not, what approach do you suggest and why?

We support the definition of materiality proposed and the implicit statement that sustainability risks and opportunities are financially material. Our view is that the Standards should explicitly state this fact, and also increase the reference to long-term perspectives. Our view is that over the long term, an entity's enterprise value is inextricably linked with its management of sustainability risks and opportunities.

In the context of the materiality discussion, we caution against promoting a false distinction between investors and the interests of other stakeholders. Our view is that over the long-term, where entities have effective and mutually beneficial relationships with their stakeholders, they are more likely to be successful. Accordingly, we support the materiality definition proposed, however we recommend that the Standard promote sufficient consideration of sustainability risks that are present over the long-term. While the draft Standard does incorporate reference to the long-term, there is opportunity to strengthen the Standard in this respect.

In addition, our view is that the ISSB should clarify the meaning of the term 'significant' when used in this context and consideration be given to focus on 'material' instead.

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions. Do you agree that Australian entities should be required to disclose their Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions?

We recognise the challenges involved with Scope 3 reporting. We also agree with the statement in question 9 that despite the challenges, scope 3 reporting is becoming more common, with improved quality, with ACSI finding 27 companies disclosing scope 3 targets and milestones across the ASX200 and 93 of the ASX200 reporting their Scope 3 emissions[15]. This reflects the growing consensus that Scope 3 emissions represent significant market risk, with products and services that may be impacted by the transition to a low-carbon economy. Our view is that well-framed disclosure will acknowledge and detail the challenges and explain the methodologies used, to allow investors to understand and take into account measurement uncertainty. Nonetheless, we acknowledge that a transition period may be appropriate here, particularly for entities at the smaller end of the market or with particularly complex financed emissions.

B2. To comply with the proposals related to GHG emissions disclosures in Exposure Draft on [Draft] IFRS S2 an entity would be required to apply the Greenhouse Gas Corporate (GHGC) Standard. Do you agree that Australian entities should be required to apply the GHGC Standard given existing GHG emissions legislation and guidance in place for Australian entities (for example, the NGER Act, NGER (Measurement) Determination 2008 and related guidance)?

Given the aims of global comparability, our view is that disclosures under the differing regimes should be reconciled in a manner that is efficient for preparers, while providing the information required by investors. This may involve disclosure of a reconciliation between the regimes, or even harmonisation across the regimes.

B3. Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors?

We support the principle that industry-based classifications can support consistency and comparability across disclosures. However, while many across the market agree with this principle, we are aware of differing views on the applicability, on a global basis, of the proposed classifications and consider that the industry-based classifications be considered for further consultation.

[15] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

B4. Are there any Australian-specific climate-related matters that the AASB should consider incorporating into the requirements proposed in Exposure Draft on [Draft] IFRS S2? For example, given the Exposure Draft on [Draft] IFRS S2 is the starting point for the AASB's work on climate-related financial disclosure, should there be additional reporting requirements for Australian entities? If so, what additional reporting requirements should be required and why?

We note the particular relevance of a just and equitable transition in the Australian economy, and therefore support the provisions requiring disclosure on workforce adjustments in the context of transition planning.

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

C1. Which Australian entities should be expected to apply the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and why? Specifically:
(a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? and
(b) should relief from specific aspects of the proposals be permitted for some entities for which the proposals are deemed burdensome (for example, Scope 3 GHG emissions and scientific and scenario analyses)? If so, which entities and why?

Our expertise is in respect of large, listed companies and we recognise that it can be appropriate that implementation differs across the market, with a longer transition period at the smaller end of the market. However, the principle that all entities will have some sustainability risks that could affect their enterprise value and therefore be the subject of disclosure should be maintained. Our view is that the materiality threshold should operate such that there is no requirement to provide relief for some proposals – that is where the risk is material such as to require disclosure, then the disclosure should be fulsome, including Scope 3 disclosures and scenario analysis.

We also recommend that any transition arrangements encourage consistent improvement, such that where companies have existing good practice, they are encouraged to continue to progress.

C2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

Our view is that the existing regulatory environment in Australia could support adoption of the Standards in their current form.

While we are aware of concerns in relation to forward looking statements, given that many listed companies are already disclosing information similar to that required by Draft IFRS S1 and Draft IFRS S2, our view is that risk of publishing misleading forward looking (or other) statements is manageable with good practice disclosure.

Concern on forward looking statements and continuous disclosure obligations should not be an issue that prevents disclosure as many companies in Australia are already making relevant disclosures. We accept that risk arises where the statements are not appropriately framed, or there is no reasonable basis for disclosures, however these are both within the control of the preparer. Therefore, the most appropriate way for preparers to mitigate risk of making misleading statements is to appropriately frame disclosures (including outlining assumptions, limitations, methodologies etc), and ensure there is a reasonable basis for the disclosures.

We reject the assertion that in cases where there is measurement uncertainty, a preparer would have to acknowledge that a forward-looking statement does not have a reasonable basis. It is reasonable to consider that when assessing what is a reasonable basis, a disclosure would be read in its entirety, including any qualifications and disclosures on measurement uncertainty that accompanies the statement.

We also note that many disclosures that are currently made right across the market include forward looking statements, because assumptions about the future form part of asset valuations and provisions that are found in many companies' accounts currently, as required by the relevant accounting standards.

Regulatory guidance may be a helpful addition, for example to outline the kinds of qualifications that might be included in disclosures, along with examples of disclosure (including methodologies and limitations). Such guidance could also address scenario analysis to clarify that it is reasonable to consider that scenario analysis, when appropriately framed, and accompanied by relevant context (that explains the scenario analysis process and purpose), is not a guarantee of future performance.

The materiality requirements should also provide comfort to preparers in this respect. Entities are not required to disclose information on all the sustainability risks they face, rather disclose material information on significant risks[16]. Accordingly, entities are able to focus on implementing verification and other processes to support disclosures on the sustainability issues that are the most material to the entity and ensure these disclosures are fit for purpose and not misleading.

C3. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 align with existing or anticipated requirements, guidance or practice in Australia? If not:
(a) please explain the key differences that may arise from applying the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and the impact of any such differences; and
(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

Our view is that the proposals align with existing requirements for listed companies in Australia, although provide significantly more guidance on how these requirements would be executed. A listed company is required by the Corporations Act to include in its directors' report (in its Annual Report) information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position; business strategies and prospects for future financial years.[17]

The ASIC Regulatory Guide[18] applicable to these legal requirements outlines that a discussion of prospects effectively requires disclosure and a discussion of material business risks. The Guide also goes on to specify that the disclosures should include a discussion of environmental, social and governance risks where those risks could affect the entity's achievement of its financial performance or outcomes disclosure, taking into account the nature and business of the entity and its business strategy.

Accordingly, Australian listed companies have an existing requirement to disclose material sustainability risks, and many do so.

Draft IFRS2 is consistent with the move towards TCFD reporting in Australia, with use of the TCFD Framework being encouraged by both ASIC and the ASX Corporate Governance Council.[19] Increasingly, the TCFD Framework is being adopted across the listed market, with 103 of the ASX200 either fully or partially aligning their disclosures to the TCFD[20].

Our view is that changing the proposals in the Draft Standards would undermine the aim of developing a global baseline for disclosure that promotes consistency and comparability. Accordingly, our view is that an appropriate transition time frame is a more appropriate consideration than changes to the Standards.

C4. Would the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 result in useful information for primary users of general-purpose financial reports?

Our view is that the proposals set out in the draft would result in useful information for primary users of general financial reports, where preparers avoid boilerplate disclosure.

ACSI's research on ESG reporting across the ASX200 indicates that 140 of the ASX200[21] provide disclosures that are considered to be 'comprehensive' or 'detailed. In respect of climate disclosure, 103 companies across the ASX have adopted TCFD reporting[22]. Our view is that the Draft Standards will drive comparability across the market as well as improve standards in those parts of the market that are not currently disclosing well.

C5. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 create any auditing or assurance challenges?

Existing practice is that many companies have their existing disclosures assured (the standard of assurance may vary). Therefore, existing practice provides a useful example that indicates that such disclosures can be assured. Nonetheless, we accept that development of capability across the market and labour shortage pose short-term issues. Therefore as outlined above, it may be appropriate that implementation differs across the market, with a

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[16] Note that we support calls for further explanation on the intended difference (if any) between the use of 'significant' and 'material' in the Draft Standards
[17] *Corporations Act* 2001 (Cth) s299A(1)
[18] ASIC Regulatory Guide 247 paragraphs 61-64
[19] ASIC Regulatory Guide 247 Paragraph 66 and [ASX Corporate Governance Council's Corporate Governance Principles and Recommendations](#) Recommendation 7.4
[20] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/
[21] [ACSI Research ESG Reporting Trends in the ASX 200](#)
[22] ACSI's 2022 research, *Promises, pathways & performance. Climate change disclosure in the ASX200* which will be released in mid-July 2022 at https://acsi.org.au/research-reports/

longer transition period at the smaller end of the listed market. However, the principle that any transition arrangements encourage consistent improvement, should be maintained.

C6. When should the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be made effective in Australia and why?

Current examples of good practice at the top end of the market provide a sound basis for adoption of the Draft Standards. Nonetheless, we accept that with the adoption of the Standards across the market, there will need to be appropriate transition time frames, in particular for those areas of the market that are less mature, or to allow service providers (such as auditors) to scale up expertise to match expected demand. Accordingly, we recommend phase in periods that reflect maturity in different areas of the market be adopted to allow preparers and service providers to develop the systems and expertise necessary.

C7. Should the effective date of the proposals in Exposure Draft on [Draft] IFRS S1 be consistent with, or set for a date after, the effective date of the proposals in Exposure Draft on [Draft] IFRS S2? If so, why?

Our view is that the starting dates should be consistent. The Draft IFRS S1 is a starting point, requiring entities to assess and disclose material sustainability risks. Listed companies in Australia already have a similar obligation. While many companies will have significant climate related risk, there will be some companies that face other significant sustainability risks.

C8. Would any wording or terminology introduced in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 be difficult to understand? If yes, what changes do you suggest and why?

The ISSB should clarify the terms 'sustainability', and 'significant' as well as emphasise throughout the draft, the focus on material risks. In addition, the long-term thinking required to successfully identify risks should be emphasised.

Guidance should be provided on what is considered reasonable time frames for short, medium and long-term thinking. For example, consistent with emerging European requirements applicable to transition risk; Short term: Up to five years; Medium term: Five to ten years; Long term: More than ten years, but no later than 2050[23]

C9. Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

Our view is that the costs of not adopting the global baseline should be considered (when considering the costs of adoption). Good disclosure increases investor confidence and promotes open markets that reflect the cost of risk, and arguably therefore can be expected to lower the cost of capital. In addition, adoption of a global baseline will reduce the risk of market fragmentation and encourage those companies at the less mature end of the market to improve both their practices and disclosures, leading to more sustainable outcomes over the long-term.

Part D: Matters for comment relating to the AASB's proposed approach

D1. Do you agree with the AASB's proposed approach to developing sustainability-related financial reporting requirements as a separate suite of standards? As an alternative model, the AASB would value comments as to whether sustainability-related financial reporting requirements should be developed as part of existing Australian Accounting Standards. The alternative model would result in sustainability-related financial disclosures forming part of an entity's general purpose financial statements.

A separate suite of standards is an appropriate approach, however care should be taken to ensure the ISSB's approach to integration between sustainability reporting and financial reporting is preserved.

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?

Our view is that the adopting the proposals in Draft IFRS S1 and Draft IFRS S2 are in the best interests of the Australian economy. Investment markets are global and failure to adopt a global baseline could see investment move offshore.

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[23] Note that these time frames are provided by way of example and will not be relevant for other sustainability risks, given the 2050 limitation