

15 July 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

Dear Dr Kendall

ED 321: Request for Comment on ISSB [Draft] IFRS S1 *General Requirements for disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*

Thank you for the opportunity to comment on ED 321.

IPA supports the objectives and overall proposals in [Draft] IFRS S1 and [Draft] IFRS S2 as the foundation standards to achieving a baseline for international sustainability-related financial information (SR-FI) and climate-related disclosures.

However we have concerns regarding the implementation of the draft Standards. Our key concerns and suggestions for addressing them are as follows:

1. The broad nature, length and complexity of the proposed SR-FI will increase the difficulty for entities in applying the requirements and thereby diminishing the overall objectives of the ISSB setting a global baseline for SR-FI that is consistent, comparable and auditable. For examples:
 - [Draft] IFRS S1 uses ‘enterprise value’ as the focus for disclosing SR-FI, and the yet the definition (in Appendix A) and guidance (paragraph 5) are broad in scope and potentially onerous for entities to identify and capture the necessary information for their disclosures. Similarly, the list of guidance and pronouncements in paragraph 51 (with some stemming from other jurisdictions) that an entity needs to consider for disclosure in addition to the IFRS Sustainability Disclosure Standards is burdensome for many entities, particularly small-to-medium enterprises (SMEs).
 - [Draft] IFRS S2 Appendix B disclosures are complex and lengthy and difficult to apply.
2. The challenges posed by the pace of SR-FI development, the limited pool of practitioners with SR-FI expertise, and an entity’s resources to invest in staff to acquire the necessary skills and systems to capture, measure and prepare SR-FI that comply with the requirements, and auditors having the necessary skills and assurance frameworks to ensure that SR-FI are consistent, comparable and verifiable across entities and over time.

3. Entities and practitioners in SME sectors will have difficulties in implementing the proposed requirements, as this sector would not currently be disclosing or assuring SR-FI. This contrasts with large entities that are already reporting some form of SR-FI and would have staff, systems and resources that can be adapted to implement the requirements of the draft Standards. Similarly, large audit firms that are already providing some form of assurance on the disclosed information can adapt to future assurance frameworks.
4. Whilst international alignment of SR-FI is important, the Standards need to incorporate other Australian requirements (such as the National Greenhouse Energy Reporting legislation for greenhouse gas emissions) to reduce the burden of reporting.
5. To address the concerns, IPA suggests the following:
 - Provide guidance where possible to reduce the scope and breadth of reporting with simplifications for SMEs and
 - Phased approach in implementing the Standards for different tiers of reporting by:
 - Initially requiring large for-profit entities to apply the effective date in the Standards and permitting other for-profit entities to elect to apply the Standards by the same date and
 - Delay the application date for other for-profit entities, until after the AASB's consideration of developing SR-FI for different types of entities within the FP sector with the view of simplifying the requirements for SMEs.

Our response to the specific questions in the Exposure Draft are in Attachment 1.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942 733.

Yours sincerely



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About the IPA

The IPA is one of the professional accounting bodies in Australia with over 47,000 members and students across 80 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. Since merging with the Institute of Financial Accountants UK, the IPA Group has become the largest SME and SMP focused accounting body in the world.

ATTACHMENT 1: IPA’s response to ED 321 – AASB specific matters for comment

Part A: Matters for comment relating to 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?**

IPA agrees that the focus on an entity’s enterprise value (EV) is an appropriate approach when considering sustainability-related financial information (SR-FI). Enterprise value a concept that is currently used in many of the international frameworks for sustainability reporting and is therefore, a sound basis for developing the parameter for SR-FI. However, we note that the definition of enterprise value in Appendix A relates the total value of an entity being the sum of the value of the entity capital equity and net debt. Whilst the guidance¹ in paragraph 5 of [Draft] IFRS S1 for enterprise value is broad in scope and potentially onerous for entities to identify and capture the necessary information for their disclosures. Additional guidance where possible would reduce this burden of reporting.

Part B: Matters for comment relating to 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? If not, what changes do you suggest and why?**

IPA understands that disclosing Scope 3 GHG emissions will be challenging but a necessity, as Scope 3 GHG emissions is likely to make up the majority of emissions in most sectors and therefore should be disclosed. Accordingly, IPA supports the proposal requiring an entity to disclose its Scope 3 GHG emissions in addition to its Scope 1 and 2 GHG emissions. To assist entities, particularly those in the SME sectors, comply with the requirements, we recommend the AASB adopt a phased approach and simplified disclosures as outlined in our covering letter.

- 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)?**

IPA is of the view that the disclosure of GHG emissions should disclose information that is internationally consistent and comparable (as per [Draft] IFRS S2), as well as complying with domestic requirements (such as the NGER Act, NGER (Measurement) Determination 2008 and

¹ Paragraph 5 of [Draft] IFRS S1 states:

“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.”

related guidance). This is an area where the AASB will need to modify the international requirements for Australian specific requirements/guidance, taking into account the differences between the proposals in [Draft] IFRS S2 and the NGER Act, such as the different:

- Objectives of the NGER scheme and its obligations and the objective of [Draft] IFRS S2 disclosures
- Thresholds for determining the type of obligations under the NGER Act and disclosures under [Draft] IFRS S2 and
- Disclosures, in that the NGER Act only deals with Scope 1 and Scope 2 emissions.

B3. Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors? If not, what changes do you suggest and why?

IPA has concerns regarding the prescriptive and authoritative nature of Appendix B, which is “an integral part of [draft] IFRS S2 and has the same authority as the other parts of the [draft] Standard”, (page 49 of [Draft] IFRS S2). Appendix B disclosures are complex and lengthy and our members in the SME sector would have difficulty applying the requirements. IPA therefore do not support the disclosures in Appendix B. Where the content of Appendix B is retained, IPA recommends the following amendments to the Appendix:

- Assess the metrics that are relevant for the Australian environment for disclosure
- Considerable simplification of disclosures for SMEs and
- Permit the disclosure of Appendix B information on a voluntary basis.

Part C: Matters for comment relating to both Exposure Drafts

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?

The success of disclosing SR-FI in Australia and internationally is dependent on the ability of entities to apply the requirements in the ISSB Standards, currently [Draft] IFRS S1 and [Draft] IFRS S2, auditors in assuring the disclosed information and users of the SR-FI to assess the entity’s enterprise value and climate related risks and opportunities for making decisions about the entity.

IPA is of the view that, in Australia, entities that are already reporting sustainability-related information are large entities that have the resources to invest in staff to obtain the skills to identify the necessary reporting requirements and systems in capturing, measuring and preparing the information for disclosure. These entities are also likely to engage the larger audit firms in providing some form of assurance on the disclosed information. Consequently, these entities will likely have the resources to implement the proposals in [Draft] IFRS S1 and [Draft] IFRS S2.

Entities that are not currently disclosing SR-FI would need to allocate resources to acquiring the skills and systems for their reporting over the short and medium term. Given the limited availability of practitioners who currently have SR-FI expertise, this is likely to drive competition for their expertise resulting in only entities with resources able to secure the expertise for SR-FI. This is an issue that affects all jurisdiction, including Australia.

Most if not all of IPA members who operate in the SME sector would not currently be involved in sustainability-related financial reporting. Additionally, SMEs will have less resources to acquire the expertise in comparison to the larger entities. To assist SMEs implement the Standards, IPA recommends a tiered and staged approach in the application of the Standards in the following manner:

- Provide guidance where possible to reduce the scope and breadth of reporting with simplifications for SMEs and
- Phased approach in implementing the Standards for different tiers of reporting by:
 - Initially requiring large for-profit entities to apply the effective date in the Standards and permitting other for-profit entities to elect to apply the Standards by the same date and
 - Delaying the application date for other for-profit entities, until after the AASB's consideration of developing SR-FR for different types of entities within the FP sector with the view of simplifying the requirements for SMEs.

The staged approach would allow the SME sector to learn from the experiences of the larger entities and spread the demand of practitioner with SR-FI experience.

(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?

IPA agrees with providing relief from specific aspects of the proposals to be permitted for some entities where the proposals are deemed onerous, including Scope 3 GHG emissions and scientific and scenario analyses. The relief can be for SME using the suggested phased in approach in our comments to Matter C1 above.

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?

Some of the proposals in the draft Standards are predictive in nature and can be commercially sensitive, and may expose the entity to litigation. However, IPA is of the view that these matters are not unique to Australia, and would already be encountered by entities that are currently disclosing sustainability-related type information. We are therefore of the view that these matters can be managed.

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?

The proposals in the draft Standards set a global framework for disclosing sustainability-related financial information and requirements for climate disclosures that are broader than information than those disclosed in financial statements. The proposals permit users to assess an entity's significant risks and opportunities relating to sustainability matters, and how the entity's governance, strategies and risk management adapt in response over time. The value of an entity is increasingly linked with how it addresses sustainability matters. IPA is therefore, of the view that the proposed disclosures would result in useful information for users of general purpose financial reports, however, this is only if the proposals are applied accurately, consistently and timely, and the information are verifiable and regulated.

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

The disclosures proposed in the draft Standards relate to predictive information that are broad and complex and are subject matters that are outside general purpose financial statements. Consequently, accountants would need to draw on non-accounting experts to provide the information for their disclosures. The assurance on the disclosed information would also require the use of such experts and the development of revised and/or new auditing frameworks to verify the disclosed information. Auditors will need time to learn and apply the revised and/or new auditing frameworks. Given the pace of the development of sustainability Standards and the IAASB's July 2022 announcement of its initiative to develop a sustainability assurance standard, the draft Standards would pose auditing and assurance challenges.

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

Given that Australian constituents have also 'demanded' a globally consistent and comparative reporting on sustainability-related financial information, the proposals in the draft Standards should be made effective in Australia. However, this is subject to the concerns in the draft Standards are addressed by the ISSB and/or the AASB for application in Australia.

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?

[Draft] IFRS S1 provides the overarching framework for SR-FI and [Draft] IFRS S2 specifically for climate-related disclosures. The effective date of both draft Standard should therefore be the same date. However, the effective date should be phased in based on the size of the entity as detailed in our comments to Matter C1 above.

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

IPA supports the AASB's proposed approach to developing SR-FI requirements as a separate suite of standards on the basis that this approach is consistent with the ISSB's approach and avoids the difficulties of the alternative approach. The consistency in standard-setting approach with other international standard-setters, including Australia, and the ISSB would better facilitate setting standards with requirements that are internationally aligned. This in turn ensures that SR-FI disclosures are internationally consistent and comparable and meet the international demand for SR-FI in the first place.

We are of the view that the alternative model of developing SR-FI requirements as part of existing Australian Accounting Standards would create difficulties including the need to resolve the:

- Differing objectives of SR-FI compared with general purpose financial statement (GPFS), ie the objective of SR-FI disclosures is for users to assess specifically an entity's enterprise value, which is a narrower objective than that of GPFS and
- Potential audit implications, as SR-FI disclosures that are included as part of GPFS would likely be subject to audit. This could be problematic for auditors, given audits of GPFS is well established, whilst the nature and form of SR-FI disclosure audits are yet to be developed. This is compounded by the predictive nature and significant estimations required in quantifying the disclosures proposed in the draft ISSB standards.

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

IPA is of the view that the proposals in the draft Standards are in the best interests of the Australian economy with the exceptions of the concerns outlined in our submission.