Insurance Council of Australia

15 July 2022

Submitted via comment letter:
https://www.ifrs.org/projects/work-plan/general-sustainability-related-disclosures/exposure-draft-and-comment-letters/

Dear International Sustainability Standards Board (ISSB),

Exposure Draft
International Financial Reporting Standards (IFRS) S1: General Requirements for Disclosure of Sustainability-related Financial Information

The Insurance Council of Australia (ICA) is the representative body for the general insurance industry of Australia. The ICA represents approximately 95% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of $59.2 billion per annum and on average pays out $148.7 million in claims each working day ($38.8 billion per year).

We commend the ISSB on the publication of its Exposure Draft IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information ([Draft] IFRS S1) and welcome the opportunity to provide comment. We strongly support the ISSB's development of high-quality global standards for sustainability reporting, reflecting decades of development of sustainability reporting voluntary standards and industry practice.

Our submission draws on the consolidated feedback of the ICA' members and focuses on issues and implementation concerns raised during consultation. These are set out below, with specific responses to the consultation questions raised by the ISSB included within **Attachment A**. Some members will also provide their own separate submission.

We also endorse the Australian Voice submission that collectively represents the voice of peak professional, industry and investor bodies in Australia representing leading business and finance professionals who have come together to prepare a joint submission on the IFRS Exposure Drafts.

Globally consistent, consolidated framework

We welcome the consolidation of existing standards such as the Climate Disclosure Standards Board (CDSB) and Value Reporting Foundation (VRF) into one overarching framework and recommend that the ISSB provide guidance on how emerging standards such as the Taskforce for Nature-Related Financial Disclosures will be accommodated over time as practices continue to evolve.

While a memorandum of understanding exists between the Global Reporting Framework (GRI) and ISSB, further clarity is required regarding the scope of materiality assessment under ISSB and its relationship to GRI requirements, as discussed further below. ISSB could also consider forming agreements with key independent data and indices organisations such as the Carbon Disclosure Project (CDP), Dow Jones Sustainability Index (DJSI), Sustainalytics and MSCI, for example, to further streamline citation and digital tagging of disclosures, reducing the reporting burden while delivering better quality disclosures and sustainability outcomes.

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Reporting boundaries

There are significant challenges disclosing all significant sustainability-related risks and opportunities across the insurance value chain due to a current lack of measurement methodologies and data collection processes. Despite this, sustainability risks and opportunities in an insurer's value chain are likely to be significant (i.e., investment and underwriting) and disclosing this information will be important to manage issues and avoid greenwashing claims.

We recommend that a phased approach to the introduction of reporting requirements be used to allow time for entities to develop measurement methodologies and data collection processes. A materiality threshold could also apply, for example omitting subsidiaries and joint ventures if they do not comprise a material part of activities within the reporting entity's financial or operational control. There are particular complexities regarding joint ventures and the degree of operational control parent companies have to then enable emissions reduction. Additional guidance would be welcomed to assist in the standardisation of approach to joint ventures, noting the application of a materiality threshold.

Materiality

We do not agree with the inclusion of sustainability-related financial disclosures in an entity's general purpose financial reporting as the scope of disclosures required is unclear. We note that paragraph 1 of the [Draft] IFRS S1 requires disclosure of sustainability-related financial information relevant only to enterprise value. However, paragraph 2 of the [Draft] IFRS S1 also requires disclosure of "all significant related risks and opportunities". This suggests that broader non-financial disclosures are also required, consistent with the approach taken under the GRI. Clarity should be provided on the scope of disclosures required, and alignment with GRI requirements including aligning to upcoming refreshed guidance from GRI on undertaking materiality assessments.

Effective date

The Insurance Council believes that both standards should be effective from the same date. However, the effective date should be a minimum of two years from the release of the final ISSB standards to allow time for companies to develop measurement methodologies, data collection processes and adequate resourcing, particularly where smaller companies have limited capabilities. Early adoption of the standards should however be encouraged noting urgent action is required to transition to a sustainable economy and limit the impacts of global warming.

The ISSB also has an important role to play in educating organisations on disclosing in accordance with the proposed standards. We note that the Taskforce for Climate-related Disclosures (TCFD) provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Alix Pearce, Senior Advisor Climate Action, apearce@insurancecouncil.com.au

Yours sincerely

Andrew Hall
Executive Director and CEO

ATTACHMENT A: RESPONSE TO ISSB [Draft] IFRS S1 QUESTIONS

Question	Insurance Council Response
Question 1 – Overall approach	
a. Does the Exposure Draft state clearly that an entity would be required to identify and disclose material information about all of the sustainability-related risks and opportunities to which the entity is exposed, even if such risks and opportunities are not addressed by a specific IFRS Sustainability Disclosure Standard? Why or why not? If not, how could such a requirement be made clearer?	Yes.
b. Do you agree that the proposed requirements set out in the Exposure Draft meet its proposed objective (paragraph 1)? Why or why not?	Yes, there is some uncertainty in terminology and scope of information required to be disclosed to assess enterprise value and decide whether to provide resources to the entity. In particular, the requirement to disclose “material” information about all of the “significant” sustainability-related risks and opportunities creates uncertainty around the materiality test to be applied to disclosures. The relationship between disclosures under the Exposure Draft and GRI also requires clarification, particularly with respect to the scope of materiality. See responses to Q2b and Q8a below for further information.
c. Is it clear how the proposed requirements in the Exposure Draft would be applied together with other IFRS Sustainability Disclosure Standards, including the [Draft] IFRS S2 Climate-related Disclosures? Why or why not? If not, what aspects of the proposals are unclear?	Yes, the Exposure Draft is clear that general requirements must be complied with through providing more specific information under each IFRS Sustainability Disclosure Standard, or other standards if no IFRS Sustainability Disclosure Standard exists for the relevant material sustainability risk or opportunity.
d. Do you agree that the requirements proposed in the Exposure Draft would provide a suitable basis for auditors and regulators to determine whether an entity has complied with the proposals? If not, what approach do you suggest and why?	No, clearer definitions of “sustainability-related financial information” and “materiality” would support assessment of compliance. See responses to Q2b and Q8a below for further information.

Question 2 – Objective (paragraphs 1-7)	
a. Is the proposed objective of disclosing sustainability-related financial information clear? Why or why not?	Yes, the objective of disclosing sustainability-related financial information is clearly set out at [paragraph 2] namely providing information that is, *“useful to the primary users of general-purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity.”*
b. Is the definition of ‘sustainability-related financial information’ clear (see Appendix A)? Why or why not? If not, do you have any suggestions for improving the definition to make it clearer?	No, clarity on the definition of “sustainability” and perhaps a non-exhaustive list of sustainability matters would be a useful guide to entities. For example, the Sustainability Accounting Standards Board (SASB) refers to the definition of sustainability as follows: *“The SASB’s use of the term “sustainability” refers to corporate activities that maintain or enhance the ability of the company to create value over the long term. Sustainability accounting reflects the governance and management of a company’s environmental and social impacts arising from production of goods and services, as well as its governance and management of the environmental and social capitals necessary to create long-term value. The SASB also refers to sustainability as “ESG” (environmental, social, and governance), though traditional corporate governance issues such as board composition are not included within the scope of the SASB’s standards-setting activities.”* Clarity should be provided on whether the above definition applies to [Draft] IFRS S1 given that SASB is now part of the VRF and ISSB.
Question 3 – Scope (paragraphs 8-10)	
a. 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?	Yes, however each jurisdiction will need to provide guidance that proposals in the Exposure Draft could be used in accordance with its GAAP requirements. We note that Australia already adopts the IFRS Accounting standards, so we see no issue from an Australian perspective.

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Question 4 – Core content (paragraphs 11-35)

a. Are the disclosure objectives for governance, strategy, risk management and metrics and targets clear and appropriately defined? Why or why not?	Yes, the disclosure objectives are clearly and appropriately defined, aligned to the recommendations of the TCFD. The Insurance Council agrees with using the TCFD recommendations framework as a basis for the disclosure objectives.
b. Are the disclosure requirements for governance, strategy, risk management and metrics and targets appropriate to their stated disclosure objective? Why or why not?	Yes, however some disclosure requirements include commercially sensitive information, which may inhibit disclosure unless certain uncertainty and protection measures are included.
Question 5 – Reporting entity (paragraphs 37-41)	
a. Do you agree that the sustainability-related financial information should be required to be provided for the same reporting entity as the related financial statements? If not, why?	Yes, we agree.
b. Is the requirement to disclose information about sustainability-related risks and opportunities related to activities, interactions and relationships, and to the use of resources along its value chain, clear and capable of consistent application? Why or why not? If not, what further requirements or guidance would be necessary and why?	Yes, however a phased approach is required to allow time for companies to develop measurement methodologies, data collection processes and adequate resourcing. A materiality threshold should also apply, for example omitting subsidiaries and joint ventures if they do not comprise a material part of activities within the reporting entity's financial or operational control. There are particular complexities regarding joint ventures and the degree of operational control parent companies have to then enable emissions reduction. Additional guidance would be welcomed to assist in the standardisation of approach to joint ventures, noting the application of a materiality threshold. Examples of how sustainability-related risks and opportunities effect value chains by key industry (manufacturing, extracting, financial services etc.) would also be useful.
c. Do you agree with the proposed requirement for identifying the related financial statements? Why or why not?	Yes, we agree with [para 38]: *"An entity shall disclose the financial statements to which the sustainability-related financial disclosures relate",* because it will make it easier for investors and other users of general-purpose financial reporting to navigate the reporting landscape of entities.

Question 6 – Connected information (paragraphs 42-44)	
a. Is the requirement clear on the need for connectivity between various sustainability-related risks and opportunities? Why or why not?	Yes, the requirement for connectivity is clear. Although [para 44] provides some examples, it would be beneficial to have more guidance on how this connectivity is to be achieved. Additionally, the ISSB could agree with other sustainability reporting standards (such as the GRI, United Nations (UN) Principles for Responsible Banking and UN Principles for Responsible Investing) that where elements are reported under the ISSB framework, they don't need to be duplicated in other reports (e.g., the GRI report). ISSB could also form agreements with key independent data and indices organisations such as the CDP, DJSI, Sustainalytics and MSCI, for example, to streamline citation and digital tagging of disclosures. This digital capability will reduce the reporting burden and ensure organisations remain focused on delivering better sustainability outcomes.
b. Do you agree with the proposed requirements to identify and explain the connections between sustainability-related risks and opportunities and information in general purpose financial reporting, including the financial statements? Why or why not? If not, what do you propose and why?	No, we do not agree with the inclusion of sustainability-related financial disclosures in an entity's general purpose financial reporting as the scope of disclosures required is unclear (see Q10a). However, if sustainability-related reporting is to be included in financial reporting it is important for these connections to be highlighted so investors can clearly identify areas of risk and opportunity for the entity, as well as increasing transparency of reporting.
Question 7 – Fair representation (paragraphs 45-55)	
a. Is the proposal to present fairly the sustainability-related risks and opportunities to which the entity is exposed, including the aggregation of information, clear? Why or why not?	The proposal to present fairly is clear, including the requirements for aggregation. We agree with the statements around aggregation as it allows more transparency into the data, hence allowing more appropriate decision making relevant to the risks and opportunities a company faces. (As we understand it, a company with high climate risk in one location and low climate risk in another location would not comply with the standards if they stated an overall climate risk of moderate) Disclosure requirements in the proposal be should standalone and not rely on other external frameworks such as the CDSB, creating issues for

	compliance and assurance. The wording 'entity shall consider' should be amended to reflect that consideration of the frameworks is optional (i.e., 'entity may consider') and only for the purposes of providing additional guidance on identifying sustainability risks and opportunities.
b. Do you agree with the sources of guidance to identify sustainability-related risks and opportunities and related disclosures? If not, what sources should the entity be required to consider and why? Please explain how any alternative sources are consistent with the proposed objective of disclosing sustainability-related financial information in the Exposure Draft.	We do not entirely agree with the section on 'Identifying sustainability-related risks and opportunities and disclosures'. As per [para 50], *"This [draft] Standard requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed (see paragraph 2)."* The wording indicates that both financial and non-financial disclosures are required, i.e. broader than enterprise value. This needs to be clarified. In [para 51] and [para 52], S1 points to the IFRS Sustainability Disclosure Standards as the source of disclosure topics. However, the standard also refers to other frameworks for identifying relevant disclosure topics. In particular, [para 51] states *"In addition to IFRS Sustainability Disclosure Standards, an entity shall consider … "*. This does not appear to be a consolidation of sustainability standards, as the ISSB claims to be targeting, but rather a re-direction. The standards require entities to consider all sources of guidance, thus not making sustainability reporting any easier. We would prefer the standards to provide their own guiding lists on disclosure topics (which may draw from SASB etc), or to provide the sources of guidance as a recommendation rather than a requirement.
Question 8 – Materiality (paragraphs 56-62)	
a. Is the definition and application of materiality clear in the context of sustainability-related financial information? Why or why not?	No, the definition of materiality is not clear. [Para 1] requires disclosure of sustainability-related financial information relevant only to enterprise value. However, [para 2] requires disclosure of "all significant related risks and opportunities". This suggests that broader non-financial disclosures are also required, consistent with the approach taken under the GRI. Clarity should be provided on the scope of disclosures required, and alignment with GRI requirements. This includes aligning to upcoming refreshed guidance from GRI on how to undertake materiality assessments.

b. Do you consider that the proposed definition and application of materiality will capture the breadth of sustainability-related risks and opportunities relevant to the enterprise value of a specific entity, including over time? Why or why not?	No, as per [para 60], an entity need not provide a specific disclosure if the information resulting from that disclosure is not material. We consider disclosure of material information is appropriate, rather than the entire breadth of sustainability-related risks and opportunities.
c. Is the Exposure Draft and related Illustrative Guidance useful for identifying material sustainability-related financial information? Why or why not? If not, what additional guidance is needed and why?	Yes, it is useful, however more guidance on identifying material sustainability-related financial topics would be welcomed. This could include a non-exhaustive list of sustainability matters, with recognition that sustainability materiality is much more qualitative than financial materiality.
d. Do you agree with the proposal to relieve an entity from disclosing information otherwise required by the Exposure Draft if local laws or regulations prohibit the entity from disclosing that information? Why or why not? If not, why?	Yes. It is necessary to allow companies to report in a manner that is not inconsistent with local laws and entities should *“identify the type of information not disclosed and explain the source of the restriction”* [para 62] to enable assurance over non-disclosure. Additionally, market forces are likely to encourage increased transparency of disclosures, and this will (slowly) drive changes in local legislation.
Question 9 – Frequency of reporting (paragraphs 66-71)	
a. Do you agree with the proposal that the sustainability-related financial disclosures would be required to be provided at the same time as the financial statements to which they relate? Why or why not?	Yes, we agree that *“An entity shall report its sustainability-related financial disclosures at the same time as its related financial statements and the sustainability-related financial disclosures shall be for the same reporting period as the financial statements”* [para 66]. This is important in giving the standards the credibility. Initially there does, however, need to be an allowance for variation dependent upon data availability (see Q13).
Question 10 – Location of information (paragraphs 72-78)	
a. Do you agree with the proposals about the location of sustainability-related financial disclosures? Why or why not?	No, we do not agree with the inclusion of sustainability-related financial disclosures in an entity’s *“general purpose financial reporting”* [para 72] as the scope of information to be disclosed is unclear. See response at Q8a.
b. Are you aware of any jurisdiction-specific requirements that would make it difficult for an entity to provide the information required by the Exposure Draft despite the proposals on location?	No.

c. Do you agree with the proposal that information required by IFRS Sustainability Disclosure Standards can be included by cross-reference provided that the information is available to users of general-purpose financial reporting on the same terms and at the same time as the information to which it is cross referenced? Why or why not?	See Q10a above.
d. Is it clear that entities are not required to make separate disclosures on each aspect of governance, strategy and risk management for individual sustainability-related risks and opportunities, but are encouraged to make integrated disclosures, especially where the relevant sustainability issues are managed through the same approach and/or in an integrated way? Why or why not?	Yes, [para 78] is clear and the included example aids understanding.
Question 11 – Comparative information, sources of estimation and outcome uncertainty, and errors (paragraphs 63-65, 79-83 and 84-90)	
a. Have these general features been adapted appropriately into the proposals? If not, what should be changed?	Yes, regarding [para 63], clarity on the provision of 'uncertainty' is required to encourage entities to disclose despite the fact that calculation methodologies are not yet standardised and data quality/completeness remains low, for example some Scope 3 greenhouse gas (GHG) emissions (e.g. finance/underwriting and value chain). Clarity on disclosing levels and ranges of uncertainty, will support uptake, consistent and the establishment of best practice.
b. Do you agree that if an entity has a better measure of a metric reported in the prior year that it should disclose the revised metric in its comparatives?	See Q11a above.
c. Do you agree with the proposal that financial data and assumptions within sustainability-related financial disclosures be consistent with corresponding financial data and assumptions used in the entity's financial statements to the extent possible? Are you aware of any circumstances for which this requirement will not be able to be applied?	N/A
Question 12 – Statement of compliance (paragraphs 91-92)	
a. Do you agree with this proposal? Why or why not? If not, what would you suggest and why?	Yes, we agree with the inclusion of *"an explicit and unqualified statement of compliance"* [para 91]. This is standard practice, with other sustainability frameworks, such as GRI, allowing companies to claim their

reports have been prepared in accordance with these frameworks. Such a statement would also provide a high-level indication of the comprehensiveness of an organisations' sustainability reporting. However, allowances and a phased approach should be used for uncertainty in information disclosed to avoid legal risks associated with material misstatement.

However, standardised wording for a disclaimer should be included in the statement of compliance to allow for the inherent uncertainties and assumptions that are used by companies when reporting on forward looking measures, such as climate risk and financial performance. This is also to limit exposure of disclosing organisations in Australia to potential liability for misleading and deceptive disclosure under Australian Law (for example s1041H of the Corporations Act 2001 and s18 of the Australian Consumer Law).

Question 13 – Effective date (Appendix B)	
a. When the ISSB sets the effective date, how long does this need to be after a final Standard is issued? Please explain the reason for your answer, including specific information about the preparation that will be required by entities applying the proposals, those using the sustainability-related financial disclosures and others.	The Insurance Council proposes that both standards should be effective from the same date. However, the effective date should be a minimum of two years from the release of the final ISSB standards to allow companies time to develop measurement methodologies, data collection processes and adequate resourcing, particularly where smaller companies have limited capabilities. Early adoption of the standards should be encouraged, noting urgent action is required to facilitate the orderly transition of the financial system to a sustainable economy. The ISSB also has an important role to play in educating organisations on disclosing in accordance with the proposed standards. We note that the TCFD provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub.
b. Do you agree with the ISSB providing the proposed relief from disclosing comparatives in the first year of application? If not, why not?	Yes, we agree.

Question 14 – Global baseline

a. Are there any particular aspects of the proposals in the Exposure Draft that you believe would limit the ability of IFRS Sustainability Disclosure Standards to be used in this manner? If so, what aspects and why? What would you suggest instead and why?	While SASB metrics are a good source of industry metrics, some adjustments may be required to meet the needs of multiple jurisdictions. See our submission in response to [Draft] IFRS S2 Climate-related Disclosures Standards (**[Draft] IFRS S2**) for further details.

Question 15 – Digital reporting

a. 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)?	We are supportive of digital reporting and would further suggest linkage with external ESG assessments. For example, there is an opportunity to harmonise ISSB-aligned reports with CDP, DJSI, Sustainalytics and MSCI (etc.) questionnaires by using digital tagging. This would reduce the volume of sustainability reporting and improve consistency across various reporting frameworks.

Question 16 – Costs, benefits and likely effects

a. Do you have any comments on the likely benefits of implementing the proposals and the likely costs of implementing them that the ISSB should consider in analysing the likely effects of these proposals?	There is a need for harmonisation across jurisdictions so we welcome these standards, with the opinion they will benefit greater transparency of the potential financial impacts to an organisation's sustainability risks and opportunities, as well as accelerating the adoption of consistent, comprehensive sustainability-related disclosures. There will be significant financial costs of implementation for some organisations in terms of the collection and disclosure of robust, consistent, and reliable industry-specific information, as well as costs more specific to the [Draft] IFRS S2 like obtaining climate related scenario analysis. A phased approach is therefore required (see Q13 above).
b. Do you have any comments on the costs of ongoing application of the proposals that the ISSB should consider?	See Q16a above.
Question 17 – Other comments	
a. Do you have any other comments on the proposals set out in the Exposure Draft?	There is a risk that compliance with the ISSB standards, when combined with financial reporting, will lead to long reports that have limited value for

preparers, investors and assurers. As such, consideration should be given to the expected length and depth of an ISSB Standard-aligned report, ensuring concise and efficient transfer of sustainability information.