Wednesday, 28 February 2024

Global Sustainability Standards Board

Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

Submission via email

GRI exposure drafts for the Climate Change Standard and the Energy Standard (issued by GRI in November 2023)

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 900,000 current and next generation accounting professionals across 181 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

ACCA and CA ANZ welcome the opportunity to comment on GRI's exposure drafts (EDs) to develop new disclosures for the climate change-related standards and revision of the energy standard. We support this project's objective to enable organisations to disclose their most significant impacts on climate change issues and how they are managing those impacts.

Our general comments on both EDs are enclosed in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Aaron Saw, Head of Corporate Reporting Insights – Financial at ACCA via email: aaron.saw@accaglobal.com and Karen McWilliams, Sustainability and Business reform leader at CA ANZ via email: Karen.mcwilliams@charteredaccountantsanz.com

Yours sincerely

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Appendix A - **GENERAL COMMENTS**

Reflecting the IFRS Sustainability Disclosure Standards as the baseline

We appreciate the conscious effort to consider the requirements of other sustainability reporting regimes in the Climate Change ED, in particular the IFRS Sustainability Disclosure Standards as a global baseline for sustainability reporting.

There are, unsurprisingly, proposals in the Climate Change ED that go beyond the requirements of IFRS S1 and IFRS S2. In aiding the adoption of amendments to the two GRI standards, greater reflection could be made on how the proposed requirements can be overlaid with the IFRS Sustainability Disclosure Standards. For example,

- there is considerable opportunity to enhance disclosures required by IFRS S1 on approach to governance, setting strategy, and risk management relative to the actual details of the 'what' is in the transition or adaption plan (see disclosure CC-1).
- complementing the requirements of IFRS S2, in particular disclosure of social and biodiversity impacts arising from climate adaptation plans, carbon removals and the use of carbon credits.
- it would be good to understand the relationship between upstream and downstream relative to an organisation's boundary for reporting and its value chain.

GRI has a memorandum of understanding (MOU) with the IFRS Foundation to coordinate work programmes and standard-setting activities in order to help reduce the reporting burden for organisations and to further harmonise the sustainability reporting landscape at an international level[1]. It would also be helpful to understand how the GRI might seek to work closely with the International Sustainability Standards Board (ISSB) and the potential role that the Sustainability Innovation Lab could play to enhance and align both the IFRS Sustainability Disclosure Standards and the GRI Standards, such that reporting organisations will eventually only need to prepare one set of climate-related disclosures.

Reflecting trade-offs across the short-, medium- and long-term or subject to specific conditions

If not wholly addressed in the universal standards, we recommend that consideration should be given in both the Climate Change and Energy EDs as to how trade-offs over time periods or subject to specific conditions are reflected across the reporting requirements.

[1] IFRS Foundation (2022), 'IFRS Foundation and GRI to align capital market and multi-stakeholder standards to create an interconnected approach for sustainability disclosures' [online article], accessed 26 February 2024.

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Reconsider the extent to which reporting interacts with strategic decisions

The current drafting of CC-1 (b) infers that the organisation's transition plan should be prepared in line with the 1.5º C target. We are concerned that this potentially extends the scope of the GRI Standards into matters of international and national detailed policy-setting and organisation strategic management as opposed to the related principles in support of sustainable energy consumption and climate action. Further, national targets and requirements for transition plans are likely to evolve or differ considerably between jurisdictions and an organisation may alter its targets, for example to accommodate climate change strategy alongside other sustainability-related risks and opportunities for a just transition.We recommend that the proposed requirement in CC-1 of the Climate Change ED is amended to require an organisation to describe the basis for their transition plan, instead of specifying a basis of 1.5° C.

Similarly, the proposed requirement in CC-1(f)(ii) of the Climate Change ED as currently drafted infers that an organisation's transition plan should include targets to phase out fossil fuels. The standards should be pragmatic in recognising that organisations in certain sectors may need to continue to use fossil fuels due to the lack of viable alternatives. For example, shipping organisations that need to move large amounts of cargo across the oceans and manufacturers of plastic-based products.

We recommend that CC-1(f)(ii) is amended to require an organisation to report whether it has plans to phase out fossil fuels and, if so, the associated targets. This way, organisations that have not established any such plans can say so and would not be required to disclose any targets.

We consider principles-based requirements to disclose transition plans to reduce and remove GHG emissions to be the preferred approach for standards which will have global application.

Consider the impact of innovation on the currency of reporting requirements

Scientific and technological innovations to enable sustainable business are likely to lead to new business models, for example those being proposed for road infrastructure repairs[2]. We recommend the Energy ED more explicitly calls out such innovation in the area of circular and regeneration, which we consider will extend beyond the reference in lines 198 to 219 of the Energy ED made to investment allocation in energy efficiency and renewable energy, and the definitions in lines 570 to 574.

[2] BBC Science Focus Magazine (2024), 'How bacteria and self-healing roads could soon fix the UK's 750,000 potholes', accessed 26 February 2024.

Separating mandatory and voluntary disclosure requirements

While the proposals in the two EDs seem sensible, we urge the Global Sustainability Standards Board (GSSB) to diligently consider the cost/benefit of making all the proposed disclosures mandatory.

Separating the mandatory (must-haves) from voluntary (good-to-haves) disclosures within the standards will make it easier for national regulators and/or standard-setters to adopt the standards should they wish. This would then minimise the need for jurisdictional level modifications to the standards which may risk causing diversity in practice across different jurisdictions and impair international comparability.

Further, this approach will also aid proportionality and scalability of the standards for application to a wider range of entities at differing levels of maturity, improving voluntary adoption of the Standards overall.

Besides, in our opinion the standards should allow organisations to determine which information will be material for disclosure to their stakeholders and provide guidance to assist organisations in making this determination.

Reassess the granularity of mandatory disclosures and consider granting undue cost or effort exemptions

Further to our earlier comments on giving consideration to whether the disclosures should all be mandatory, we note that some of the proposed disclosures in both the Climate Change ED and Energy ED require very granular information that may serve niche groups of users, rather than the majority of primary users. For example, the disclosure of biogenic CO_2 and non-CO_2, breakdown of GHG emissions for Scope 1, 2 and 3, breakdown of gross emissions for each of the 15 categories in Scope 3.

Both EDs require organisations to obtain granular information from suppliers and customers in their value chain. For the Energy ED, obtaining the granular information indicated would probably require the use of activity-based energy costing. The reporting organisation would also need to do the same when reporting to its customers.

On the one hand, granular information from the value chain and the rigour to obtain it may help to prevent organisations from misrepresenting their true consumption of energy and GHG emissions, for example by outsourcing those energy-intensive and emissions-intensive activities to another organisation. On the other hand, the resources that would need to be spent on obtaining the information required to report in line with these EDs could end up making reporting the centre piece of an organisation's activities.

Further, the ability of an organisation to obtain such detailed information from other organisations within their value chain needs to be considered. We are particularly concerned that the cost of providing such granular information may be disproportionately prohibitive for smaller organisations.

Further, even if a small organisation is not disclosing such granular information in their own reports, they may be asked to provide that information to their customers or suppliers. If providing this information is cost-prohibitive, that could affect their ability to trade with larger organisations requesting such information.

We recommend exemptions be granted when the collection and disclosure of such information would involve undue cost or effort, such that the cost of providing such granular information would outweigh the benefits. The assessment of what constitutes undue cost or effort should depend on the organisation's specific circumstances and that assessment may change over time as circumstances change.

When coupled with our comment on separating mandatory and voluntary disclosure requirements, organisations that are able to provide granular information can do so voluntarily.

Putting disclosures into context

We support the proposed disclosure of intensity in both EDs that would help primary users contextualise the organisation's GHG emissions and energy consumption, and thus gauge the effectiveness and efficiency of the organisation's strategy to manage its GHG emissions and energy consumption. We also support giving organisations the liberty to select the denominators that most appropriately reflect its activities.

Encouraging adoption through interventions such as transition arrangements, education, and engagement

Many organisations will be transitioning to new mandatory sustainability reporting requirements in their jurisdictions that are either based on the IFRS Sustainability Disclosure Standards or the European Sustainability Reporting Standards (ESRS), towards which resources are likely be prioritised. The reporting requirements proposed in the EDs, especially given their granularity, are likely to result in considerable additional reporting burden. We consider that the current corporate reporting landscape may negatively impact the voluntary adoption of these GRI requirements and indeed, the GRI standards more generally. Therefore, consideration should be given to mechanisms to encourage adoption which include those listed in the subheading and our earlier comments on voluntary disclosures and exemptions.

Supporting access to and reliability of data to meet requirements

In alleviating the cost and effort for reporting and enhancing the integrity of reporting, it would be good to understand the work of GRI to help build capacity in data collection and sharing.

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Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 136,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Find out more at www.charteredaccountantsanz.com

About ACCA

ACCA (the Association of Chartered Certified Accountants) is a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over 247,000 members and 526,000 future members in 181 countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all. Find out more at: www.accaglobal.com