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Australian Accounting Standards Board
Via [online portal](#)

Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide feedback to the Australian Accounting Standards Board (AASB)'s Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information Exposure Draft (ED SR1).

We support the AASB's efforts to develop Australian Sustainability Reporting Standards (ASRS) and appreciate the challenge of meeting the Government's accelerated timeframe. We however have a number of significant concerns which are outlined below.

International Alignment

We have significant concerns about the deviation of ASRS, as presented in ED SR1, from the International Sustainability Standards Board (ISSB) Standards *IFRS S1 General requirements for disclosure of sustainability-related financial information* (IFRS S1) and *IFRS S2 Climate-related disclosures* (IFRS S2) (together the IFRS Sustainability Disclosure Standards). The AASB has assumed the IFRS Sustainability Disclosure Standards present a suitable foundation for developing ASRS and indicate the prioritisation of international alignment in *the [AASB Sustainability Reporting Standard-Setting Framework](#)* (the AASB Framework).

In our opinion, the ASRS's deviation from the IFRS Sustainability Disclosure Standards has the potential to increase disclosure obligations for international companies, negatively impact Australia's place in global capital markets, undermine the credibility of Australian sustainability reporting as part of the global reporting ecosystem and reverse the significant global developments undertaken (to date) to reduce fragmentation of sustainability reporting. These align with the basis for international alignment within paragraph 12 of the AASB Framework, which also notes that it would facilitate the movement of professional across sectors and borders and help ensure the costs of complying with ASRS do not outweigh their benefits.

Our members have drawn a comparison between the drafting of ED SR1 and the adoption of Australian equivalents of International Financial Reporting Standards (AIFRS) in 2005. They recall the period between 2005 and 2007 where Australian entities faced increased difficulty in raising overseas capital and higher reporting burden for international companies as financial reporting in Australia was not aligned with International Financial Reporting Standards (IFRS).

We strongly advocate for the prioritisation of international alignment of *[draft] ASRS 1 General requirements for Disclosure of Climate-related Financial Information (ASRS 1)* to IFRS S1 and *[draft] ASRS 2 Climate-related financial disclosures (ASRS 2)* to IFRS S2.

AASB – independent standard setting board

The AASB's mission is to develop and maintain high-quality financial reporting standards for all sectors of the Australian economy. We also note that one of the major standard-setting objectives of the AASB is to promote globally consistent application and interpretations of accounting standards. The AASB, under s227(1)(ca) of the *Australian Securities and Investment Commission Act 2001* (ASIC Act) now has the function to 'formulate sustainability standards'. Therefore, the AASB is already able to issue sustainability standards beyond the climate-related disclosures standards that are expected to be mandated via legislation.

We understand that Treasury has indicated that the AASB will start with a climate focus for reporting standards, however Government has also indicated, in its sustainable finance strategy, that sustainability-related financial disclosures will develop into other sustainability themed reporting such as nature, water and human rights (i.e. climate first, not climate only).

We encourage the AASB, as an independent standard setting board, to issue ASRS 1 with the broader sustainability-related financial disclosures perspective contained within IFRS S1. This would support greater international alignment and future proof sustainability-related reporting in Australia. Paragraph E5 in IFRS S1 provides transitional arrangements for the application of IFRS S1 to only climate-related risks and opportunities for the first year of reporting. We suggest that this could be leveraged by the AASB to give the mandatory climate-only application expected to be required by the legislation.

Capacity Building

A gap exists between Government's expectations of capacity and the reality within the Australian (and international) markets to support quality climate-related disclosures. In particular, the availability of the skills and resources that have the necessary depth of understanding of physical and transitional climate-related risks. Both the ASRS and IFRS Sustainability Disclosure Standards reference 'appropriate skills and competencies' and 'skills, capabilities and resources' for the preparation of disclosures and other quantitative and qualitative information however, there has been no indication on how or if any of this capacity building will be supported by Government. In Treasury's *Sustainable Finance Strategy*, capacity building, including education, guidance or resources, has been considered, however it is unclear how this will be translated into practice. We are particularly concerned with the capacity gap for reporting entities within the 'Group 2 and 3' cohorts, who do not have access to the same resources as Group 1 entities.

We strongly believe that Government and the AASB have a significant role to play in capacity building and should prioritise understanding in physical and transitional climate risks and the measurement of greenhouse gas (GHG) emissions, within Australia.

Additional key points:

- We are concerned about the adverse cost to benefit ratio for many "Group 3" reporting entities and their users of climate-related disclosures. We recommend a simplified disclosure regime be considered for smaller, unlisted entities to be developed by the AASB, with the AUASB being responsible for the audit and assurance thereof.
- Further clarification is required for terms used within the ASRS, such as 'not an exhaustive search' and 'to the extent practicable'.
- Modifications to industry based metric requirements have resulted in voluntary disclosures which is a significant deviation from the IFRS Sustainability Disclosure Standards. We recommend a transition measure with mandatory industry metric requirements from 1 July 2030.
- We recommend AASB adopts 'framework neutral' references to industry based metric disclosures and do not consider references to The Australian and New Zealand Standard Industrial Classification (ANZSIC) appropriate.
- Whilst we understand the preference for NGERs aligned emissions measurement, we recommend entities should be provided with flexibility to determine the most appropriate GHG emission measurement methodologies for their users, enabling international alignment where relevant.

If you have any questions about our submission, please contact Karen McWilliams (CA ANZ) at karen.mcwilliams@charteredaccountantsanz.com or Patrick Viljoen (CPA Australia) at patrick.viljoen@cpaaustralia.com.au.

Sincerely,

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Attachment

Simplified Disclosure Regime

We strongly advocate for a simplified disclosure regime for unlisted reporting entities within the 'Group 3' cohort, as defined by Treasury's policy position statement. As noted in Treasury's policy impact analysis, Treasury estimates that only 5% of Group 3 reporting entities will have material climate risks and opportunities. In our joint submission to Treasury's consultation, we have questioned the rationale of mandating full climate disclosures for this group if it is anticipated that the climate-related risks and opportunities for 95% of the Group 3 population will be immaterial.

The general application of climate-related disclosures for unlisted Group 3 entities is not commensurate with the needs of users and the climate risks and opportunities of these entities. Owners of unlisted Group 3 entities have other mechanisms to access information and therefore we do not consider that the same level of general-purpose reporting is necessary compared to investors of listed companies. Proportionality for reporting needs to be considered as there is a high risk that mandating full climate-related disclosures for Group 3 entities may result in poor disclosure which in turn could hinder trust and confidence in the disclosures more broadly.

Further, the IFRS Sustainability Disclosure Standards have been developed with an investor audience in mind and therefore amendments to the disclosure requirements for unlisted entities are appropriate to ensure relevance. For example, simplified disclosure requirements could be considered in areas such as scope 3 GHG emissions, forward looking financial impacts and scenario analysis as these disclosures are the most complex and resource intensive and yet are less likely to be decision useful for the users of the general-purpose financial reporting of unlisted Group 3 reporting entities.

In identifying appropriate disclosure exemptions, we recommend the AASB considers developments in both the European Union (EU) and Malaysia, where voluntary simplified sustainability disclosures are proposed. Although both jurisdictions have a broader suite of sustainability reporting than Australia, these jurisdictions are examples of how the reporting ecosystem is being scaled for smaller entities. The frameworks in both jurisdictions allow an entity to determine the users and the appropriate level of useful information within their disclosures. For example, the European Financial Reporting Advisory Group (EFRAG) has considered three 'buckets of modules' for reporting - Basic module, Narrative-PAT (Policies, Actions and Objectives) and Business partners. The level of detail within these will differ based on the target users of disclosures from these entities. For example, for entities reporting on GHG emissions, basic module reporters have the option to identify significant scope 3 GHG emissions categories against the most relevant category of the 15 types of Scope 3 GHG emissions identified by the GHG Protocol Corporate Standard and detailed by the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard i.e.,

there is no requirement to disclose under all categories¹. In comparison, the simplified ESG Disclosures through Capital Markets Malaysia² divides disclosures into basic, intermediate and advanced to cater for the different levels of sustainability maturity within each company and only requires the disclosure of scope 3 emissions for advanced reporters.

Responses to the questions

Presenting the core content of IFRS S1 in [draft] ASRS Standards

1. In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:

- (a) Option 1 – one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgements, uncertainties and errors (i.e. all relevant requirements other than those relating to the core content that are exactly the same as the requirements in IFRS S2) within an Australian equivalent of IFRS S2;
- (b) Option 2 – two ASRS Standards where the same requirements in respect to disclosures of governance, strategy and risk management would be included in both Standards;
- (c) Option 3 – two ASRS Standards, by including in [draft] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [draft] ASRS 2, replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding paragraphs in [draft] ASRS 1 (which is the option adopted by the AASB in developing the [draft] ASRS 1 and [draft] ASRS 2 in this Exposure Draft); or
- (d) another presentation approach (please provide details of that presentation method)? Please provide reasons to support your view.

We prefer option 2.

The Government, as indicated in its *Sustainable Finance Strategy*, has committed to introduce internationally aligned mandatory climate-related financial reporting for large businesses and financial institutions. However, it is important to note that climate is only the first of a range of sustainability-related considerations, as evidenced by the mention of nature, water and other considerations with the Government's Strategy. Principle 19, Strategic International Influence from the [AASB due process framework for setting Australian Sustainability Reporting Standards \(AASB's due process framework\)](#) 'is designed to support the alignment of

¹ [Voluntary ESRS for non-listed small and medium-sized enterprises \(VSME ESRS\) January 2024](#)

² [Simplified ESG Disclosure Guide \(SEDG\) for SMEs](#)

sustainability reporting standards across jurisdictions on the basis that, to the extent feasible, international convergence is needed to minimise the costs and maximise the benefits of sustainability reporting, particularly for preparers, users and other stakeholders operating internationally.'

However, the approach taken by the AASB, proposing modifications to focus on climate only in ASRS 1, significantly deviates from IFRS S1 meaning ASRS 1 is no longer internationally aligned. We are concerned that the removal of references to 'sustainability' in ASRS 1 narrows the standard's scope, when compared to IFRS S1, and does not provide sufficient flexibility for future reporting in thematic areas such as nature and biodiversity as indicated in Treasury's *Sustainable Finance Strategy*. It also marginalises IFRS S1's purpose to provide a comprehensive baseline for sustainability-related considerations. Further, option 3, which has been adopted by the AASB in developing the ASRS, deviates from the IFRS Sustainability Disclosure standards and will result in difficulties to access capital and resources for international reporters.

Option 1, which combines the relevant contents of IFRS S1 and S2 into an Australian equivalent IFRS S2 will require the AASB to design separate reporting standards for future sustainability thematic areas. This will create an excessive reporting burden for entities, particularly those that will need to comply with reporting obligations internationally under IFRS Sustainability Disclosure Standards. It would furthermore also deprive those reporting entities, who may not have material climate-related risks and opportunities, but may have other material sustainability-related considerations, from a reporting standard, and would require dependence on IFRS S1 in the absence of an Australian specific alternative.

Therefore, we consider option 2 to be the preferred option. As already indicated, alignment with international standards is critical. We also consider it important that ASRS 1 has the flexibility and scope to be broadened to wider sustainability reporting in the future without significant amendments. In our opinion, ASRS 1 will not minimise the costs and maximise the benefits of sustainability reporting and has a narrow focus on climate-related financial information only.

Further, in the approach to drafting the current ASRS 1, the AASB has taken the unusual step of deleting entire paragraphs from the international standard and replacing them with new Australian specific paragraphs that combine the requirements for for-profit and not-for-profit (NFP) entities. However, we note that the AASB, when considering the Australian applicability of IFRS accounting standards, does not modify the standards to ensure international alignment of the standards. Instead, we note the AASB add Australian specific additional disclosures and considerations for an Australian sector-neutral context to the standards or develop Australian specific standards. For example, Australian specific paragraph Aus9.1 has

been added to the measurement of inventory section for a not-for-profit entity within the *AASB 102 Inventories* standard. This drafting approach enables Australian companies to meet international requirements under IFRS, whilst providing a sector neutral standard applicable for NFPs. We strongly recommend that this same approach should be taken for ASRS.

Replacing duplicated content with references to the Conceptual Framework

2. *Do you agree with the AASB's approach to make references to its Conceptual Framework for Financial Reporting (in respect to for-profit entities) and the Framework for the Preparation and Presentation of Financial Statements (in respect to not-for-profit entities) instead of duplicating definitions and contents of those Frameworks in [draft] ASRS 1 and [draft] ASRS 2? Please provide reasons to support your view.*

No, we do not agree with the approach taken. As noted in BC3(c) of the ED, Australian stakeholders have indicated that international alignment should be prioritised. Referencing to the Conceptual Framework, instead of including those definitions and contents within ASRS 1 and ASRS 2, will unnecessarily deviate from the international standards.

The application of the Conceptual Framework for Financial Reporting (in respect to for-profit entities) and the Framework for the Preparation and Presentation of Financial Statements (in respect to NFP entities) are voluntary. We understand this raises concerns in relation to the application of definitions and contents from these frameworks for mandatory climate-related financial disclosures. However, feedback from our members indicates international alignment to be a priority and therefore we support the retention of definitions and concepts from the Conceptual Frameworks within ASRS 1 and ASRS 2 as the most logical pathway to achieve this.

In addition, non-accountants, who would be unfamiliar with the Conceptual Framework, may be involved in the preparation of ASRS disclosures. Therefore, the relevant definitions and contents from the Conceptual Frameworks should be retained within ASRS 1 and ASRS 2 to simplify the navigation across standards and frameworks.

Entities that do not have material climate-related risks and opportunities

3. *Do you agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2? Please provide reasons to support your view.*

We partially agree with the proposed requirements that if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general-purpose financial reports.

We surmise that an entity would need to have appropriate governance arrangements and undertake a risk identification assessment to determine whether material climate-related risks and opportunities exist. We note the proposed requirements in ASRS 1 paragraph Aus6.2 and ASRS 2 paragraph Aus4.2 simply state that an entity 'shall disclose that fact (that there are no material climate-related risks and opportunities) and explain how it came to that conclusion' without the need to comply with risk and governance disclosures.

We recommend an entity, at minimum, also be required to comply with the governance and risk disclosures in order to provide a sufficient basis for the determination that there are no material climate-related risks and opportunities in its general-purpose financial reports. The disclosure of these procedures will be important for users to understand the rationale behind the final conclusion, which will assist in their investment decisions.

The AASB will need to provide further guidance to illustrate disclosures to support entities' statements that they have no material climate-related risks or opportunities. Guidance around how an entity should determine material climate-related risks and opportunities will also be critical to underpin the implementation of the standards.

4. *Do you agree with the AASB's views noted in paragraphs BC39–BC41? Please provide reasons to support your view.*

No, we do not agree with the AASB's views.

Treasury's policy position statement (which accompanied the draft legislation consultation) indicated that it expects mandatory industry-based metrics will apply from 1 July 2030. We acknowledge the AASB's views noted in paragraphs BC39-BC41 and understand the decision to remove references (within ASRS 1 and 2) to SASB and Industry-based Guidance on Implementing IFRS S2. We understand that the AASB will need to carry out further work to consider SASB and industry-based guidance on implementing IFRS S2 and its applicability to ASRS. Given the guidance contains sixty eight volumes, we acknowledge that there is insufficient time to consider as a part of this consultation.

However, in order to meet investor expectations, entities will need to consider appropriate industry-based metrics applicable to an Australian context and the modifications proposed in ASRS 1 and 2 remove this obligation. I.e., word modifications made to support the AASB's views from 'shall' (in IFRS S1 and S2) to 'may' (ASRS 1 and 2) has changed industry based metric requirements to optional (refer to table 1 in Appendix). We consider this to be a significant deviation from the IFRS Sustainability Disclosure Standards. In addition, we note that IFRS S1 and S2 only requires an entity to 'consider' SASB but does not mandate the application. We further note that the requirement to 'consider' in IFRS S1 and S2 was a departure from the original draft put forward by the ISSB, which effectively removes the requirement by the AASB to make an amendment.

ASRS 1 and 2 will need sufficient flexibility to adapt to evolving industry-based metrics and disclosure frameworks which can be applied in Australia. We recommend the AASB adopts 'framework neutral' references to industry based metric disclosures in line with *Aotearoa New Zealand Climate Standard 1 - Climate-related Disclosures NZ CS 1*) para 21 'To achieve the disclosure objective in paragraph 20, an entity must disclose (b) industry-based metrics relevant to its industry or business model used to measure and manage climate-related risks and opportunities'.

In order to provide sufficient time to enable appropriate guidance to be developed, we recommend this be included as a transitional measure, only becoming mandatory from 1 July 2030, but retaining alignment to the IFRS Sustainability Disclosure Standards. In addition, Australian specific metrics should be considered when guidance is developed such as engagement with First Nations people.

Given investor demand, we expect listed entities will be expected to disclose industry metrics prior to this date and therefore will seek guidance to aid these disclosures. Whilst we understand the basis for not issuing SASB metrics as part of the ASRS, we encourage their use as guidance to help entities determine appropriate metrics.

5. *Do you agree with the AASB's view that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC? Please provide reasons to support your view.*

No, we do not agree with the AASB's view that an entity should consider metrics classified in line with ANZSIC.

As noted in our response to question 5, we support the requirement for an entity to consider the applicability of well-established and understood industry-based metrics. Entities should be provided with the flexibility to determine which metrics are most appropriate for the users of their disclosures and relevant industry as noted in paragraph 48 of IFRS S1 '*Metrics disclosed by an entity applying paragraphs 45–46 shall include metrics associated with particular business models, activities or other common features that characterise participation in an industry.*'

The reference to a specific industry classification, ANZSIC, within ASRS is an unnecessary deviation from the ISSB standards. We do not support the reference to ANZSIC as it limits the applicability of the industry metrics to Australia and New Zealand. We also consider ANZSIC to be inappropriate as there are no industry metrics aligned with this industry classification. Members have also expressed their frustration in working to ANZSIC industry codes as they are constantly changing, proving difficult for consistent and comparable industry classifications.

In comparison, IFRS S2 paragraph 32 does not refer to any specific industry code classification but does refer to accompanying guidance (*Industry-based Guidance on Implementing IFRS S2*) which can be more easily updated as industry-based information matures. The AASB will need to provide guidance which should point to available, well established and understood industry-based metrics, irrespective of jurisdiction, to provide preparers with the full landscape of options for disclosure to allow the entity to decide which is most appropriate for their users. We also note that as reporting matures, there may be a natural gravitation toward a particular set of metrics by industry participants as they establish best practice.

The AASB should refer to both the Global Industry Classification Standards (GICS), used by the Australian Securities Exchange (ASX) and other capital markets and ANZIC codes in accompanying guidance, not the standards themselves.

6. *Do you consider that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards)? Entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures. Please provide reasons to support your view.*

Yes, the ASRS should permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements such as IFRS S1 and SASB. This will provide flexibility and support international reporters to align to both domestic and international reporting requirements.

However, we note that this may result in a need for these reporters to provide reconciliations if disclosures are different. Overall, we consider flexibility and international alignment are critical to avoid unnecessary duplicative reporting requirements.

In addition, voluntary disclosures will also allow entities, where climate is not the most material risk, to disclose other sustainability-related financial risks and opportunities relevant to their entity as enabled under IFRS S1. However, we agree that such disclosures should not conflict or obscure any mandatory disclosures.

Disclosing the location of the entity's climate-related financial disclosures

7. *Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 to [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures. Do you agree with that proposed requirement? Please provide reasons to support your view.*

We agree with the proposed requirement to allow an entity to apply judgment in providing information in a manner most appropriate for users to locate climate-related financial disclosures.

As a part of our member outreach activities, it was apparent that there may be different ways in which entities disclose their annual information. Some members expressed concern that adding a fourth report (as proposed by Treasury) will substantially increase an entity's annual reporting package and have questioned its additional value. Others have highlighted the importance of integrating climate-related disclosures within existing reports, specifically the Operating and Financial Review (OFR) to have real value to users.

Many have stressed the importance of enabling the cross referencing of information and connectivity of statements through a summary/highlights index or table. This feedback supports the proposal to enable entities to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures.

Interim reporting

8. *Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.*

Yes, we agree with the proposed omission of option requirements on interim reporting.

Scope of [draft] ASRS 2

9. *Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard? Please provide reasons to support your view.*

Yes, we agree with the inclusion of para Aus3.1 to clarify the scope of the draft to clarify that other climate-related emissions, such as ozone depleting emissions that are not GHG emissions, are outside the scope of ASRS 2.

Climate resilience

10. *Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view.*

Yes, we agree with the proposal in [draft] ASRS 2 paragraph Aus22.1, which requires climate resilience assessments against at least two relevant possible future states with one consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022* of 1.5°C above pre-industrial levels.

We consider the requirement to undertake two scenarios to be appropriate. However, we have received mixed feedback in relation to the nature of the second scenario. We note that stakeholders may not have similar risk exposures to either physical or transition risks, in part due to their business models and operations. Requiring the second scenario to be based on a higher temperature assumption may be useful in the case of physical risk assessment but of limited use for transition risk.

The AASB will need to provide guidance to assist reporting entities to determine the most appropriate climate resilience assessments in relation to the reporting entities risk exposure. This may also include considerations for when a third scenario may be appropriate to meet investor's needs.

11. Do you agree with the AASB's view that it should not specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis? Please provide reasons to support your view.

Yes, the AASB should not specify the upper-temperature scenario.

This will enable judgement and flexibility for entities that need to align their reporting with other jurisdictions without the need to assess additional scenarios for Australian reporting. This will also enable the entities to determine which specific scenario is most appropriate to assess the climate resilience of their business model and strategy.

Cross-industry metrics and disclosures

12. Do you consider the cross-industry metric disclosures set out in paragraphs 29(b)–29(g) of IFRS S2 (and [draft] ASRS 2) would provide useful information to users about an entity's performance in relation to its climate-related risks and opportunities? Please provide reasons to support your view.

Yes, we consider cross-industry metric disclosures will provide useful information to users and also enable international comparability and alignment.

However, we note minor amendments to duplicated paragraphs which result in misalignment with IFRS S2 in relation to cross-industry metric disclosures. We have expanded on this further in our response to question 17 below.

Cross-industry remuneration disclosure

13. Do you agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose the information described in points (a) and (b) in the above box? In your opinion, will this requirement result in information useful to users? Please provide reasons to support your view.

We agree with the proposed requirements in ASRS 2 paragraphs 29(g) and Aus29.1.

As clearly stated earlier, we support international alignment and therefore the remuneration disclosure requirements as drafted which align with IFRS S2. We support the addition of paragraph Aus29.1 to bring key definitions in line with existing Australian regulatory requirements.

However, as part of our outreach activities, we have received mixed feedback in relation to the remuneration disclosures in paragraph 29(g), which outline a description of climate-related considerations factored into executive remuneration and a percentage of remuneration recognised during the current period.

Whilst some entities do not have a problem with disclosing the description of whether and how climate-related considerations are factored into executive remuneration, others have challenged the requirement to disclose the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations as there are concerns that climate-related considerations are often medium to long term in nature and current period recognition will not be accurate.

Additionally, members have expressed concerns about the difficulty to practically apply this disclosure requirement and have called for further clarification on what will be required. The AASB will need to provide practical guidance to illustrate how entities are able to determine how to apply this disclosure requirement.

As an example, we foresee potential complications in the reporting and cross-referencing of executive remuneration that is reported in the broader General Purpose Financial Reporting of the entity and where the overall pay-at-risk component is shown as a lump sum. If a proportion of that pay-at-risk component is linked specifically to climate-related risks, this would then need to be separately indicated and appropriately cross-referenced to the entity's climate-related reporting.

Definition of greenhouse gases

14. Do you agree with the AASB's proposal to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification? Please provide reasons to support your view.

Yes, we support the definition of greenhouse gas to be incorporated without modification from IFRS S2 into ASRS 2. This will provide international alignment for entities that may be involved in overseas manufacturing process of nitrogen trifluoride. It is important to note that NGER is only focused on Australian based emissions and these disclosures will include international emissions.

Converting greenhouse gases into a CO2 equivalent value

15. Do you agree with the AASB's view that an Australian entity should be required to convert greenhouse gases using GWP values in line with the reporting requirements under NGER Scheme legislation? Please provide reasons to support your view.

Yes, we agree with the use of GWP values in line with IPCC Assessment Report 5 (AR5), which is aligned with NGER Scheme and the Paris Agreement. In comparison IFRS S2 points to the latest IPCC report, which would be the recently released AR6.

However, there are some concerns from entities with international stakeholders, who would like the option to use AR6 but we note the challenges this might create with comparability. We understand that NGERs GWP are updated on a regular basis in line with the IPCC Assessment Reports.

Market-based Scope 2 GHG emissions

16. Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2? Please provide reasons to support your view.

We agree with the proposal set out in ASRS 2 paragraphs Aus31.1(f) and AusC4.2 for an exemption of market-based scope 2 GHG emission disclosures for the first three annual reporting periods. This is broadly aligned with Treasury's policy position statement, that market-based scope 2 emissions should be disclosed if required under the NGER legislation and no later than financial years commencing on or after 1 July 2027.

GHG emission measurement methodologies

17. Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view.

We do not agree with the proposed paragraphs Aus31.1(b) and AusB25.1 in ASRS 2, which require entities to measure their GHG emissions by applying relevant methodologies set out in National Greenhouse and Energy Reporting Act 2007 and related regulations (NGER Scheme legislation) to the extent practicable. These proposals deviate from the IFRS Sustainability Disclosure Standards, which require use of the Greenhouse Gas Protocol (GHG Protocol).

Whilst we are supportive of existing NGER registered entities applying NGERs methodology, we note that all entities would need to use the GHG Protocol for emissions outside of Australia and scope 3 GHG emissions. Further, Australian scope 1 and 2 GHG emissions information reported under NGERs is for a specific reporting period, which may not align to an entity's financial year. Likewise, it is based on operational control and

activities and so the reporting boundaries may differ to the reporting entity for General Purpose Financial Reporting.

For entities not currently reporting in line with the NGER Act, we are concerned that this represents a significant additional and unnecessary cost burden, especially considering the National Greenhouse and Energy Reporting (Measurement) Determination 2008 (the Determination) would only apply to scope 1 and 2 GHG emissions within Australia and it alone is a 494-page document. Additionally, some of these entities are already measuring their GHG emissions in line with the GHG Protocol and may have science-based targets in place and so would need to duplicate their GHG emissions measurement. We also note that many carbon accounting tools and software leverage the GHG Protocol.

We recommend ASRS 2 provides flexibility to allow reporting entities that are not also NGER registered entities to report under the entity's choice of the GHG Protocol methodology or the methodologies included in the Determination.

However, we are very supportive of the AASB requiring the use of the GHG emissions factors and other data points within the Determination or the relevant National Greenhouse Accounts Factors publication for Australian-based emissions. The GHG Protocol already included a hierarchy of sources for GHG emissions data, which would point the entity to NGERS where applicable. We also note that providers of GHG emission platforms and software already include GWP factors linked to NGERS as part of their assumptions, and therefore market precedent for this already exists.

In addition, we note in both paragraphs Aus31.1(b) and AusB25.1 the inclusion of 'to the extent practicable' and it is unclear what this requirement would entail or how an entity would demonstrate this in practice. We seek further clarity in relation to this requirement.

We have also heard feedback that reporting entities would benefit from guidance in the form of a simplified decision tree to assist them in determining the appropriate framework and methodology for their GHG emissions disclosures.

Providing relief relating to Scope 3 GHG emissions

18. Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2? Please provide reasons to support your view.

We do not support the proposal in paragraph AusB39.1, which provides entities relief by allowing the disclosure of its scope 3 GHG emissions to be based on data for the immediately preceding reporting period and consider this an unnecessary deviation from the IFRS Sustainability Disclosure Standards.

The proposal drafting is confusing, especially when read alongside B19 and does not include specific details that are required under ASRS S2 paragraph B19 such as (b) the

length of the reporting period is the same and (c) the entity discloses the effects of significant events and changes in circumstances.

It appears the proposal has been included as a reflection of the maturity of scope 3 GHG emissions data rather than an Australian specific issue. We recommend this proposal is revisited by the AASB to instead consider its application for a limited transitional period to allow for scope 3 GHG emissions data in Australia to mature, rather than a permanent modification to the IFRS Sustainability Disclosure Standards.

Scope 3 GHG emission categories

19. *Do you agree with the AASB's approach in [draft] ASRS 2 paragraph AusB33.1 to include the Scope 3 GHG emission categories in IFRS S2 as examples of categories that an entity could consider when disclosing the sources of its Scope 3 GHG emissions, rather than requiring an entity to categorise the sources of emissions in accordance with the categories of the GHG Protocol Standards? Please provide reasons to support your view.*

No, we do not agree with the AASB's approach in ASRS 2 paragraph AusB33.1 to include the scope 3 GHG emissions categories in IFRS S2 as examples rather than requiring an entity to categorise the sources of emissions in accordance with the GHG Protocol Standards. We see this as an unnecessary deviation from the IFRS Sustainability Disclosure Standards and hence international alignment, which does not meet the requirements in paragraph 16 of the AASB Sustainability Reporting Standard-Setting Framework for an Australian-specific amendment.

Financed emissions

20. *Do you agree with the AASB's proposal to require an entity to consider the applicability of those disclosures related to its financed emissions, as set out in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information? Please provide reasons to support your view.*

We do not agree with the AASB's proposal for an entity to **consider** the requirements of financed emissions instead of **requiring an entity to** disclose them.

We understand that currently there are no 'financed emissions' methodologies internationally or in Australia, however in our opinion this amendment results in an unnecessary deviation from the IFRS Sustainability Disclosure Standards.

Instead, we recommend the AASB defer the application of the requirement to ensure international alignment is maintained whilst allowing time for the methodologies and guidance to be developed to support disclosure of financed emissions. We recommend that such methodologies and guidance be developed in conjunction with industry and

aligned with international methodologies such as those developed through the Partnership for Carbon Accounting Financials (PCAF).

Superannuation entities

21. *In your opinion, are there circumstances specific to superannuation entities that would cause challenges for superannuation entities to comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2? If so, please provide details of those circumstances and why they would lead to superannuation entities being unable to comply with the proposed requirements or else able to comply only with undue cost or effort.*

We do not consider that there would be circumstances that would lead superannuation entities to not comply with the AASB's sector neutral standard. Treasury have indicated their position that unlisted and NFP entities within Group 3 to provide climate-related financial disclosures in line with ASRS irrespective that the users of their financial reports are not necessarily investors.

Superannuation entities, like all others captured within these reporting requirements, should be required to carry out an assessment of climate-related risks and opportunities and disclose this information.

We encourage the AASB to further collaborate with the superannuation industry to determine appropriate guidance and education for the sector on the application of ASRS.

Carbon credits

22. *Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2? Please provide reasons to support your view.*

Yes, we support the modification to the definition of carbon credits to specify that carbon credits issued under the Australian Carbon Credits Unit Scheme (i.e. non-Kyoto Australian Carbon Credit Units (ACCUs)) can also be recognised as carbon credits in the context of the standard.

We highlight that there may be a need for Government to consider a similar carbon credit registry and tracking system for non-Kyoto ACCUs to provide market confidence if reporting entities are using carbon credits as a part of their emissions disclosures.

Questions specific to not-for-profit entities

23. Do you agree with paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 that the objective of a not-for-profit entity would be to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term? Please provide reasons to support your view.

As outlined in our response to question 1 above, we do not support the drafting approach that has been taken to include specific requirements for NFPs within the same paragraphs as for profit entities.

Notwithstanding our concerns with the drafting approach, we agree with the modified objective for a NFP entity to include climate-related risks and opportunities that affect the entity's ability to further its objectives.

24. Is there additional guidance that you consider would be helpful in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures? If so, please provide details of that guidance and explain why you think it would be helpful.

Our members have expressed the need for guidance to support reporting entities, particularly smaller and NFP entities, on how to get started with climate-related disclosures and in complex areas, such as transition planning and scenario analysis.

We propose that sector neutral 'how to start' guidance is developed for all reporters, with consideration given to the resource availability for entities within different sectors and of various sizes. This guidance could be shared through industry bodies and associations, including those that support the NFP sector. The AASB should also engage with the NFP sector to undertake a needs analysis to develop sector specific guidance for NFP entities.

25. Do you agree with the proposal in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1? Please provide reasons to support your view.

We do not agree with this proposal.

Whilst we understand the basis for the inclusion of the proposal in ASRS 1 paragraph Aus6.1 and ASRS 2 paragraph Aus4.1 to reduce the burden on NFPs, we are concerned with what 'not an exhaustive search' would entail and the AASB should provide further clarity and guidance. We also question if this inclusion provides genuine additional relief for NFPs, given relief already exists within paragraph 11 (of IFRS S2 and ASRS 2) which references 'without undue cost or effort' and is aligned to the IFRS Sustainability Disclosure Standards.

We recommend that rather than specifying what an NFP *does not need to do* (and thereby inferring that a for-profit would need to carry out an exhaustive search), that the AASB clearly outlines what an NFP is expected to do. This could form part of a simplified disclosure regime as suggested earlier.

26. *Do you agree with the AASB's view noted in paragraphs BC31–BC33 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view.*

We agree that the proposed clarification will assist in addressing cost-benefit and scalability concerns, however we strongly believe that a simplified disclosure regime is needed to address cost-benefit and scalability concerns for unlisted group 3 entities and be extended to certain NFP entities (refer above to simplified disclosure commentary).

In addition, further guidance is needed on the practical expedients such as further clarity on how an NFP entity can demonstrate 'undue cost or effort' and 'exhaustive search' (as noted above).

27. *If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related financial disclosure requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful.*

As noted in our response to question 26, we strongly believe that a simplified disclosure regime is a necessary addition (not modification) to IFRS S1 and S2 to assist NFP entities to comply with climate-related financial disclosure requirements.

Questions specific to not-for-profit public sector entities

28. *Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to:*

- a. *assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and*
- b. *better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030?*

In your response, please specify:

- a. *which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful; and*
- b. *which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view.*
 - i. *Whole of Government;*
 - ii. *General Government Sector;*
 - iii. *Government departments;*
 - iv. *Government entities; and*
 - v. *Local governments.*

We do not have any specific modifications or additions to IFRS S1 or S2 to assist/support public sector entities at this time.

We note that the Department of Finance has indicated that Commonwealth companies, that meet the proposed thresholds for mandatory disclosure as determined by the Treasury, will apply the ASRS as issued by the AASB. For other Commonwealth entities, the Department of Finance intends to develop specific Commonwealth Climate Disclosure requirements that will align with IFRS S2 and ASRS.

Alignment to IFRS Sustainability Disclosure standards, via the adoption of sector neutral Australian standards, for the public sector will be important for public accountability and access to capital and resources.

29. Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view.

We support the deferral of consideration of a domestic standard-setting project to address Australian public sector climate-related impact reporting.

As noted in our response to question 28, clear climate disclosure policy architecture for all Commonwealth entities and Commonwealth companies has been recently outlined by the Department of Finance.

General matters for comment

30. Has the AASB Sustainability Reporting Standard-Setting Framework (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?

The AASB Sustainability Reporting Framework, in our opinion, has only been partly applied in the development of the proposals in the ED. Unnecessarily amendments have resulted in a deviation from the IFRS Sustainability Disclosure standards and indicate that paragraph 10, the prioritisation of international alignment, has not necessarily been applied. For example, the replacement of ‘sustainability’ references with ‘climate in ASRS 1 and the modification of paragraph 3 (IFRS S1) which has been replaced with paragraph Aus3.1 which narrows the scope to for profit entities and not-for-profit entities.

As noted above, we recommend AASB adopts ‘framework neutral’ references to industry based metric disclosures in line with Aotearoa New Zealand Climate Standard 1 - Climate-related Disclosures NZ CS 1) paragraph 21. Alignment in key areas will assist the AASB in application of paragraph 13, to minimise differences in sustainability reporting standards issued in Australia and New Zealand to reduce the costs for entities that operate in both countries.

Some of the modifications that have been made, such as references to the ANZSIC code and NGER scheme do not meet the criteria outlined in paragraph 20 (d) as they, in our opinion, would not meet the objectives of the IFRS sustainability Disclosure standards which focuses on international comparability of information. As noted above, we support emissions factors and data points within the NGER scheme but do not believe that the application of the methodology would be sufficient to meet international alignment. In addition, the inclusion of ANZSIC code narrows coding to Australia and New Zealand only (as noted above).

31. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any issues relating to:

- a. not-for-profit entities; and
- b. public sector entities?

Outlined below are some regulatory issues we have identified, which may affect implementation of the proposals.

Director declaration

We recommend consideration be given to the practicality and interaction with legislation of the requirement for a Statement of Compliance. ASRS S1 paragraph 72 requires an entity to make an ‘explicit and unreserved statement of compliance’ noting that an entity cannot claim climate-related disclosures comply with ASRS unless they comply with all the requirements of ASRS. This assumes that ASRS only apply for climate-related disclosures.

Further, we note in Treasury Laws Amendment Bill 2024: Climate-related financial disclosure - Exposure draft S296A(6)(a) that directors make a declaration 'in compliance with the sustainability standards, an explicit and unreserved statement of compliance with international sustainability reporting standards' we note that the standards as presented in ASRS would not result in compliance with the IFRS Sustainability Disclosure Standards.

Not-for profit entities

Members working in and for NFP entities have expressed concern about the potential struggles they foresee in relation to the proposals. Many have expressed that NFPs will not have the resources to engage consultants to assist with their preparation for disclosures and the process will fall back onto existing staff, who do not have the knowledge required. In addition, the NFP sector, in general, already struggles to attract and retain talent adding additional issues to meet obligations under ASRS.

There are also concerns that NFP entities that are able to report their financial information under the reduced disclosure regime (RDR) in Australia will be required to provide full disclosures under ASRS. As noted earlier, we recommend consideration is given to a simplified disclosure for NFP entities.

Public sector entities

Which level of government entity that makes the disclosures (i.e., consolidated or entity) will need to be determined with consideration of the decision usefulness of information for the users of public sector entity disclosure information.

32. Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?

Resourcing

Small to medium audit and assurance practices will often rely on international talent to fill short term gaps/vacancies throughout the year. This is often done either through secondment opportunities or 'offshoring' certain aspects of the assurance engagement. This has been possible through the adoption of international accounting and assurance standards in Australia. Paragraph 12 of the Framework also indicates the AASB's understanding that alignment with IFRS Sustainability Disclosure Standards will facilitate the movement of professionals across sectors and borders.

The deviation of the ASRS from the IFRS Sustainability Disclosure Standards make this approach more difficult for the sector, as Australian specific skills will be needed. This will present a significant challenge in the current market where sustainability and climate-related assurance talent is already extremely limited and could seriously affect the ability of the sector to build the necessary capacity. In addition, we note from paragraph 12 of The AASB Sustainability Reporting Framework it would be difficult 'facilitate the movement of professionals across sectors and boarders' when standards are not internationally aligned.

Guidance

It is critical for the AASB and the Australian Auditing and Assurance Standards Board (AUASB) to work collaboratively to develop guidance to support both preparers of climate-related disclosures and assurance practitioners. Guidance in areas where there are judgements and assumptions in the disclosures – such as materiality assessments, choice of industry metrics and assumptions for scenario analysis will be important as users will rely on independent external assurance to enhance the credibility of these more complex areas of climate-related disclosures.

33. Would the proposals result overall in climate-related financial information that is useful to users?

We support the AASB's remit to issue Sustainability Disclosure Standards domestically with a climate first approach however, in our opinion, the usefulness of information from the climate-related financial information expected from the ASRS is limited due to the lack of international alignment.

34. Are the proposals in the best interests of the Australian economy?

We support the continued work of Government to establish a legal framework and sustainability disclosure standards to support mandatory climate-related disclosures.

As noted in our cover letter, we have significant concerns relating to the deviation of ASRS and strongly advocate for the prioritisation of international alignment to IFRS S1 and IFRS S2. Paragraph 12 of the AASB Framework indicates the importance of international alignment of ASRS for the Australian economy. As currently drafted, we do not consider the ASRS to be sufficiently internationally aligned and as such would not be in the best interests of the Australian economy.

Further, the ASRS, as they currently stands, does not provide the sufficient architecture to meet Government's signal (within its sustainable finance strategy) that sustainability reporting will expand into other sustainability thematic areas.

35. Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, 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 of the proposals

We note there is a significant difference in the estimated costs for Group 1 and 2 entities (\$1.3m transitional and \$681k recurring under Option 1b) compared to \$45k transitional cost and \$37k ongoing for Group 3 in Treasury's Policy Impact Analysis. Therefore, this would indicate a wide range in the anticipated costs for entities within each group. For certain entities, we expect this could have a significant impact on their financial position

and as such we strongly advocate for a simplified disclosure regime for unlisted Group 3 entities.

Additionally, whilst small and medium sized entities are outside the regime, these entities will be expected to provide information through their value chain to inform the disclosures of reporting entities and therefore we anticipate financial implications for them. These costs could be minimised if Government plays a role in coordinating such information requests to minimise unnecessary duplication.

Finally, there will also be costs associated with building the necessary skills and capability for this regime.