MINERALS COUNCIL OF AUSTRALIA

AASB SUSTAINABILITY REPORTING
EXPOSURE DRAFT (ED SR1)

1 MARCH 2024

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OVERVIEW

In response to the Australian Accounting Standards Board's (AASB) Exposure Draft (ED) consultation on Australian Sustainability Resporting Standards (ASRS), the MCA supports standards that:

- Align as closely as possible with the International Sustainability Standards Board (ISSB)
- Recognise the challenges involved in implementation by providing realistic implementation time frames appropriate for Australian companies, and
- Provide clear guidance on how the standards will be applied to multinational and dual-listed entities reporting at a group level.

The MCA remains concerned about the timing of this and related consultations. Treasury's recent consultation on Climate-Related Financial Disclosures (CRFD) was launched during the ASRS ED consultation – an important factor for the MCA's allocation of resources for submissions in early 2024.

The CRFD consultation also gave a strong indication that Group 1 reporting is unlikely to commence until 1 January 2025. Given that CRFD reporting is based on the establishment of ASRS, MCA expects the proposed 1 July 2024 commencement for ASRS will also be delayed.

Such a delay will allow more time for the AASB board to thoroughly consider stakeholder input – therefore delivering a more robust reporting regime (with an option for additional consultation should some issues remain unresolved or highly contested).

INTERNATIONAL ALIGNMENT AND INTEROPERABILITY

Some entities are part of multinational or dual-listed entities that already prepare mandatory CRFD based on TCFD (e.g. in the United Kingdom, Singapore and Switzerland). AASB should provide more clarity on how consolidation across jurisdictions with differing reporting requirements will be managed.

The MCA maintains that Australian entities that are part of multinational enterprises (whether subsidiaries or dual-listed companies) should be afforded the flexibility to satisfy Australian reporting requirements by relying on ISSB-aligned CRFD of parent companies in other jurisdictions.

Should Government opt for a more granular process that involves multiple frameworks, it is essential for Treasury or AASB to undertake an impact assessment that examines the risks and consequences of international misalignment.

Doing so will alert reporting bodies of potential risks and resourcing needs for transparent and informative reporting, while highlighting areas of inconsistency that may be resolved via adjustment of the [draft] ASRS.

While the MCA is broadly supportive of ASRS and their implementation through CRFD, the government should at all stages avoid subjecting entities to unnecessary resourcing and cost burdens.

MCA recommendation: Treasury or AASB to undertake an impact assessment that examines the risks and consequences of international misalignment for Group 1 companies.

PRESENTING THE CORE CONTENT OF IFRS S1 IN ASRS STANDARDS

The AASB is proposing to develop two [draft] ASRS Standards ([draft] ASRS 1, based on IFRS S1, and [draft] ASRS 2, based on IFRS S2), and instead of having the same requirements duplicated in both [draft] Standards, decided to include in [draft] ASRS 1 the requirements relating to core content disclosures of governance, strategy and risk management, and in [draft] ASRS 2, to replace relevant

IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing the corresponding paragraphs in [draft] ASRS 1[1]

Of the three options presented, MCA supports Option 3 – the development of two ASRS Standards, 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.

This approach is most likely to achieve the aims of the legislation while minimising duplication and ensuring the standards reflect the Australian context. However, there must remain a focus on international alignment and interoperability for dual-listed and multinational entities, as noted in the preceding section of this submission.

MCA recommendation: Implement Option 3 to streamline reporting requirements while ensuring international alignment and interoperability for dual-listed and multinational entities.

SCOPE 3 GHG EMISSION CATEGORIES

The ED questions whether requiring categorisation of the sources of Scope 3 GHG emissions under the 15 categories listed in the IFRS S2 definition would achieve international alignment if entities in other jurisdictions that are parties to the Paris Agreement are able to disclose different categories.

The MCA is supportive of the 15 categories in the GHG Protocol Standards, noting that many companies already use these as the basis for existing reporting.

Using these categories also supports the broader aims of international alignment. This is of particular importance for MCA members, many of whom are multinational or dual-listed entities.

MCA recommendation: AASB should recommend the GHG Protocol Standards as the reference for Scope 3 emissions.

PROVIDING RELIEF RELATING TO SCOPE 3 GHG EMISSIONS

The MCA supports permitting an entity to disclose in the current reporting period its Scope 3 GHG emissions using data for the immediately preceding reporting period, if reasonable and supportable data related to the current reporting period is unavailable.

Scope 3 emissions are difficult to calculate and assure, and AASB should look to establish standards that support reasonable efforts for entities to work with suppliers and other sources of Scope 3 emissions to report. Many suppliers to reporting entities are not adequately resourced to deliver data of a quality required for CRFD reporting within a short timeframe.

MCA recommendation: AASB should provide relief to allow entities, as best as reasonably possible, to ensure accurate data to support Scope 3 disclosures.

CARBON CREDITS

'The AASB is proposing to modify the definition of carbon credit in [draft] ASRS 2 to specify that carbon credits issued under the Australian Carbon Credits Units (ACCU) Scheme meet the definition

[1] AASB Australian Sustainability Reporting Standards ED SR1, p 7, viewed 14 February 2024

of carbon credit, to ensure non-Kyoto ACCUs can also be recognised as carbon credits in the context of the [draft] Standard.'[2]

While the MCA supports amending the definition of carbon credits, clarity is needed on the proposed scope for applicable credits. The ED mentions non-Kyoto credits may be captured, but there is confusion over the acceptability of other credits such Safeguard Mechanism Credits (SMCs).

MCA recommendation: The definition of carbon credits should be consistent with instruments used in Australian carbon emissions compliance schemes including the safeguard mechanism, and should be explicit about the treatment of SMCs as they are issued in accordance with an emissions budget.

CONVERTING GREENHOUSE GASES INTO A CO_2 EQUIVALENT VALUE

The ED notes that 'Paragraphs B21 and B22 of IFRS S2 require an entity to convert greenhouse gases into a CO_2 equivalent value using global warming potential (GWP) values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change (IPCC) assessment available at the reporting date.'[3]

The mining industry has supported the government and regulatory authorities in developing and improving the National Greenhouse Emissions Reporting Scheme (NGERS).

This has led to a robust and comprehensive national framework for reporting and disseminating company information about greenhouse gas emissions, energy production and energy consumption.

Therefore, the MCA supports the use of NGERS data wherever possible to avoid duplication, ensure consistency and provide quality reporting. Doing so will improve transparency and reduce regulatory burden for Australian entities already participating in NGERS.

MCA recommendation: AASB should endeavour to allow utilisation of NGERS data wherever possible to avoid duplication, ensure consistency and provide quality reporting.

DISCLOSING THE LOCATION OF THE ENTITY'S CLIMATE-RELATED FINANCIAL DISCLOSURES

The ED notes a previous proposal for reporting entities to include in their annual reports 'an index table that displays climate-related financial disclosure requirements (i.e. governance, strategy, risk management, and metrics and targets) and the relevant disclosure section and page number.'[4]

The current ED takes a different view, instead 'requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures.'

The MCA supports this position as it reduces regulatory burden by removing a mandate to prepare information that may not contribute to transparency and disclosure.

MCA recommendation: Where appropriate, entities should use their own judgement regarding information provision with the aim of maximising transparency and useability of reports.

[2] AASB Australian Sustainability Reporting Standards ED SR1, p 12, viewed 20 February 2024
[3] AASB Australian Sustainability Reporting Standards ED SR1, pp 10 & 96, viewed 14 February 2024
[4] AASB Australian Sustainability Reporting Standards ED SR1, pp 9 & 92, viewed 14 February 2024

SOURCES OF GUIDANCE AND REFERENCES TO SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB) STANDARD

AASB is proposing to remove from IFRS S1 and IFRS S2 the requirement for an entity to consider the applicability of SASB Standards and references to Industry-based Guidance on Implementing IFRS S2 issued by the ISSB developed based on SASB Standards.

This is a position supported by the MCA. While some members utilise the SASB standards it is not an industry-wide practice, and a broad requirement to do so could be unnecessarily resource-intense for some entities.

Should AASB perceive a benefit in requiring entities to consider the applicability of SASB standards a separate consultation would be necessary.

MCA recommendation: AASB should not require consideration of SASB standards without a separate consultation to establish multi-sector consensus on the apparent benefits.

CLIMATE RESILIENCE

International alignment is a priority for the MCA.

The ED suggests that 'to avoid entities incurring unnecessary costs and effort in determining which temperature goal to select within the range of 1.5°C and below 2°C above pre-industrial levels, the AASB decided to specify the most ambitious global temperature goal set out in the Climate Change Act (i.e. 1.5°C above pre-industrial levels).'[5]

The MCA acknowledges that Australia has committed to a 1.5°C limit in the *Climate Change Act 2022*, however this scenario is not necessarily used in other jurisdictions where members may operate. For dual-listed and multinational entities, flexibility is required for those reporting at a group level.

MCA recommendation: To enable members to utilise existing scenarios (in line with TCFD recommendations and other requirements) for between 1.5°C and 2°C, entities should have the flexibility to report against a 'well below 2°C scenario', with additional scenarios to be optional and consistent with the broad aims of transparency and international alignment.

CROSS-INDUSTRY REMUNERATION DISCLOSURE

On the matter of executive remuneration, the ED asks for consideration of:

> (a) whether and how climate-related considerations are factored into executive remuneration, and
>
> (b) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

While (a) is broadly accepted and achievable, the MCA has concerns about the comparability of entities making disclosures regarding (b).

Executive remuneration typically incorporates share-based payments which are vested over terms which may exceed five years. This component of 'compensation' as defined in AASB 124 Related Party Disclosures is expensed over the vesting period. As such, the value of this remuneration

[5] AASB Australian Sustainability Reporting Standards ED SR1, p 9, viewed 20 February 2024

component will be impacted by an executive's length of service, resulting in variability in the percentage value even where there is no underlying change in the remuneration package.

Boards are required to justify executive remuneration through annual general meetings, annual reports and other disclosures that encompass a broad scope of entities' activities and policies – channels better suited to linking executive pay with ESG principles.

MCA recommendation: AASB should reassess the value in (b) recognising the percentage of remuneration linked to climate-related considerations.

ENTITIES WITHOUT MATERIAL CLIMATE-RELATED RISKS

The introduction to the ED notes that 'where an entity assesses climate-related risks and opportunities as not material, disclosing that fact would be useful information to users.

'Accordingly, the AASB is proposing 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 (see paragraphs BC34–BC36).'[6]

The MCA supports this position. It is consistent with efforts to increase transparency for climate related financial disclosures and will reduce the regulatory burden for entities that aim for transparency in their reporting – including those without material risks and opportunities.

MCA recommendation: Entities without climate-related risks and opportunities should declare this position to maximise transparency and minimise confusion for the intended audience.

(end)

[6] AASB Australian Sustainability Reporting Standards ED SR1, p 8, viewed 14 February 2024