AASB Sustainability Reporting Exposure Draft

Whitehaven Coal submission

1 March 2024

Introduction

Whitehaven Coal (Whitehaven) welcomes the opportunity to submit feedback to the Australian Accounting Standards Board's (AASB) consultation on its Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*.

Whitehaven is a major, ASX-listed Australian coal exporter of high energy thermal and metallurgical coal, predominantly to Asia. We produce high-quality, high-calorific value thermal coal used in high-efficiency, low-emissions electricity generation including ultrasupercritical power plants. Following the acquisition of two coal mines from BHP Group and Mitsubishi Development which is expected to be completed in April 2024, Whitehaven will become a leading metallurgical coal producer with pro-forma run-of-mine coal production of about 40 million tonnes per annum.

We have been reporting with regard to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) since 2019, and have continued to evolve our climate-related disclosures in response to engagement with investors and other stakeholders. Under Treasury's draft climate-related financial disclosures legislation, Whitehaven will be captured under the first phase of the mandatory reporting roll out.

Whitehaven supports the implementation of Australian climate reporting standards for large entities that is closely aligned with the International Sustainability Standards Board's (ISSB) IFRS S1 and S2 standards. Alignment with international standards promotes comparability and consistency of climate-related disclosures across jurisdictions for capital market participants, and supports entities reporting in multiple jurisdictions to harmonise their disclosures.

We have provided responses to select questions the AASB is seeking feedback on below.

Modifications to the baseline of IFRS S1 for [draft] ASRS 1

Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards

Whitehaven agrees with AASB's proposal to remove from IFRS S1 and IFRS 2 the requirement for an entity to consider the applicability of SASB Standards and references to *Industry-based Guidance on Implementing IFRS S2* (Appendix B) issued by the ISSB developed based on SASB Standards.

It is vital the inclusion of any climate-related industry metrics is subject to a comprehensive public consultation process conducted over an appropriate time frame to facilitate engagement with Australian stakeholders across each industry. Although the ISSB published amendments to the SASB Standards in December 2023 to enhance their international applicability, the AASB in consultation with Australian stakeholders will need to consider whether they are fit for purpose in Australia.

We have been reporting with reference to the SASB Coal Operations standard since 2022, but have not reported against some of the Reserves Valuation & Capital Expenditures metrics which we consider to be too prescriptive and would require a significant resource investment to report. The approach to these metrics (EM-CO-420a.1) is also inconsistent with the approach adopted by IFRS S2 which does not require the use of specific externally developed scenarios.

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

Whitehaven supports AASB's view that the additional regulatory burden required to prepare a detailed index table of an entity's climate-related financial disclosures presented in its general-purpose financial reports would outweigh its benefits.

Entities are incentivised to report in a manner that maximises the readability and transparency of their reports to meet the information needs of capital market participants. In addition, under Treasury's ED, the location of climate-related financial disclosures will be within a sustainability report forming part of the entity's annual reporting suite. Accordingly, we suggest the addition of ASRS 1 paragraph Aus60.1 (which requires an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures) is unnecessary.

Modifications to the baseline of IFRS S2 for [draft] ASRS 2

Climate resilience

Whitehaven proposes ASRS 2's requirements in relation to climate resilience should be aligned with IFRS S2, which does not prescribe the number of scenarios or the temperature goal of scenarios an entity is required to assess to meet the disclosure objective of IFRS S2 paragraph 22.

We recognise the Australian Government's policy position statement (on Climate-related financial disclosures) states entities should use at least two possible future scenarios and one of these scenarios must align with the most ambitious global temperature goal in the Climate Change Act 2022 (i.e. limiting global warming to 1.5°C). However, we contend there are no characteristics unique to Australia which warrant the Australian Government's position and misalignment with IFRS S2 on climate resilience reporting. The climate goals outlined within the Australian Climate Change Act 2022 are aligned with those of the Paris Agreement.

ISSB's approach to scenario analysis is premised on providing entities flexibility to tailor their scenarios in a way that is appropriate for their circumstances, including their climate risks and opportunities, and aligns with management's view of plausible future outcomes.

The purpose of scenario analysis is to assess an organisation's resilience to climate-related changes, developments or uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. How each organisation uses scenario analysis to support the assessment of its resilience will therefore be specific to that organisation.

In particular, ISSB in its Basis for Conclusions for IFRS S2 (BC66) notes that it "*decided not to specify the particular scenarios that an entity would be required to use in its climate-related scenario analysis because the relevant scenarios would depend on the entity's facts and circumstances, including the nature and location of its operations and the physical and transition risks to which it is exposed*. ISSB also notes at paragraph BC67 *that "specifying which scenarios an entity should use would not be practical, might quickly become outdated and could lead to the disclosure of information that does not reflect the entity's specific circumstances or management's view of what is plausible*". Whitehaven supports ISSB's views as expressed in its Basis for Conclusions and considers this is the most appropriate approach.

The AASB has also proposed that one of these scenarios should be consistent with the most ambitious global temperature goal (i.e. 1.5°C above pre-industrial levels) on the basis (BC51-BC54) that some entities may incur unnecessary costs and effort in determining, and agreeing with their auditors, the temperature goal within the Paris Agreement range to use in its climate scenario analysis in order to comply with the requirement. Whitehaven suggests reporting entities should be able to make their own judgement to decide which temperature goal to use for scenario analysis. Entities will need to make these judgements to enable them to report against IFRS S2 para 22(b)(i)(5) which requires an entity to disclose why it *"decided that its chosen climate-related scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties*". This information will also provide valuable insights and transparency to investors.

If the AASB does look to specify a lower temperature range for scenario analysis, we recommend this is aligned with the Paris Agreement or the 'latest international agreement on climate change' as referred to in IFRS S2. This would provide entities with flexibility to make judgements on which temperature goal is most relevant to assessing its resilience, while requiring alignment with a globally endorsed ambitious temperature goal.

Consistent with our view that ASRS S2's climate resilience requirements should align with AFRS S2, we agree with AASB's view that it should not specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis.

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

Whitehaven does not support the requirement for entities to prepare climate-related remuneration disclosures under ASRS 2 paragraph 29(g), as this would add complexity and fragment existing regulatory remuneration reporting requirements. Significant remuneration reporting requirements for an entity's key management personnel (KMP) are already legislated and disclosed within an entity's remuneration report, as noted in AASB's Basis for Conclusions paragraph BC58(a).

As currently proposed under Treasury's ED and AASB's ED SR1, climate-related remuneration disclosures would be included in a sustainability report forming part of an entity's annual report. If additional remuneration disclosures are mandated under ASRS 2, they should be included in the remuneration report. This would also avoid fragmentation of disclosures should similar requirements be incorporated into future IFRS Sustainability Disclosures Standards on other sustainability topics, as noted as a possibility in BC58(d).

We have concerns regarding the proposed requirement for entities to report '*the percentage of executive remuneration recognised in the current period linked to climate-related considerations*' (paragraph 29(g)(ii)). A percentage calculation is simplistic and does not capture the quality of executive remuneration measures linked to climate-related considerations. The quality of these measures will vary significantly and are therefore not necessarily comparable. Entities may also be compelled to set 'easy to measure' metrics which are sub-optimal and not well aligned with an organisation's longer-term strategies.

Aligning the definition of 'remuneration' with 'compensation', as defined in AASB 124 *Related Party Disclosures*, could also lead to skewed data outcomes due to the expensing method for share-based payments. These payments are amortised over the grant's vesting period, which means a constant remuneration package may have different accounting values each year depending on a KMP's length of service, resulting in different percentage values. This inconsistency erodes the usefulness of a percentage-based metric.

Greenhouse gas (GHG) emissions

GHG emissions – Converting greenhouse gases into a CO2 equivalent value

We support the requirement for Australian entities to convert greenhouses gases using global warming potential values in line with the reporting requirements under NGER Scheme legislation rather than those in the IPCC 6th assessment report.

Aligning the methodology with Australia's regulatory emissions reporting framework will avoid duplication and minimise the regulatory burden for Australian entities. It will also provide consistency and comparability of data published by entities and the Clean Energy Regulator, such as under the Safeguard Mechanism.

Providing relief relating to Scope 3 GHG emissions

We support the proposal to permit 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.

Reporting Scope 3 GHG emissions is complex and involves data availability challenges, requiring a broad set of detailed information to be sourced across an entity's value chain. With Scope 3 GHG emissions often calculated based on estimates using measures of activity or spend rather than emissions data sourced from suppliers or customers, we agree using prior year data is unlikely to materially impact the decision usefulness of disclosures.

The relief will ensure entities are able to meet the shorter reporting timeframe, with reporting expected to form part of the annual report.

Scope 3 GHG emission categories

Whitehaven does not support the AASB's view to only include the Scope 3 GHG emissions categories in IFRS S2 as examples of categories that an entity could consider when disclosing the sources of its Scope 3 emissions. Rather, we support alignment with IFRS S2 paragraphs B32-B33 requiring an entity to consider all 15 categories of Scope 3 GHG emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) and disclose the categories included within its measure of Scope 3 GHG emissions.

The Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard is a well-established and internationally accepted global standard for reporting of Scope 3 emissions by entities. Aligning with the Scope 3 GHG emissions category requirements of IFRS S2 will provide comparability and consistency of methodology across jurisdictions.

In circumstances where the 15 categories do not capture all Scope 3 GHG emissions relevant to an entity, an entity should provide appropriate additional disclosures.