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

Response to Australian Accounting Standards Board (AASB) Sustainability Reporting Exposure Draft (ED SR1)

1 March 2024

Introduction

The Commonwealth Bank of Australia (CBA) welcomes the opportunity to contribute to the consultation on the AASB's proposals for new Australian Sustainability Reporting Standards (ASRS) per ED SR1 (the Exposure Draft). We have also provided our input as part of the Australian Banking Association's (ABA) response to the Exposure Draft, given the impact of mandatory climate-related financial reporting to large businesses and financial institutions in Australia.

CBA has been disclosing its climate-related progress, performance and plans in line with the recommendations of the Task Force on Climate-related Financial Disclosures since 2018. As a result, we welcome the proposal for additional guidance and requirements to promote consistent and comparable reporting of climate-related financial information.

This submission outlines our position in relation to key questions for comment in the Exposure Draft set out in Appendix 1 and 2 to this submission. A summary of our key recommendations are as follows:

1. Presentation of ASRS Standards in line with IFRS S1 and S2 standards issued by the ISSB.
We would suggest a presentation approach that is in line with the ISSB's standards, whereby ASRS 1 and ASRS 2 would replicate IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* respectively and be made mandatory, with additional considerations to any relevant jurisdictional requirements for Australia.

2. A 'materiality and costs/benefits based' approach.
A materiality-based approach should be considered in relation to the timing and presentation of disclosures for climate and sustainability-related topics that are relevant for decision making at the Parent/Registered-entity level. We are supportive of Australian reporting requirements providing relief to international entities with Australian operations or subsidiaries, particularly if the entity's registered jurisdiction requires reporting in line with ISSB, and if the entity's operations or other investments in international jurisdictions are considered immaterial for consolidated reporting purposes. We would further be supportive of the AASB or an appropriate government authority advocating for Australian registered entities who are operating in other jurisdictions.

3. References to the Sustainability Accounting Standards Boards (SASB) Standards.
We are supportive of the continued internationalisation of the SASB Standards and for the AASB to provide flexibility for entities to voluntarily disclose SASB-relevant information on other sustainability-related topics beyond climate. We also support the use of the ANZSIC classification for industry-based disclosures.

4. Location of the climate-related financial disclosures.
We support the inclusion of climate-related financial disclosures within the Sustainability Report as part of the Annual Financial Report, with use of a table to assist users of general purpose financial reports in navigating the document.

5. Greenhouse Gas (GHG) emissions.
Where applicable, we support the consistent application of GHG emission definitions, categories, and measurement methodologies in line with Government schemes such as the National Greenhouse and Energy Reporting Scheme (NGERs), Corporate Emissions Reduction Transparency (CERT) and Climate Active. However, we would recommend the proposal consider certain limitations to the requirements given the reliance on customers and data providers, specifically around Scope 3 financed emissions.

6. Application guidance to supplement climate and future sustainability standards.
We would strongly encourage the AASB to develop and make available application guidance to support the introduction of ASRSs to supplement climate and future sustainability standards.

We thank you for considering this submission. We hope it helps to further enable consistent, relevant and decision useful reporting of climate and other sustainability-related information in the future.

Appendix 1: Specific matters for comment

1.1 Presenting the core content of IFRS S1 in draft ASRS Standards

Focus question:

- *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)?*

We would suggest another presentation approach which directly replicates the ISSB standards. Specifically, ASRS 1 and ASRS 2 would replicate IFRS S1 and IFRS S2 respectively and be made mandatory, with additional considerations to any relevant jurisdictional requirements for Australia. This would enable greater consistency and comparability with several other jurisdictions within the Asia Pacific region, as well as globally, where reporting in alignment with the ISSB will be required from financial year 2025. Additionally, it would also provide a framework for entities who already publish broader sustainability-related disclosures, and also enable entities to future proof internal policies and procedures in readiness for when standards requiring reporting on other specific sustainability topics are released.

We draw the AASB's attention to the following comment on the International Financial Reporting Standards (IFRS) Foundation's website:

"When Australia initially adopted IFRS Standards as of 2005, the AASB made a number of changes to IFRS Standards, including elimination of accounting policy options and addition of disclosures. In 2007, the AASB approved an 'Amending Standard' that rescinded the changes that the AASB had made to IFRS when it initially adopted them as Australian Equivalents of IFRS Standards. Those amendments were effective 1 July 2007. However some additional disclosures still remain."

Given the history and experience of adopting IFRS Accounting Standards into Australia, we would recommend and encourage the AASB to seek an approach that reduces the need to rescind and/or amend standards in the initial years of adopting the ISSB standards in Australia.

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

Focus question:

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 are supportive of the proposed requirement and note this is aligned with Treasury's position in their second consultation (27 June 2023). It provides an opportunity for entities to undertake their own risk and impact assessments as opposed to solely responding to pre-defined risks which may not be relevant to the entity. It would also reduce the reporting burden for relevant reporting entities and make disclosures easier to navigate for users of those general purpose financial reports, thereby encouraging greater transparency in reporting. Given Treasury's guidance that a "climate first, not climate only" approach is to be taken with regards to sustainability reporting, we would also encourage the AASB to include this guidance as a sustainability reporting principle, to ensure it can be applied to other sustainability topics as further standards are developed.

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

Focus questions:

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

We are supportive of the AASB engaging directly with the ISSB on the continued internationalisation of the SASB Standards and encourage the AASB to consider alternative options for Australia, noting that many international investors support the SASB framework's use of industry-based disclosures. Many listed entities within Australia, including CBA, have been voluntarily disclosing in line with SASB. Therefore, we are also supportive of the AASB enabling the voluntary disclosure of SASB-related information. While climate information is relatively homogenous, our view is that the SASB standards can support meaningful comparisons on other sustainability topics beyond climate. We further encourage the AASB to develop and consult on appropriate timelines for the SASB Standards adoption in Australia, if and when such time comes.

We support 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. This is common market practice in Australia today and supports comparability with, for example, industry-level reporting and data provided by the Australian Bureau of Statistics. Applying an alternative (such as the Global Industry Classification Standard, GICS) would create operational complexity for organisations that currently rely on the ANZSIC system.

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

Focus question:

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 are supportive of the addition of paragraph 60.1 as it provides the reporting entity the necessary flexibility to present the information in a form that is most useful for its users of general purpose financial reports. While we agree that the use of a table that supports the navigation can be helpful, a requirement that a detailed index table be included could be onerous to prepare.

However, differences in drafting between paragraph 60 and Aus60.1could lead to inconsistent reporting between reporting entities. We suggest that the below changes be made for the purposes of clarity:

"Further to paragraph 60, an entity shall … provide information in a manner that enables users of general purpose financial reports to locate its disclosures required by ~~prepared in accordance with~~ the applicable Australian Sustainability Reporting Standards."

1.5 Interim reporting

Focus question:

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

We support the proposed omission of the requirement to prepare interim reports. There is not expected to be a material difference between climate-related financial disclosures between the annual and interim reporting period given the medium to longer term nature of the effects of climate-related risks and opportunities on an entity. In addition, data availability and maturity of the data landscape within the industry does not currently support interim reporting. As such, the costs to prepare an interim report would significantly outweigh the benefits provided to users of the report.

1.6 Climate resilience

Focus questions:

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

We agree with the proposal that an entity who is required to prepare climate-related financial disclosures must disclose its climate resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the Climate Change Act 2022 (i.e. 1.5°C above pre-industrial levels). We acknowledge that the ISSB has not prescribed a total number of scenarios required, and we support that approach for Australia as well.

We believe that it is beneficial to not specify an upper temperature limit, as it would provide entities with the flexibility to include scenarios which align with the requirements of multiple jurisdictions, among other reasons. However, we do encourage the proposal to include the consideration of a high emissions/high physical risk scenario, consistent with international jurisdictions. For example, New Zealand requires a 3°C and above scenario; Hong Kong suggests including a 'no transition' scenario; Europe requires a high emissions scenario (e.g. RCP8.5) and the United Kingdom suggests scenarios should be sufficiently varied to cover a range of future outcomes.

1.7 Cross-industry remuneration disclosure

Focus question:

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.

Existing requirements under the *Corporations Act 2001 (Cth)* section~~s~~ 300A and *Corporations Regulations 2001* (Cth) regulation 2M.3.03 seek disclosures on the remuneration of key management personnel. Entities that are required to produce these remuneration disclosures are also subject to the 'two-strikes' rule and must have their remuneration report voted on by shareholders at the entity's annual general meeting. Additionally, APRA-regulated entities are also required to publicly disclose information on aspects of their remuneration under

Prudential Standard CPS 511 Remuneration. Given there are already enforced remuneration regimes in Australia, any additional standards required by the AASB could result in a misalignment of remuneration regulations, not only within the *Corporations Act 2001 (Cth)*, but with other regulatory regimes. We caution the AASB not to be overly prescriptive with regards to disclosures on remuneration.

Additionally, while requiring disclosure of the weighting for climate-related key performance indicators (KPIs) in executive remuneration may appear to be an effective idea, it could create unintended consequences, such as overly complex scorecards that do not provide decision-useful information to users of general purpose financial reports.

Instead, we are supportive of requirements that ask reporting entities to describe the overall executive performance and remuneration approach; how boards may have applied discretion to the executive team's management of material business risks and strategy; and the extent to which environmental, social and governance factors have been considered in executives' performance and remuneration outcomes. This would support future remuneration disclosure requirements as further sustainability standards are developed.

1.8 Definition of greenhouse gases (GHG)

Focus question:

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.

We agree with the use of the definition of greenhouse gases from IFRS S2. However, we note that reporting of NF_3 emissions could be limited through differing jurisdictional approaches and data limitations, and suggest a clarification be made to the proposal acknowledging this limitation.

1.9 Converting GHG into a CO2 equivalent value

Focus question:

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.

We agree that maintaining consistent reporting across different reports in line with the requirements under NGERs legislation in the same period is important. It reduces reporting burden and increases accessibility and comparability for other stakeholders. However, from a Scope 3 financed emissions perspective, we note that banks are often reliant on the global warming potential (GWP) assumptions used by customers and data providers in calculating or estimating emissions. In those instances, data challenges may prevent banks from adjusting reporting to account for differing GWP factors used by customers and data providers. Therefore, we would suggest a clarification to the proposal to accommodate for this limitation.

1.10 Market-based Scope 2 GHG emissions

Focus question:

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 support the proposal to mandate dual Scope 2 reporting. This would be an extension of current voluntary CERT reporting which improves on NGERs reporting of only location-based Scope 2 emissions. However, from a Scope 3 financed emissions perspective, banks are dependent on the GHG emissions reporting approaches taken by customers and data providers – some of whom may report on a location-basis only, and not on a market-basis.

Based on current practices, it would be difficult, if not impossible, for banks to meaningfully report on financed emissions using both a market-based and location-based approach. We would suggest a clarification to accommodate this limitation.

1.11 GHG emission measurement methodologies

> Focus question:
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> *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 agree that Scopes 1, 2 and 3 (including location- and market-based for Scope 2 as addressed above) emissions should be reported separately. However, specifically from a Scope 3 financed emissions perspective, we note that it may not be meaningful or possible to separately report customers' Scope 1 and 2 in all cases. We would suggest a clarification to ensure that this is not an intended interpretation.

More broadly, we agree that aligning to NGERs methodologies provides consistency for comparisons, reduces reporting burden and increases accessibility and comparability for other stakeholders. However, NGERs does not include Scope 3 emissions and therefore does not provide an Australian point of reference for Scope 3 methodology. Climate Active includes guidance on Scope 3 emission factors and methodologies, however it is a voluntary scheme. Improved Scope 3 guidance would be welcomed.

1.12 Providing relief relating to Scope 3 GHG emissions

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

We agree with this proposal as it removes reporting burden on both the reporting entity and supplier, while allowing more robust data to be reported, leveraging already publicly available and verified data sources. This allows Government schemes such as NGERs, CERT and Climate Active to be utilised in Scope 3 reporting, thus giving confidence to decision makers and stakeholders to the validity of Scope 3 reporting.

1.13 Scope 3 GHG emission categories

> Focus question:
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> *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.*

We agree with AASB's approach to include reference to the categories as it increases awareness of all Scope 3 elements. Flexibility in Scope 3 reporting will ease the burden for an entity's initial reporting but further standardisation would be welcomed in coming years.

Additionally, and more broadly in relation to Scope 3 categories, we read section AusB33.1 ("The entity shall consider its entire value chain (upstream and downstream) and identify and disclose the categories it has included in its Scope 3 greenhouse gas emissions disclosures") and would like to confirm that we are supportive of an approach that allows a reporting entity to apply a materiality threshold and boundary to their Scope 3 reporting. This is especially important given Scope 3 methodologies are nascent in some sectors/categories, and therefore entities should only be required to disclose Scope 3 emissions where material and where an accepted methodology to do so exists. We believe reporting immaterial Scope 3 items would come with undue cost and effort, and would not materially add to a user's understanding of Scope 3 emissions.

1.14 Financed emissions

Focus question:

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.

While we agree with the proposal, there are some considerations that will need to be addressed due to inherent data availability and methodology challenges. We encourage the AASB to consider addressing these considerations through a guidance note and/or phasing. Specifically:

- AusB63.1 (a) – As noted above, the challenge of data availability to appropriately separate Scope 1 and 2 emissions, particularly for customers that may not be subject to mandatory disclosures.
- AusB63.1 (a)(i) – The standard should consider providing guidance on the treatment of diversified businesses that may sit across more than one industry. In addition, there are definitional differences between ANZSICs and the sectors used in climate-related reporting standards, such as PCAF (Partnership for Carbon Accounting Financials), which rely on international classification systems (e.g. ISIC, NACE). The AASB should consider exemptions for this disaggregation requirement.
- AusB63.1 (a)(ii) – Where asset classes are deemed immaterial, we would support flexibility in the standard to aggregate asset classes while ensuring appropriate disclosure of the entity's approach and methodology.
- AusB63.1 (b)(ii), AusB63.1 (c) (ii) – these paragraphs make reference to financed emissions disclosures for undrawn loan commitments. Unlike loans, bonds and equity investments, which are covered by PCAF, there is currently no industry standard for calculating financed emissions for undrawn commitments. Clarity is required as to whether paragraph AusB63.1 (c) (ii) allows for undrawn loan commitments to be excluded from gross financed emissions (providing there is adequate disclosure on methodology) or whether there is an expectation to calculate financed emissions for undrawn loan commitments. If the latter, a standardised methodology will need to be developed to avoid incomparable exposures. Further guidance will need to be provided on approach in the absence of a standardised methodology.

Appendix 2: General matters for comment

2.1 Auditing and assurance challenges

Focus question:

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

As noted in AASB-AUASB RESEARCH REPORT (December 2022), an increasing number (but not necessarily increasing proportion) of organisations are publishing sustainability disclosures, in particular climate-related information, with third party assurance. Limited assurance remains the predominant level of assurance with only minor instances of reasonable assurance (predominantly in relation to Scope 1 and Scope 2 emissions).

The implementation of a consistent standard for the reporting of climate-related information will facilitate a consistent understanding of methods and approaches to providing both limited and reasonable assurance levels (with industry-specific considerations) overtime.

Our recommended considerations include:

- Appropriate signposting of assurance expectations;
- Appropriate time provided for both auditing and audited organisations to develop and appropriately control and govern the environment of climate-related information;
- Appropriate time provided for the production of disclosures;
- Collaboration between the AASB, AUASB, auditing firms, and where appropriate, audited organisations; and
- Transparency from the AASB, AUASB, auditing firms and where appropriate audited organisations as to the challenges and learnings associated with the transition from no assurance to limited assurance and subsequently, reasonable assurance[1].

[1] As per Treasury's position in their 12 January 2024 consultation, the Audit and Assurance Standards Board (AUASB) will also set out a pathway for phasing in assurance requirements over time, with reasonable assurance of all climate disclosures to be made from 1 July 2030 onwards.

2.2 Costs and benefits of the proposals

Focus question:

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 are supportive of the introduction of mandatory reporting requirements within Australia through a phased approach and encourage the alignment to ISSB standards. As the ASRSs are developed, we would encourage the AASB to develop and make available application guidance to support the introduction of ASRSs. While CBA is a large entity and would be captured under Group 1 reporting, we acknowledge that entities within Group 2 and 3 may not have yet developed adequate resourcing to support the production of climate and sustainability reports to the level required by the ASRSs. We have noted concerns from across the accounting and banking industries regarding market-wide skills availability and assume other industries would have raised similar concerns. Finally, we draw the AASB's attention to the significant cost increases outlined in Treasury's Policy Impact Analysis (12 January 2024) with regards to the transition to producing climate-related financial reporting.