1 March 2024

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007

Dear Keith,

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

We are pleased to respond to the above Exposure Draft (the ED).

To meet demand, both internationally and domestically, for sustainability related financial information, we support the proposal to develop Australian Accounting Sustainability Reporting Standards based on International Sustainability Standards Board (ISSB)'s standards.

Unfortunately, in my opinion, the Australian Accounting Standards Board (AASB)'s proposals fail to:

- Deliver fit for purpose reporting standards to Australian users of Financial Reports;
- Keep Australia relevant on the global stage; and
- Serve Australian interests as they seek financing and funding in the world's capital markets.

Limiting ASRS 1 to climate related financial information

Our first concern is the proposal to limit to ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* to climate-related financial information.

To assist the users of general purpose financial reports, the ISSB has issued the first two IFRS sustainability standards (IFRS S1 and IFRS S2). In developing these first two standards, the ISSB has correctly followed the principle of 'Climate First but not climate only'. To this end, IFRS S1 *General Requirements of Sustainability for Disclosure of Sustainability-related Financial Information* sets out a framework for reporting on ALL sustainability-related financial information.

The principles set out in IFRS S1, being the four pillars of sustainability: Governance, Strategy, Risk Management, and Metrics & Targets, have been borrowed from the Taskforce on Climate-related Financial Disclosures (TCFD). Therefore, users can use IFRS S1 to report other sustainability risks applicable to operating in Australia, such as:

- Water
- Protecting Indigenous culture
- Nature
- Biodiversity
- Protection of the Great Barrier Reef
- Protection of the Daintree rainforest
- Protection of endangered Australian fauna
- Protection of tropical rainforests
- Protection of fish stocks.

The AASB's proposal to limit the Australian version of IFRS S1 to only climate-related financial information, prevents Australian entities from having an appropriate framework to report on the above critical sustainability risks.

Complying with ASRS 2 will not mean compliance with IFRS S2

In my opinion, a fundamental weakness in both the AASB's approach to developing ASRS 2 *Climate-related Financial Disclosures* and the proposed ASRS 2, is that compliance with ASRS 2 does not mean compliance with IFRS S2. The proposed ASRS 2 is less restrictive than IFRS 2 and therefore is not adequate for the needs of Australian entities operating in global markets.

The AASB's development and adoption of AIFRS in 2005 caused great difficulty to Australian entities wanting to raise capital in the United States (US) and other overseas jurisdictions. Overseas stakeholders who are familiar with IFRS standards were confused and suspicious of 'Australian IFRS', despite AIFRS being fully compliant with IFRS but with certain more restrictive application choices.

The problem was largely solved by the key paragraph in AASB 101 *Presentation of Financial Statements,* paragraph 14, which required an explicit and unreserved statement that the entity's financial report complied with IFRS.

Complying with ASRS 2 will not automatically mean complying with IFRS Sustainability Standards and ASRS 2 requires no such disclosure. This is inconsistent with the approach adopted by the AASB in AASB 101 and means the proposed ASRS 2 is significantly less useful to Australian companies with overseas stakeholders than it should have been.

The AASB taking on responsibility for Sustainability reporting rather than establish a separate ASSB (Australian Sustainability Standards Board)

The IFRS Foundation has created two sister boards, being the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB). Canada has similarly established the Canadian Sustainability Standards Board (CSSB), to work alongside its Accounting Standards Board (AcSB).

Sustainability reporting incorporates a wide range of sustainability risks, not just climate related risks. The needs of the Australian public and economy cannot be served either in terms of sustainability reporting or financial accounting reporting by a hybrid board, comprised of members that are only skilled (and very likely interested) in only 50% of the board's work.

The proposals expose users to the risk of 'greenwashing'

A significant risk for the users of Australian financial reports is 'greenwashing'.

In my opinion, the AASB's proposals significantly increase the opportunities Australian entities to 'greenwash'. The AASB's proposals increase greenwashing risk as a result of:

- Not providing preparers with a framework for reporting sustainability risks other than climate risk;
- Disregarding the industry specific guidance in the 77 SASB Standards.

Broader information just than NGERS reporting

In addition, it is also my concern that the AASB appears to have only adopted a role of being an extension of Australian Treasury rather than the role as an independent standard setter. Users of financial reports require other sustainability information in addition to information on climate related risks and carbon related emissions in National Greenhouse and Energy Reporting (NGERs) reporting.

IFRS S1 and S2 have introduced a global consistent language for sustainability reporting, allowing global comparison and importantly comparison across specific industries. It is important that Australia continues to play an active and prominent role in the global reporting community and to this end, the Australian Sustainability Standards should be aligned as much as possible with its international counterparts, similar to the adoption of International Financial Reporting Standards in Australia.

Our detailed responses to some of the questions in the ED are set out in the attached Appendix.

If you would like to discuss any of our comments and observations further, please contact myself on 0404 008 703 or by email at wayne@basfordconsulting.com.

Yours sincerely
Basford Consulting Pty Ltd

Wayne Basford
Managing Director

Appendix

Question 1 —Presenting the core content of IFRS S1 in [draft] ASRS Standards

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.

As mentioned in our cover letter, we do not support modifying IFRS S1 and limit the requires to climate-related financial disclosure. By limiting sustainability information to only climate-related information in IFRS S1, this results in many overlap and duplication between the two standards.

However, if the AASB does follow this approach, assuming that the ultimate goal is to eventually fully align with IFRS S1 and S2, the following alternative presentation approach is preferred:

- Rather than replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding paragraphs in [draft] ASRS 1, suggest deleting the duplicated content in ASRS 1 instead.
- Under this alternative approach, no Aus paragraph is needed in ASRS 2 to refer entities back to ASRS 1 and it provides greater alignment with IFRS S2. When the AASB does reintroduce other sustainability related risks disclosures, this would involve re-instating the relevant deleted paragraphs in ASRS 1 with less amendments being required in ASRS 2.

Question 2—Replacing duplicated content with references to the Conceptual Frameworks

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.

We do not agree with the AASB's approach to make references to its *Conceptual Framework for Financial Reporting* (for for-profit entities) and the *Framework for the Preparation and Presentation of Financial Statements* (for not-for-profit entities).

We are of that opinion that:

- Although the ISSB sourced these definitions from the *Conceptual Framework,* they are clearly part of the relevant IFRS Sustainability Standards
- [draft] ASRS1 and [draft] ASRS 2 will be used by preparers and auditors that are not and do not need to be familiar with the requirements of the *Conceptual Framework for Financial Reporting*
- The unnecessary amendments make both [draft] ASRS 1 and [draft] ASRS 2 less readable
- These unnecessary amendments make *[draft] ASRS 1 and [draft] ASRS 2* less compliant with IFRS S1 and IFRS S2.

Question 3—Entities that do not have material climate-related risks and opportunities

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 do not agree with the AASB's approach, it is very useful for users to understand the reasons for determining that there are no material climate-related risks and opportunities identified.

Question 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.

We disagree with the AASB's proposal 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 developed based on SASB Standards.

We are of that opinion because:

- The provision of industry specific information is fundamental to a user's understanding of an entity's climate risks and opportunities and reporting on greenhouse gas emissions
- ASRS 2 should explicitly require entities to refer to and consider the applicability of cross-industry metric categories, this provides fundamental relevant information to users.
- The SASB Standards are the only globally available source of industry specific information.
- The SASB Standards are widely used globally and in Australia.
- The SASB Standards are written in English, and it is easy for preparers and auditors to identify the requirements that are not applicable in Australia
- The amendment means that ASRS2 is not in line with IFRS S2
- The information available to Australian stakeholders will be significantly reduced by omission of this information.
- The AASB has failed to consider or address the fundamental importance of stakeholders being provided with comparable cross industry reporting

We would suggest the AASB adopts an 'if not why-not' approach, whereby entities are required to consider and if applicable report the industry specific information set out in the relevant SASB Standard and if they do not do so, disclose the information they have not presented and the reasons for not presenting that information. Simply saying that an entity has not reported information that is only relevant to a specific non-Australian regulatory regime would easily resolve the issues identified by the AASB.

Furthermore, we would recommend that an entity should be required to disclose which SASB (or SASBs) it has identified as being relevant to reporting its climate related disclosures and to disclose if it is of the opinion that no SASB is directly relevant to its industry disclosures.

Question 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. Noting we believe the AASB's removal of reference to the SASBs significantly reduces the usefulness of the information disclosed to stakeholders.

Question 7— Disclosing the location of the entity's climate-related financial disclosures

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.

Yes.

Question 8— Interim reporting

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

Yes. Paragraphs 69 and B48 provide insufficient guidance as to what should be disclosed in respect of interim reports to be useful to either users or preparers of such reports.

Question 9— Modifications to the baseline of IFRS S2 for [draft] ASRS 2 - Scope of [draft] ASRS 2

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.

No, we do not believe the addition of Aus 3.1 is either necessary or useful. Paragraph 3 adequately sets the scope to be climate-related and therefor is adequate for users to understand risks involving ozone depleting emissions are not within the scope of the standard.

Question 10

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

No, we believe there is no benefit of insisting an entity presents two scenarios as a minimum, the requirement should be to present as a minimum one scenario.

Question 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, upper ranges will become very subjective and open to ongoing assessment by the global scientific community and stakeholders. Clear disclosure as to what upper limit has been used for scenario planning provides sufficient information for users.

Question 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.

Question 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.

Yes.

Question 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.

Question 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.

No, we believe Australian entities should be permitted to convert greenhouse gases using GWP values in line with the reporting requirements under NGER Scheme legislation, but the preferred position should be to comply with the requirements of IFRS S2.

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Question 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.

Yes.

Question 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.

Yes.

Question 18

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

Yes.

Question 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 are of that view because:

- The AASB's proposal does not assist in clarity and compatibility of an entity's source of scope 3 GHG emissions.
- The disclosure will not be in line with IFRS S2.

Question 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.

No, we are of that view because:

- The AASB's proposal does not assist in clarity and compatibility of an entities source of financed emissions
- The disclosure will not be in line with IFRS S2.

Question 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.

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We are not in a position to comment whether such difficulties exist.

Question 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.

Question 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 t

Yes.

Question 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.

In our opinion the guidance provided is adequate.

Question 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.

Yes.

Question 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.

Yes, but we note many of the amendments proposed by the AASB to IFRS S2, whilst reducing costs of preparation, reduce the usefulness and comparability of information disclosed to users.

Question 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 disagree. Both State and the Commonwealth governments access global capital markets and raise capital through the issue of government bonds to investors both in Australia and internationally. Therefore, there is also a need for the Australian public sector to provide sustainability-related risk information to investors. Furthermore, as stewards of State or Commonwealth-owned assets, government agencies should provide sustainably related financial information to the public. Sustainability-related financial information on State and Commonwealth owned assets will not only be of interest to investors but also to the public at large.

Question 30

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

As outlined out in our cover letter, we think a separate Australian Sustainability Standard Board should be established to focus on Sustainability reporting issues. There are a number of reasons why a separate International Sustainability Standards Board was set up separate from the International Accounting Standards Board, and this dual-board set up have been replicated by other jurisdictions across the world, e.g. Canada, Singapore, UK just to name a few. The reasons for this dual-board set up also equally apply in Australia

- Establishing a separate Sustainably Standards Board will allow the AASB to focus on developing high quality accounting standards. Expanding the mandate for an Accounting Standards Board to including sustainability matters could dilute its focus and expertise
- Setting sustainability-related disclosures standards require a separate skill set, and specialised expertise and deep understanding of sustainability issues which may not align with the core competencies of board members with predominantly financial reporting expertise and background.
- Sustainability-related information serves a broader users group. Establishing a separate board allows for broader engagement with different stakeholders who may not traditionally engage with financial reporting standard-setting bodies like the IASB or the AASB.

Whilst there are overlaps between financial reporting and sustainability reporting, establishing a separate Sustainability Standards Board, rather than expanding the mandate of the AASB, sends a strong message to capital markets that Australia is committed to sustainability reporting issues.

Establishing a separate Sustainability Standard Board, consisting of solely sustainability expert will better position Australia to be a more influential force and have a bigger impact on the development of global sustainability disclosures.

Question 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?

Not that we are aware of.

Question 32

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

The lack of international comparability will ultimately make it more difficult for assurance practitioners to recruit staff to perform the assurance services.

The audit profession in Australia is very short of skilled individuals, complete internationalisation of IFRS and International Auditing Standards has allowed audit firms to recruit from overseas and to use offshore service hubs.

With the likely adoption of ISSB's globally, there will be a global workforce available to provide assurance services that will be less useful than it would have been had the AASB maintained alignment with IFRS S1 and IFRS S2.

Question 33

Would the proposals result overall in climate-related financial information that is useful to users?
Yes, but unfortunately a number of the AASB's modifications to IFRS S1 and IFRS S2 mean the usefulness of climate-related financial information provided to users is not as useful to users as it should have been.

Question 34

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

For the reasons stated in our cover letter, we do not believe current proposals are in the best interests of the Australian economy. Adopting modified standards from IFRS S1 and IFRS S2 would impede comparability of Australian companies internationally, potentially placing them at a disadvantage. There will be a perception by the international community that Australia companies are providing 'sub-par' climate and sustainability-related information, where in fact this might not be the case.

As mentioned in our cover letter, in 2005 when Australia first adopted IFRS, it eliminated some options that were allowed under IFRS. Eventhough A-IFRS was in fact more 'strict' in its application and is of higher quality, the international investor community was suspicious of A-IFRS, and perceived A-IFRS as a sub-standard version of IFRS. This resulted in some companies in Australia having difficulty raising finance overseas. In 2007, the AASB made a decision to re-introduce the options and effectively fully aligning AASBs with IFRSs. This allows entities' financial statements to claim compliance with IFRS.

We believe therefore, by adopting IFRS S1 and S2 without substantial modification, like the way AASB adopts IFRSs, is in the better interests of the Australian economy. Australia would also be seen as a global player, that contributes and promotes global comparability of sustainability information for capital markets.

As one of the full early adopters of IFRS, Australia gained a lot of credibility in the global financial reporting community. It is seen and continues to be seen as one of the 'gold standard' jurisdictions in applying IFRS. Australia is well represented at the IASB with Board representation, beginning with Warren McGregor as one of the key founding IASB members, and various IFRIC members. Australian accountants are well respected for their deep knowledge and practical expertise in applying IFRS. Such a reputation can only be gained through fully embracing international standards.