ARA SUBMISSION

EXPOSURE DRAFT SR1 AUSTRALIAN SUSTAINABILITY REPORTING STANDARDS: DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION

FEBRUARY 2024

The Australian Retailers Association (ARA) welcomes the opportunity to provide comments on the exposure draft regarding the Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (ED SR1).

The ARA is the oldest, largest, and most diverse national retail body, representing a $420 billion sector that employs 1.4 million Australians – making retail the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects, and unifies our independent, national, and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate across the country and in all categories - from food to fashion, hairdressing to hardware, and everything in between.

The ARA is proud to represent the rich diversity of Australian retail, from our largest national and international retailers to our small and medium members, who make up more than 95% of our membership. Given the ARA is not the subject matter expert on Australian Accounting Standards Board, this submission has been informed by consultation with the ARA's Advisory Committees and our diverse membership base.

EXECUTIVE SUMMARY

Retailers are cognisant of the significant risks they face due to climate change, encompassing all areas of their operations and supply chains. We also recognise the important role business must play in meeting net zero commitments in Australia and abroad.

As a result, the ARA and our members have a strong commitment to Australia's transition to net-zero emissions as evidenced by the ARA Net-zero Roadmap, ARA Climate Action Plan and educational resources to support retailers in implementing and accelerating their own transition to net-zero.

Our members are also well-versed in managing their reporting obligations in relation to environmental, social and governance risks, with many leading the way in terms of voluntary disclosure and reporting. The ARA broadly supports the need for disclosure and welcomes the government's decision to align with ISSB standards. We also appreciate that the ED SR1 has focused on limiting the reporting to only climate, to simplify the process for businesses.

However, the current draft ED SR1 will not only create a heavy administrative burden for business, but also leaves insufficient time for Group 1 to report effectively by the current commencement date. This short timeline also raises concerns around the capability of Australia's audit and assurance industry, which may not have the requisite pool of personnel and bandwidth capacity to meet the requirements for companies that will have mandatory reporting requirements. Significant assurance costs must also be a consideration for the AASB, which will be exacerbated by the additional pressures of resources and potential dual datasets.

In light of this, the ARA makes the following comments with regard to the draft ED SR1.

COMMENTS AND RECOMMENDATIONS

Commencement of reporting and reporting groups

In our view, given that consultations on the draft standards continue until March 2024, companies will have an extremely short lead time to prepare for a reporting period commencing in July 2024.

The ARA suggests the commencement of the reporting period for Group 1 companies to be July 2025, or for those following calendar year reporting, January 2026. This will give companies enough time to put the mechanisms in place before the start of the reporting to produce a valuable report.

Necessity for interoperability

The ARA suggests that given the wide landscape of reporting frameworks and practices, ensuring interoperability between government requirements and the standards is critical to facilitating the usability of information for investors and other stakeholders and reducing risks for business. Interoperability, or allowing companies to submit climate-related disclosures submitted to one regulator for compliance with another, is a positive step towards globally consistent climate disclosures.

We believe it is important to achieve full interoperability with both the ISSB and the EU CSRD for companies who are required, or choose to, report to these more extensive standards. Full Interoperability ensures that companies subject to either ISSB or CRSD standards can also comply with other standards without redundant or conflicting obligations. If not, complication and increased cost to companies is the result, with double reporting or burdensome reporting requirements being placed on subsidiary companies whose parent company is already reporting the EU CSRD standards.

We support interoperability with existing regimes multinationals would likely already be subject to, such as the EU and US.

Introduction of parent level reporting and subsidiary exemptions

The ARA recommends that in consideration of the fluid nature of the global climate-reporting landscape, and the fact that some businesses are already required to report overseas, the standards should include the introduction of parent level reporting and subsidiary exemptions. We believe reporting by subsidiaries will create significant and unnecessary administrative burden for those operating and reporting in other jurisdictions where climate related disclosures are also mandatory.

We believe that while draft ASRS 1 states that disclosures must be made for the same reporting entity as the related financial statements, the Draft Legislation proposes more flexibility for consolidated groups. Both fall short of introducing enough flexibility to provide a more comprehensive view across entities. Due to the proposed rules in Australia aligning so closely with ISSB, interpretation of reporting is consistent. As a result, we believe parent-level reporting can indicate more to a potential or current investor about the material financial outlook for the company, than subsidiary-level reporting.

Countries should provide an exemption for subsidiary entities of parent corporations that report sustainability-related financial disclosures at an aggregated level that is inclusive of that country's data. Parent-level disclosures provide a more comprehensive view across subsidiary entities, maximum comparability, and support the integration of climate disclosure information into financial reporting. Enabling flexibility for a company to report the most decision-useful information at the most appropriate level and promotes climate

action while reducing compliance burden. It also provides investors and other primary users of their financial reporting with the necessary level of information on a company's overall sustainability profile and strategy.

The ARA recommends the AASB consider subsidiary exemptions similar to:

- Corporate Sustainability Reporting Directive (CSRD) legislation in the European Union (*Article 19, paragraph 9)* that allows subsidiary companies in member states to refer to the report of the parent company and require only the following to be submitted where:
  - A statement of exemption including information about the name and registered office of the parent company and web links to the consolidated report; or
  - Translation of the consolidated report into local language (only if required by the member state in which the exemption is being sought.

- Singapore's Sustainability Reporting Advisory Committee consultation paper (page 17)

  C14. To reduce compliance burden, we propose to have a non-listed company exempted from reporting climate-related disclosures if both conditions are met:

  (a) its immediate, intermediate or ultimate parent (local or foreign), determined according to the prescribed accounting standards in Singapore, is minimally preparing climate or sustainability reports in accordance with the prescribed climate-related disclosure in Singapore or deemed equivalent; and

  (b) its activities are included in that parent's report, which is available for public use.

Both examples highlight how subsidiaries can be exempt based on the parent company fulfilling the requirements and providing transparency into the operations of their global business. If any exemption is not considered, the ambition should be for multinational companies to re-use their global assessment of financial exposure to climate-related risks and risks related to the net zero transition to be accepted as part of reporting requirements in Australia.

Flexibility in the use of emission accounting and reporting methodology

We support the flexibility that is indicated regarding the methodology for GHG emission accounting as this supports consistency when companies report across borders. International companies should not be required to use NGER methodology so emission measurement and reporting continues to be consistent and administrative burden is avoided.

Industry-specific standards and interoperability of any future standards

The ARA suggests that where companies participate in multiple industries, industry-based disclosure requirements may not necessarily result in substantially more relevant or comparable disclosures than relying solely on cross-industry metrics.

We believe for companies in multiple industries, applying multiple, overlapping, industry-based standards may create more confusion and less comparability. Disclosure topics should be selected based on financial materiality instead of multiple industry criteria. We therefore support the approach not to require the use of the

Industry-based Guidance or the SASB standards. Any future developments in this area should ensure that companies operating in multiple sectors remain flexible to choose the most relevant or comparable disclosures. In addition, future guidance should consider interoperability and consistency with existing standards.

Commercially sensitive and security-related information

The ARA recommends the inclusion of additional exemptions from disclosure, in consideration of the fact that draft standards only provide exemptions for commercially sensitive information in the case of sustainability-related opportunities.

Examples of additional exemptions could be commercially sensitive information and security-related information related to transition planning, information that risks company security, and information that qualifies as a trade secret, or that could otherwise be considered commercially sensitive. For example, the disclosure of the exact location in critical infrastructure can harm the security of the site. While some security-related exceptions are contemplated in the draft legislation, these do not cover commercially sensitive information in the case of sustainability-related risks nor all cases of security-related information.

GHG emissions intensity

As pointed out in the Basis for Conclusions, companies may voluntarily disclose GHG emissions intensity. We invite AASB to consider making this a requirement. Intensity-based metrics better situate operational GHG emissions in a broader picture of company actions and progress to address climate change. We believe intensity-based GHG emissions disclosures provide investors with more comparable data to better contextualize operational greenhouse gas intensity and provide a more complete picture of a company's actions to address climate change and assessment of high-growth companies' progress over time in achieving GHG emissions management and reduction goals.

Requirement to disclose climate resilience

The ARA is in support of the Climate Change Act, which sets a global temperature goal of keeping the rise below 2°C, and ideally below 1.5°C, compared to pre-industrial levels. However, the AASB has interpreted the Treasury's second consultation in a way that implies that organisations must use the 1.5°C goal as the basis for assessing the transition risks of achieving the Climate Change Act. This means that companies have to consider both the physical and the transition impacts of a 1.5°C scenario, which limits the range of scenarios they can use.

The current Standards do not align with Treasury's second consultation, which assumes that the 1.5°C goal applies to the transition risk/scenario, with a 1.5°C scenario showing the advantages of reducing emissions, while a higher temperature scenario shows the physical dangers of a warmer world.

The ARA recommends that if the AASB wants both types of impacts to match the 1.5°C goal, additional guidance from the AASB would be useful on how to do this.

Limiting the reporting burden

Consistent with IFRS S1, only material information about climate-related risks and opportunities that could reasonably be expected to affect the entity's financial prospects will be required to be disclosed. However, in contrast to IFRS S1, we note that if an entity determines that there are no material climate-related risks and opportunities, Draft ASRS 1 requires an entity to disclose this fact and how it came to this conclusion. We suggest this information is superfluous and could create confusion. A similar requirement does not exist in financial reporting.

Moreover, the ARA recommends additional guidance be provided around the definition of 'material'. Although organisations may be exposed to climate-related risks and opportunities, they may not be considered to be financially material for the purposes of disclosure, or impact the entity's future prospects. Further clarity should be provided around this point.

Extending the duration and scope of the safe harbour provisions

Given the immense challenges and novelty for such reporting to many parts of the industry, the implementation of the standards needs to be accompanied by adequate safe harbour (limited liability) provisions. The ARA suggests that the current three-year safe harbour be extended to account for challenges in making statements as it relates to forward-looking data and predictions. Similarly, in the situation where a disclosure is found to be inaccurate due to factors outside of organisation's control, this should also be included in the safeguard provisions.

a. Extend the duration of the safe harbour: The Draft Legislation only provides **a three-year safe harbour** for statements relating to scope 3 GHG emissions and scenario analysis made in statements for a financial year commencing between 1 July 2024 and 30 June 2027 (Safe Harbour Period). Such a short safe harbour provision risks not being sufficient in time for companies to improve Scope 3 data to an adequate level of quality and reliability. Especially with Scope 3 reporting starting (according to IFRS) in 2027 on 2026 FY and a GHG Protocol revision underway, the quality of scope 3 will only improve slowly – both within AU and abroad.

b. Using the initially planned scope: The Draft Legislation does not extend safe harbour provisions to **transition planning or forward-looking statements** more broadly, as originally proposed in the government's initial consultation Paper. Forward-looking information is, by nature, uncertain and subject to change when new information becomes available. To encourage proactive transition planning, providing safe harbour from liability for forward-looking statements would encourage reporting entities to take a more comprehensive approach to risk identification and to adapt disclosures when new information becomes available, such as when informed by scenario analyses.

Thank you for the opportunity to provide a submission to this inquiry. Any queries in relation to this submission can be directed to our policy team at policy@retail.org.au.