

**1 March 2024**

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

Dear Dr Kendall

**RE: ACAG response to Exposure Draft SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information**

On behalf of the Australasian Council of Auditors-General (ACAG/We/our), thank you for the opportunity to comment on the draft *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*. ACAG would like to acknowledge the AASB's efforts in proposing sector-neutral standards for disclosing climate-related financial information.

ACAG's detailed response is attached, addressing both 'specific matters for comment' and 'general matters for comment' requested by the AASB. Additionally, ACAG's overarching feedback on the proposals from a public sector perspective is summarised below.

**Overarching feedback**

**1. Further research to understand user needs, current practices, and potential challenges**

ACAG considers research on topics identified in ED SR1's BC105-BC109 to be significant in shaping the requirements for public sector entities. Additionally,

- ACAG recommends research into what sort of climate-related information users need (and are likely to use). ACAG is concerned that without research into user needs, public sector entities may incur significant costs producing information that is not relevant for the users;
- ACAG recommends a focus on streamlining, i.e., how information is presented to ensure key messages are communicated in an easy-to-understand way. This is especially important given the limited knowledge and expertise of users around climate-related information;
- It may be worthwhile investigating existing practices followed by public sector entities to report environmental data in various jurisdictions. This is likely to provide insights on what challenges public sector entities face in presenting such information and how those might be addressed.

**2. Coordination between states and commonwealth**

The proposed disclosures in ED SR1 focus on entity level information. However, subject to the outcome of the research mentioned above, public sector users may be more interested in whole-of-government (and possibly whole of economy) level information to determine the effectiveness of government policies and accountability of the government to the community.

Achieving this and ensuring users can access relevant information may require significant coordination between various levels of government and across jurisdictions, including ensuring there is consistency of reporting frameworks across jurisdictions.

### 3. Consolidation principles

It is not clear how the entity level information can be translated into the whole-of-government consolidated information as there will be several complex eliminations to be undertaken. Guidance on this will be crucial.

### 4. Scope 3 emissions

The inherent challenges in measuring and disclosing scope 3 emissions, such as determining the value chain in the public sector could result in significant costs for the public sector entities. ACAG recommends that the AASB conducts a comprehensive analysis of the costs and benefits prior to mandating these disclosures on public sector entities.

### 5. Materiality

Materiality judgements may differ between stakeholders, such as between preparers and auditors. In practice, applying the accounting concept of materiality to climate-related information may be difficult. Therefore, similar to the comment that the AASB and AuASB provided to the ISSB on its draft standards S1 and S2, ACAG recommends the AASB provide guidance on applying the definition of material in the context of climate-related disclosures to help ensure consistent application by stakeholders. This may include amending AASB Practice Statement 2 *Making Materiality Judgements*.

Additionally, it is unclear at the moment whether the amendments proposed to section 296B of the Corporations Act 2001 (as part of the exposure draft of the Commonwealth legislation) contradict with the concept of materiality in the draft ASRS standards. Some believe that the proposed section 296B varies the application of the standards and there is a contradiction, as materiality in draft ASRS standards is defined as an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, while the materiality exemption in the proposed section 296B is based on thresholds related to revenue, assets and number of employees. ACAG recommends the AASB to seek clarification from the Commonwealth Treasury and resolve this anomaly.

### 6. Risk of delay in IPSASB's standards

While there may be benefits in waiting for the IPSASB's climate related proposals, it is likely that some Australian public sector entities will be required to report on climate-related information before the AASB is able to fully consider the international proposals. Therefore, the AASB may have to step in to provide guidance on the public sector issues raised in this letter.

### 7. Entities applying Tier 2 framework

The AASB should clarify whether similar disclosures will be required for entities applying the Tier 2 reporting framework or whether any modifications to the proposed requirements are expected for such entities.

### 8. Effective date of the standards

The effective date of the standards should consider the transition time required to apply the standards including:

- achieving significant capability uplift that will be required for preparers and auditors;
- enhancing systems and processes;

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- addressing implementation challenges raised by stakeholders; and
- the finalisation of the associated auditing standards.

Once again, thank you for the opportunity to comment on this important change. I hope you will find ACAG's comments, which represent the views of all members of ACAG unless specifically identified, helpful as you move to progress the new standards.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. L. Harris', written over a thin horizontal line.

Michael Harris

**Chair**

**ACAG Financial Reporting and Accounting Committee**

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## QUESTIONS FOR RESPONDENTS

### AASB Specific Matters for Comment

#### Presenting the core content of IFRS S1 in [draft] ASRS Standards

**Background:**

The AASB is proposing to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures. Therefore, in developing the [draft] ASRS Standards, all references to “sustainability” in IFRS S1 have been replaced with “climate”. After making that change, the requirements in IFRS S2 in respect to core content disclosures of governance, strategy and risk management duplicate the requirements in IFRS S1. To minimise unnecessary duplication, the AASB considered three possible options regarding how to present the core content disclosure requirements of IFRS S1 in [draft] ASRS Standards (see paragraphs BC21–BC24).

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. **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.**

ACAG supports option 3, and the AASB’s rationale provided in paragraphs BC 21-BC 23 of the ED. In this regard:

- To give effect to the Australian Government's direction to limit the scope of the standards initially to climate-related financial disclosures, while the replacement of the words ‘sustainability’ with

'climate' provides better clarity, ACAG suggests the AASB explore options that could avoid this being necessary. For example, one option may be to add an Aus paragraph in ASRS 1 stating that all references to 'sustainability' should be understood to mean 'climate' until the time any other sustainability related topics are released in the future. This will reduce the AASB's effort to replace the references from 'climate' back to 'sustainability' when more sustainability topics are introduced in the future;

- However, if the AASB goes ahead with its proposals to replace 'sustainability' with 'climate', one jurisdiction recommends the AASB follow a process consistent with other AASs that are based on IFRS. To elaborate, when there is a non-editorial change to the IFRS, a new Aus paragraph is added. For ASRS S1, the change from sustainability-related to climate-related is considered non-editorial. Therefore, for each ISSB S1 paragraph that is changed from sustainability-related to climate-related, there should be a separate Aus paragraph. While it would mean that many of the ASRS S1 paragraphs would be Aus paragraphs, it would reflect what has been changed.

Two dissenting jurisdictions support option 2 given the aim is ultimately having internationally aligned standards and the expectation that the AASB will expand the scope of these standards to broader sustainability reporting topics in the near future, it is preferable to adopt the approach followed in IFRS S1 and S2.

One jurisdiction supporting option 2 further suggested that from a digital reporting perspective, duplicating the text in S1 and S2, would include specific tags for climate-risk factors (specifically for S2) which will aid extraction of climate related information by users. This is because (assuming the ISSB taxonomy was used) users would be able to use S2 tags, rather than users having to extract climate-related information manually from the general sustainability related information in S1 tags. This jurisdiction notes it would be relatively easy for the AASB to include a note in the text of ASRS S2 stating that the requirement is the same as that in S1, so preparers will not duplicate disclosures.

## Replacing duplicated content with references to the Conceptual Frameworks

### **Background:**

As noted in paragraphs BC25–BC27, the AASB is of the view that since the 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) are not legislative instruments and do not form part of the authoritative Australian Accounting Standards, they should not be made enforceable as part of [draft] ASRS Standards. Accordingly, where components of those Frameworks have been duplicated within IFRS S1 and IFRS S2 as requirements with which an entity must comply, the AASB is proposing to replace the relevant IFRS S1 and IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing to those Frameworks.

2. **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.**

ACAG supports the AASB's approach for the reasons articulated in BC25-BC27 of ED SR1.

Additionally, ACAG proposes ASRS S1 should explicitly specify the aspects of the conceptual framework that should be referred to rather than just a general reference to the conceptual framework.

For example, ISSB S1 paragraph 13 when referring to “faithful representation” specifically highlights “complete, neutral and accurate” and paragraph 15 highlights “comparable, verifiable, timely and understandable”.

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

### **Background:**

Treasury’s second consultation paper indicated 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).

### **3. 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.**

ACAG agrees with the proposed requirement in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2. as this disclosure will allow users to determine if an entity has considered climate related risks and opportunities affecting its prospects and why they are not material. If an entity has assessed its climate related risks and opportunities per the requirements of the standards, this disclosure is not expected to be onerous. However, materiality judgements may differ between stakeholders, such as between preparers and auditors. In practice, applying the accounting concept of materiality to climate-related information may be difficult. Therefore,

- similar to the comment that the AASB and AuASB provided to ISSB on its draft standards S1 and S2, ACAG recommends the AASB add guidance on applying the definition of material to climate related disclosures to help ensure consistent application by stakeholders. This may include amending AASB Practice Statement 2 *Making Materiality Judgements*.
- it would be helpful if the AASB elaborates in the basis for conclusions why such a disclosure is required when a similar approach is not adopted for financial reporting (for example, no disclosure is required if risks related to financial instruments are not considered material).

Additionally, it is unclear at the moment whether the amendments proposed to section 296B of the Corporations Act 2001 (as part of the exposure draft of the Commonwealth legislation) contradict with the concept of materiality in the draft ASRS standards. In this regard:

- Some believe that the proposed section 296B varies the application of the standards and there is a contradiction as materiality in draft ASRS standards is defined as an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, while the materiality exemption in the proposed section 296B is based on thresholds related to revenue, assets and number of employees.
- Others believe that the proposed section 296B is a scoping mechanism to include or exclude certain entities from making climate related disclosures, therefore it is not a contradiction with the materiality concept used in draft ASRS standards which is still available to those entities in scope of the standards.

ACAG recommends the AASB to seek clarification from the Commonwealth Treasury and resolve this anomaly.

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

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

**Background:**

As noted in paragraphs BC39–BC41, the 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 mainly because:

- (a) the ISSB’s public consultation period was too short for Australian stakeholders to appropriately consider the proposals in Appendix B to [draft] IFRS S2 (issued by the ISSB as Industry-based Guidance on Implementing IFRS S2) and for the AASB to appropriately apply its own due process;
- (b) not all of the proposals in Appendix B to [draft] IFRS S2 are related to climate-related risks and opportunities; and
- (c) the SASB Standards are US-centric and not representative of the Australian or global market.

- 4. Do you agree with the AASB’s views noted in paragraphs BC39–BC41? Please provide reasons to support your view.**

ACAG agrees with the AASB’s proposals to remove references to the SASB standards and related guidance as ACAG does not consider it appropriate to require entities to use these standards and guidance when they have not gone through a due process in Australia and are different from the Australian industrial classification system (ANZSIC). ACAG believes it would be more appropriate to use industry metrics that are relevant to the Australian and/or global market rather than those that are largely US centric.

ACAG also notes the lack of not-for-profit and public sector industries in the SASB standards.

**Background:**

The industry classification system used in Australia is the Australian and New Zealand Standard Industrial Classification (ANZSIC) issued by the Australian Bureau of Statistics. As noted in paragraph BC42, to avoid introducing requirements that would require an entity to use another industry classification system, the AASB is proposing to specify in [draft] ASRS Standards that, if an entity elects to make industry-based disclosures, the entity shall 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 (see paragraphs Aus48.1, Aus55.1, Aus58.1 and AusB20.1 of [draft] ASRS 1 and paragraphs Aus32.1, Aus37.1, AusB63.1 and AusB67.1 of [draft] ASRS 2).

- 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.**

While ACAG broadly aligns with the AASB's perspective, it anticipates some practical challenges such as:



- there could be numerous reporting entities that are not aware of their ANZSIC code, operate under multiple codes, or are not aware if industry peers operate under the same ANZSIC code;
- it is not clear which body would incur the costs to develop ANZSIC specific disclosures given that SASB has already done something similar. Therefore, if a preparer wishes to present industry metrics, it will have difficulty in ensuring compliance with the proposed standards that require comparison under the same ANZSIC code. This will leave the disclosures up to respective entities and may lead to a lack of consistency.

ACAG recommends the AASB determine how the anticipated challenges may be addressed before finalising the proposals.

**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.**

Divergent opinions exist across various jurisdictions on the matter.

The majority of ACAG jurisdictions have concerns with allowing voluntary disclosures, primarily due to the following factors:

- the knowledge and understanding of preparers, auditors and the users of the sustainability related information is still maturing. There is a risk that allowing the disclosure of voluntary information will cause confusion for readers and it may be difficult to determine when such additional information obscures the information required by standard. It may also cause potential difficulty for auditors to provide an opinion when the voluntary disclosures are based on different frameworks. While these voluntary disclosures may be scoped out of the opinion, it makes it more difficult for users to understand which disclosures are subject to assurance;
- such other frameworks would not have been through the due process in Australia;
- there are differences in the maturity of various frameworks, and it could hamper comparability of disclosures.

The remaining jurisdictions are of the view that voluntary disclosures should be permitted as long as they do not obscure or conflict with mandatory disclosures, especially considering the public sector might initially turn to other frameworks during the early stages of standard implementation given the gaps/issues identified with application of SR1 in its current form to the public sector. This might include preparers wanting to state compliance with the underlying ISSB standards, which includes industry-based metrics. Additionally, the lack of explicit permission does not necessarily preclude the use of alternative frameworks or pronouncements.

Nevertheless, if the AASB decides to allow entities to make voluntary disclosures, ACAG suggests that such additional disclosures:

- are clearly distinguished and/or separated from audited information;
- should only be made provided these are relevant, reliable and provide useful information to the users and do not conflict with the ASRS Standards.



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

### **Background:**

As noted in paragraphs BC43–BC45, in its second consultation Treasury proposed to require entities to include an index table in its annual report 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. Feedback to that consultation indicated that there was overall support for such an index table and that it would provide useful information to users.

However, the AASB was concerned that requiring an entity to include a detailed index table in its GPFR could be onerous to prepare. The AASB is of the view that the benefits of having such a detailed index table presented in an entity's GPFR would not outweigh the cost and effort required to prepare the index table.

- 7. 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.**

ACAG understands, based on the exposure draft legislation released by the Commonwealth Treasury that climate related disclosures will form part of a 'sustainability report' that will be separate to the 'annual financial report', although it is not clear, whether such a sustainability report will be part of the annual report or a stand-alone report by itself. While the Commonwealth legislation is relevant for entities reporting under Corporations Act, treasuries in other states could also require broader public sector entities to follow similar practice.

Nevertheless, whether public sector entities will be required to report climate related disclosures as part of annual report or in a separate sustainability report, ACAG is of the view that an index is essential to enable users to navigate through the contents of the report on the basis that:

- a detailed index is expected to provide clarity and clearly distinguish between audited and non-audited information. Without the disclosures being clearly identified, it will be difficult for auditors to outline in their assurance report the disclosures that are covered by the opinion. In this regard, paragraph 170(c)(iv) of the AUASB's Consultation Paper *'Exposure of the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards'* requires the assurance report to 'identify and describe the sustainability information, including, if appropriate, the sustainability matters and how that information is reported'. Paragraph A469 of the consultation paper clarifies that 'identification and description of the sustainability information subject to the assurance engagement and, when appropriate, the sustainability matters, may include:
  - the title or other identifying features of the sustainability information and, if applicable any broader report (such as an annual report or integrated report) within which the sustainability information is reported;
  - if the sustainability information subject to the assurance engagement is not the entire sustainability information, identification of the part of the sustainability information subject to the assurance engagement, and if necessary to assist users' understanding, identification of the sustainability information not subject to the assurance engagement.

Based on the above, whilst the proposed requirements by the AASB in paragraph Aus60.1 might be appropriate for smaller entities, they are less likely to be appropriate for entities with material and complex climate related disclosures.

- while an index may require cost and effort to prepare, the cost is likely to be small;
- considering that climate change is just one aspect of sustainability reporting, with the emergence of additional topics, the disclosures may become more voluminous and complex. In the absence of an index, this complexity could pose challenges for users in accessing the required information and the AASB will also need to consider whether the proposed requirements in Aus60.1 will be appropriate in the future;
- many companies already include an index or table of contents for other reports such as the financial report without any known constraint in providing such information;
- the primary purpose of sustainability disclosures is to provide useful information to the users. Feedback to Commonwealth Treasury demonstrates that users find this information useful. It is likely that if a clear index is not provided, users may find it difficult to locate or understand the information and entities' efforts in providing the disclosures may lead to little benefit.

### Interim reporting

#### **Background:**

Treasury staff observed that the feedback received on the second consultation paper indicated there was a significant degree of confusion over whether interim reporting of climate-related financial disclosures would be mandatory, since IFRS S1 included optional requirements on interim reporting. As noted in paragraph BC46, to help avoid creating confusion around interim reporting the AASB is proposing to omit the following IFRS S1 paragraphs in [draft] ASRS 1:

- (a) IFRS S1 paragraph 69, which requires an entity electing to prepare interim reports to comply with IFRS S1 paragraph B48; and
- (b) IFRS S1 paragraph B48, which provides guidance on the content of interim disclosures should an entity elect to prepare interim reports.

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

While ACAG is indifferent to the proposals as interim reporting is not relevant to the public sector, we point out that Australian modifications from an ISSB standard should not be made, unless there is a clear reason/benefit under the AASB standard-setting framework. In this particular case, there is no such clear reason/benefit as paragraph 69 of S1 clearly states that "This Standard does not mandate which entities would be required to provide interim sustainability-related financial disclosures ...", therefore, it is up to the relevant regulator to require or not require the presentation of sustainability related information for interim periods. Also, paragraph 69 is clear that the entity shall apply paragraph B48 only if it is required or elects to publish interim sustainability-related financial disclosures.

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

#### Scope of [draft] ASRS 2

#### **Background:**

IFRS S2 applies to climate-related risks and opportunities within the context of climate change. As noted in paragraphs BC49–BC50, feedback to ED 321 highlighted that there was a significant degree of confusion on what was meant by “climate” and the boundary of [draft] IFRS S2. Given that IFRS S2 makes no reference to climate-related financial disclosures beyond climate change or other climate-related emissions, the AASB decided to add paragraph Aus3.1 to [draft] ASRS 2 to clarify the scope of the Standard—that [draft] ASRS 2:

(a) is limited to climate-related risks and opportunities related to climate change; and  
(b) does not apply to other climate-related emissions (e.g. ozone depleting emissions) that are not greenhouse gas (GHG) emissions.

That scope statement would also clarify that [draft] ASRS 2 does not replace existing legislation or pronouncements prescribing reporting requirements related to other sustainability-related topics (e.g. water and biodiversity).

**9. 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.**

ACAG agrees with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard, for the reasons outlined in paragraphs BC49-BC50 of the ED.

A suggested change is to delete the words ‘climate-related’ when stating that the scope of ASRS 2 does not apply to other ‘climate-related’ emissions that are not greenhouse gas (GHG) emissions, as it could lead to possible confusion. AASB could mention, “...Other emissions, such as...”.

## Climate resilience

IFRS S2 does not prescribe the number of scenarios an entity is required to assess to meet the disclosure objective of IFRS S2 paragraph 22.

As noted in paragraphs BC51–BC54, the AASB considered the Treasury’s second consultation paper and added paragraph Aus22.1 to [draft] ASRS 2 to propose requiring an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures to 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).

The global temperature goal set out in paragraphs 3(a)(i) and 3(a)(ii) of the Climate Change Act is to contribute to “holding the increase in the global average temperature to well below 2°C above pre-industrial levels; and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.” 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).

Consistent with the ISSB’s reasons, the AASB decided not to specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis, which mainly assesses climate-related physical risks.

This is because scenarios used in assessing physical risk would depend on the entity’s facts and circumstances, including the nature and location of its operations

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

ACAG agrees with the proposal in [draft] ASRS 2 paragraph Aus22.1 and supports the adoption of an absolute target as it would provide clarity to entities about which target to use for conducting their climate resilience assessments and would enhance comparability between entities.

ACAG notes that the requirements only apply to entities required by the *Corporations Act 2001* to prepare climate-related disclosures but could also form the basis for respective state treasuries to set requirements for public sector entities.

**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.**

ACAG concurs with the AASB's view for reasons akin to those outlined by AASB. It is noteworthy that treasuries within jurisdictions have the discretion to establish an upper-temperature scenario tailored for government entities.

#### **Cross-industry metric disclosures (paragraphs 29(b)–29(g))**

**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.**

ACAG broadly agrees with the cross-industry metric disclosures set out in paragraphs 29(b)- 29(f) as they are expected to provide useful information to users about an entity's performance in relation to its climate-related risks and opportunities. Such disclosures would improve comparability across entities and are expected to be equally relevant to the not-for-profit and public sectors. ACAG's view on paragraph 29(g) in the next question.

One jurisdiction seeks clarification on the use of the term 'vulnerable' in paragraphs 29(b) and 29(c), specifically why the term has been included as an additional qualifier. In particular, is the additional term meant as an additional filter mechanism for 'significant' risks (as in the original ISSB ED), or is it meant to include each climate-related risk. This jurisdiction believes that as this is the only place in the standard that uses the term 'vulnerable' the current drafting is likely to lead to confusion and inconsistent application.

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

***Background:***

AASB members formed two views regarding whether to require Australian entities to disclose the following information as set out in [draft] ASRS 2 paragraph 29(g):  
(a) a description of 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.

One of the concerns noted by a minority of the AASB is that if [draft] ASRS 2 paragraph 29(g) is included in the final Standard, it might be seen as the AASB replicating remuneration reporting requirements outside of Australian legislation. However, for the reasons outlined in paragraphs BC57–BC63, on balance the AASB decided to propose that entities should be required to disclose that information.

To avoid potential conflicts with existing regulatory requirements or entities attempting to define which of their key management personnel is considered an “executive”, the AASB decided to clarify that, in the context of [draft] ASRS 2, “executive” and “executive management” has the same meaning as “key management personnel” and “remuneration” has the same meaning as “compensation”, both as defined in AASB 124 Related Party Disclosures.

**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.**

Divergent opinions exist across various jurisdictions on the matter.

The majority of ACAG jurisdictions are of the view that this disclosure may not provide useful information for the public sector, and that issues surrounding executive remuneration should be left to existing executive remuneration disclosure requirements of the various jurisdictions. Furthermore, there are concerns about the potential difficulty in isolating the portion of an executive's remuneration specifically related to climate-related activities especially considering there are many important aspects of executive remuneration, including growth, achievement of objectives, in addition to climate-related targets.

The remaining jurisdictions contend that the proposed requirements are expected to enable users to assess the impact of managing climate-related risks and opportunities on the remuneration of key management personnel (KMP) and serves as a driver for continuous improvement, particularly relevant for entities significantly affected. An additional advantage of disclosing the integration of climate-related considerations into executive remuneration is the potential to reveal whether there's an incentive for executives to engage in greenwashing or misrepresent climate-related information.

## **Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19–AusB63.1 and Australian application guidance)**

### **Definition of greenhouse gases**

#### **Background:**

As noted in paragraphs BC66–BC69, IFRS S2 defines greenhouse gases as the seven greenhouse gases listed in the Kyoto Protocol. However, the AASB noted that one of those gases, nitrogen trifluoride (NF<sub>3</sub>), is not listed in the National Greenhouse and Energy Reporting Act 2007 and related regulations (NGER Scheme legislation) as a class of greenhouse gas.

Despite that difference, the AASB decided to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification. This is because Australia does not have

a significant presence in the manufacturing of items containing  $\text{NF}_3$ . Therefore, it is expected that not many Australian entities would have material  $\text{NF}_3$  emissions to report.

**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.**

ACAG supports the proposal, aligning with the AASB's rationale.

### Converting greenhouse gases into a CO2 equivalent value

**Background:**

Paragraphs B21 and B22 of IFRS S2 require an entity to convert greenhouse gases into a CO2 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. The IPCC has undertaken its 6th assessment in 2023. Therefore, if an entity is preparing climate-related financial disclosures for the period beginning 1 July 2024, under IFRS S2 the entity would be required to convert greenhouse gases using the GWP values in the IPCC 6th assessment report (AR6).

However, entities reporting under NGER Scheme legislation would be required to use the GWP values in the IPCC 5th assessment report (AR5). As noted in paragraphs BC70–BC72, to avoid regulatory burden for certain Australian entities, the AASB added paragraphs AusB22.1 and AusB22.2 to [draft] ASRS 2 to require an entity to convert greenhouse gases using the GWP values in AR5, as identified in [draft] ASRS 101.

**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.**

ACAG agrees with the AASB's view that an Australian entity should be required to convert greenhouse gases using GWP values aligned with the reporting specifications outlined in the NGER scheme legislation. ACAG believes that maintaining consistency with the NGER Act requirements would alleviate administrative and regulatory compliance burdens for certain entities. This stance also aligns with the principles of the Paris Agreement, which mandates the use of GWP values converted in accordance with the IPCC 5th Assessment Report.

ACAG notes that, because NGER scheme does not require Scope 3 reporting, the mandated Scope 3 emissions under ASRS 2 paragraph Aus 31.1 will be required to be prepared using the GHG protocol. This would seem to require entities to apply different GWP values for the NGER scheme Scope 1 and Scope 2 disclosures compared to the GHG Scope 3 disclosures. ACAG understands that when determining Scope 3 emissions, and including emissions (Scope 1, Scope 2 and Scope 3) from the value chain (suppliers and customers), that these need to be expressed using the different GHG values. In our response to Q 17, ACAG recommends that Scope 3 disclosures not be mandated at this time.

### Market-based Scope 2 GHG emissions

**Background:**



IFRS S2 paragraph 29(a)(v) requires an entity to disclose its location-based Scope 2 GHG emissions. However, the Treasury's second consultation paper proposed a phased-in approach to requiring an entity to also disclose market-based Scope 2 GHG emissions. The AASB added paragraphs Aus31.1(f) and AusC4.2 to propose requiring an entity that would be required by the Corporations Act 2001 to prepare climate-related financial disclosures to disclose its market-based Scope 2 GHG emissions in addition to its location-based Scope 2 GHG emissions, except for the first three annual reporting periods in which such an entity applies [draft] ASRS 2 (see also paragraphs BC78–BC79).

**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.**

ACAG does not agree with the proposals. There is a lack of compelling reasons or clear explanations for incorporating a market-based approach alongside the mandatory location-based Scope 2 GHG emissions, especially considering inherent challenges associated with a market-based approach.

### GHG emission measurement methodologies

**Background:**

The AASB added paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 to specify that an entity would be required to:

- (a) consider the measurement of its Scope 1 GHG emissions, location-based Scope 2 GHG emissions, market-based Scope 2 GHG emissions (when applicable) and Scope 3 GHG emissions separately;
- (b) apply methodologies set out in NGER Scheme legislation, using Australian-specific data sources and factors for the estimation of greenhouse gas emissions, to the extent practicable; and
- (c) when applying a methodology in NGER Scheme legislation is not practicable, apply:
  - (i) a methodology that is consistent with measurement methods otherwise required by a jurisdictional authority or an exchange on which the entity is listed that are relevant to the sources of the greenhouse gas emissions; or
  - (ii) in the absence of such a methodology, a relevant methodology that is consistent with GHG Protocol Standards.<sup>7</sup>

The diagram in the Australian Application Guidance accompanying [draft] ASRS 2 illustrates the application of paragraphs Aus31.1(b) and AusB25.1. See also paragraphs BC73–BC76.

**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.**

ACAG supports the proposals in paragraphs Aus31.1(b) and AusB25.1, noting our comments on the market-based scope 2 emissions in question 16 above (and scope 3 emissions below) on the basis that entities should apply the methodology set out in the NGER scheme as a first step as this is the mandated approach for measuring GHG emissions in Australia. Additionally, ACAG supports the AASB's rationale in paragraph BC74 for prioritising Australian guidance, data and sources and emission factors in estimating GHG emissions over foreign data.

Regarding Scope 3 emissions, given some inherent challenges in making these disclosures, ACAG recommends the AASB conduct a comprehensive analysis of the costs and benefits before mandating these disclosures for public sector entities. For example, determination of the value chain for public sector entities (such as General Government Sector) can be challenging given the number of activities undertaken by the government. It is also not clear whether it is necessary for governments to

undertake extensive analysis of the underlying sources of taxation and grant revenue, and certain types of expenses such as grants, subsidies and social benefits, to be able to comply with GHG Scope 3 reporting requirements. ACAG recommends that the analysis on cost vs benefits should encompass the costs imposed on entities across the entire "value chain" to provide requisite data to reporting entities.

Until the time this analysis has been undertaken and there is more clarity on these proposals for the NFP and public sector, ACAG recommends not mandating disclosures relating to scope 3 GHG emissions.

### Providing relief relating to Scope 3 GHG emissions

**Background:**

As noted in paragraphs BC80–BC81, the AASB decided to add paragraph AusB39.1 to [draft] ASRS 2 to propose 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.

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

Subject to our comments on Q 17 recommending that Scope 3 disclosures not be mandated at this time, if Scope 3 disclosures are mandated, ACAG supports the proposal, aligning with the AASB's rationale. Entities that use prior year data, or parts of prior year data need to ensure that there are sufficient disclosures on the information used for the Scope 3 GHG emissions including the extent to which the Scope 3 GHG emissions are measured using inputs from prior year data.

### Scope 3 GHG emission categories

**Background:**

IFRS S2 paragraphs B32–B33 require an entity to categorise the sources of its Scope 3 GHG emissions based on the 15 categories listed in the IFRS S2 definition, which was taken from the GHG Protocol Standards. However, as noted in paragraphs BC82–BC85, the AASB observed that those 15 categories of Scope 3 GHG emissions are not referenced in IPCC guidelines or the Paris Agreement. The AASB was unsure 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 AASB considered whether it would be more appropriate to require Australian entities to categorise the sources of their Scope 3 GHG emissions consistent with the categories outlined in IPCC guidelines and National Greenhouse Gas Inventory reporting requirements. However, the AASB rejected that approach because the objective of IFRS S2 paragraphs B32–B33 is to disclose information about the entity's activities that give rise to Scope 3 GHG emissions, and the IPCC sectoral classifications do not appear to be sufficient in identifying the entity's activities. For example, it is unclear whether the sectoral categories would provide information about emissions arising from business travel, employee commuting and investments, which are categories in IFRS S2.

The AASB decided to add the Scope 3 GHG emission categories in IFRS S2 to [draft] ASRS 2 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 (see [draft] ASRS 2 paragraph AusB33.1).

**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.**

Subject to our comments on Q17 recommending that Scope 3 disclosures not be mandated at this time, while ACAG can see some merit in the AASB's approach regarding the inclusion of IFRS S2 Scope 3 GHG emission categories as examples only, ACAG believes work needs to be done to create a framework for determining Scope 3 emissions (like there is for Scope 1 and Scope 2 that refer to NGER scheme). Until this is done, disclosing information as per 'scope 3 GHG emission categories' may not lead to useful information if there are inconsistencies in the underlying numbers.

### Financed emissions

**Background:**

As noted in paragraph BC86, IFRS S2 paragraphs 29(a)(vi)(2) and B58–B63 require an entity that participates in asset management, commercial banking or financial activities associated with insurance to provide additional disclosures relating to its financed emissions.

When incorporating those IFRS S2 requirements relating to financed emissions, instead of requiring an entity to disclose the information outlined in IFRS S2 paragraphs B61–B63, the AASB proposes to require an entity to consider the applicability of those disclosures related to its financed emissions (see [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1). This is because IFRS S2 paragraphs B61–B63 are based on GHG Protocol Standards requirements, which require an entity to disaggregate its Scope 1 and Scope 2 GHG emissions (in addition to its Scope 3 GHG emissions). The AASB is of the view that entities that apply methodologies set out in NGER Scheme legislation to measure their Scope 1 and Scope 2 GHG emissions may not have the information necessary for those disaggregated disclosures.

An entity is required to disclose the information outlined in [draft] ASRS 2 paragraphs AusB61.1 and AusB63.1 if those disclosures are applicable to the entity.

**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.**

ACAG can see merit in the AASB's proposals to 'require an entity to consider disclosing' rather than 'requiring them to disclose', on the same basis as outlined by the AASB. ACAG also acknowledges, as highlighted by the AASB, that NGER Act reporting entities might lack the requisite information for disaggregated disclosures.

However, while there is a limited number of entities in the public sector that focus on asset management, commercial banking or financial activities associated with insurance, each jurisdiction operates differently and therefore the level of information each jurisdiction may ultimately disclose

could vary. Additionally, there may be certain aspects or potential complexities with the proposals that ACAG has not assessed. Therefore, from a public sector standpoint, ACAG recommends the AASB gain more insight on potential consequences and conduct a cost vs benefit analysis of these proposals before they are mandated.

### Superannuation entities

**Background:**

As noted in paragraphs BC87–BC88, the AASB has heard from some stakeholders that superannuation entities may have challenges complying with climate-related financial disclosure requirements set out in IFRS S1 and IFRS S2.

- 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. Please provide details.**

ACAG is not in a position to provide comments, as superannuation entities are best suited to respond to this question. However, we expect the investment in a range of assets (shares/property/infrastructure/fixed interest/cash) may complicate Scope 3 disclosures, and is similar to issues faced by asset managers. ACAG is not sure why the AASB is exploring special exemptions for superannuation entities but this is not being explored for asset managers.

### Carbon credits

**Background:**

IFRS S2 defines a carbon credit as “An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry.” [emphasis added]  
As noted in paragraphs BC90–BC92, non-Kyoto Australian carbon credit units (ACCU) are not uniquely serialised. 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 Scheme meet the definition of carbon credit, to ensure non-Kyoto ACCUs can also be recognised as carbon credits in the context of the [draft] Standard.

- 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.**

ACAG can see merit in the AASB’s proposals to modify the definition of carbon credit as it would not be reasonable to exclude non-Kyoto ACCUs from the definition of carbon credits just because they are not uniquely serialised, however there could be some practical challenges with this approach. For example, while determining whether the carbon credit is a reduction or removal as per paragraph 36 of ASRS 2, the carbon credit needs to be tracked back to its source. With the non-Kyoto ACCUs not being uniquely serialised, there may be challenges in complying with this requirement. Therefore, it seems more work needs to be done to understand the impact of proposals within the ED before finalising these proposals.

## Questions specific to not-for-profit entities

**Background:**

As noted in paragraphs BC28–BC30, the AASB is proposing to specify the objective of [draft] ASRS 1 and [draft] ASRS 2 in respect to a not-for-profit entity. Paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 state that the objective would be for a not-for-profit entity 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 to further its objectives, over the short, medium or long term

**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 to further its objectives, over the short, medium or long term? Please provide reasons to support your view.**

While the proposals appear reasonable, in line with paragraphs BC105 - BC109, the needs of the users of public sector climate reporting information remain unclear. Additionally, many public sector entities are funded through appropriations. Therefore, cash flows and financing are not significant considerations at an agency level. ACAG recommends the AASB conduct further research in this area to determine the effectiveness of the proposals.

**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. Please provide details.**

ACAG believes the current objective of a not-for-profit entity preparing climate-related financial disclosures is focused on an individual entity which does not specifically cover some whole of government issues that we have discussed in our response to question 28 below.

ACAG believes that the results of the research recommended in question 23 above will help inform whether any additional guidance explaining the objective of a NFP entity preparing climate-related financial disclosures would be helpful.

**Background:**

[Draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1 propose that a not-for-profit entity would not need to undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, but would be required to use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by [draft] ASRS 1 and [draft] ASRS 2.

As noted in paragraphs BC31–BC33, the AASB is of the view that the clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided in the baseline of IFRS S1 and IFRS S2 (and the [draft] ASRS) relating to certain

quantitative disclosures, would be sufficient to address cost-benefit concerns for not-for-profit entities to prepare climate-related financial disclosures and concerns with the scalability of [draft] ASRS 1 and [draft] ASRS 2 for not-for-profit entities.]

**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.**

While ACAG appreciates the intention of the proposals (which appears to be balancing benefits with undue cost or effort that NFP entities may need to incur in identifying climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects), we anticipate the following challenges:

- entities are at different levels of maturity in their knowledge and understanding of disclosures related to climate reporting, therefore, there is a risk that the proposals may lead to inconsistency in disclosures between similar entities;
- the proposals may pose challenges for preparers and auditors in determining what constitutes 'all reasonable and supportable information that is available to the entity without undue cost or effort';
- there is a risk that some preparers might use this as a justification to avoid making the necessary disclosures.

Therefore, ACAG recommends the AASB gain more insight on potential consequences of these proposals before they are mandated. This also highlights the importance of appropriate research as mentioned in Q 23 and Q 28 below, to streamline requirements for NFP public sector entities and potentially minimise the cost burden on NFP entities to make climate related disclosures.

**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.**

In ACAG's view, it is not currently clear whether the draft ASRS 1 and 2 sufficiently address the cost benefit and scalability concerns for not-for-profit entities preparing climate related financial disclosures (please refer to our response to Q25). As noted in Q17, ACAG recommended that Scope 3 disclosures not be mandated at this time. The standards are new, and entities are likely to lack expertise and prior knowledge on these matters. ACAG believes that whether the draft ASRS 1 and ASRS 2 in their current form address these issues can only be determined once the outcomes of the research recommended in Q 23 and Q 28 and insights into potential challenges highlighted in Q 25 are known. Furthermore, as practice develops in the NFP and public sector, there may be further need for guidance and/or practical expedients from the AASB.

**27. If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related financial disclosure**



requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful. Please provide details.

ACAG does not have any suggestions at this stage pending further research and work of the IPSASB.

### Questions specific to not-for-profit public sector entities

**Background:**

Paragraphs BC105–BC106 set out a high-level overview of two matters raised by not-for-profit public sector stakeholders regarding applying climate-related financial disclosure requirements:

- (a) whether climate-related financial disclosures should be provided by public sector entities on a mandatory or voluntary basis, and by which level of government entities; and
- (b) how to determine the value chain of a government and public sector entities with multi-stakeholder groups.

Additionally, as noted in paragraphs BC107–BC109, the AASB is proposing to defer consideration of whether to undertake a domestic standard-setting project to develop Australian requirements or guidance for not-for-profit public sector entities to report the effect of climate-related risks and opportunities, and related government policies, on the economy, environment and people (i.e. climate-related impact reporting) until it has considered the results of the International Public Sector Accounting Standards Board's project on Climate-related Disclosures in due course.

Questions 28–29 below are designed for the AASB to obtain information on whether additional modifications to [draft] ASRS 1 and [draft] ASRS 2 may be needed to better support the application of the proposed requirements by not-for-profit public sector entities.

**28. Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to:**

- (a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and**
- (b) better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030?**

**In your response, please specify:**

- (a) which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful; and**
- (b) which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view.**

- (i) Whole of Government;**
- (ii) General Government Sector;**
- (iii) Government departments;**
- (iv) Government entities; and**
- (v) Local governments.**

ACAG considers research on topics identified in ED SR1's BC105-BC109 to be significant in shaping the requirements for public sector entities.

Some jurisdictions currently require entities to disclose environmental related data. It may be worthwhile considering existing reporting and disclosure requirements as it may provide useful insights into challenges that NFP public sector entities face and how those can be addressed before mandating proposals. Some areas where additional guidance is required include:

- While the disclosures mentioned in ED SR1 may be reasonable from an individual entity's perspective (which may feed into accountability of the relevant portfolio minister), we recommend the AASB conduct research into needs of the users for public sector climate related information. For example, apart from the requirements in ED SR1, users may also be interested in:
  - a range of accountability obligations of a government to the community e.g, by demonstrating how much the public sector has contributed towards the state's overall net zero target (this may impact their election decisions), how their state has performed as compared to other states, how much each state is contributing towards the nationwide net-zero target or how Australia as a country compares with other international jurisdictions in achieving its targets;
  - summaries of the effectiveness of policies and initiatives to address sustainability matters (by individual jurisdiction or country) including any conflicting or competing sustainability impacts.

Both the above points, call for a significant level of coordination and consistency in policies of various state governments and the commonwealth government to provide users with clear, transparent and easy to navigate reporting.

- Whole of government reporting and consolidation
  - the whole of government has a very large number of individual entities that are consolidated to form the whole of government accounts. This will impact aggregation of level 1, 2 and 3 scope emissions and require a large number of eliminations to obtain consolidated emissions. This will be difficult due to the level of estimation and judgement in determining these emissions, e.g., an entity's Scope 1 GHG emissions (for an electricity generator) could be double-counted with another entity's Scope 2 GHG emissions (purchased electricity);
  - given the limited resources in the public sector, investment in sustainable development would need to be funded from a combination of reductions in other expenditure, additional taxes or debt. Therefore, opportunities and risks for sustainable development may not always be able to be assessed at the individual entity level and may need to be assessed at the whole-of-government level. This creates additional complexities when aggregating entity level data into whole of government disclosures;
  - the concept of 'entity' may differ as it is applied currently in some jurisdictions compared with AASB 10 concept of a consolidated entity encompassing controlled entities (e.g., refer the

Victorian DTF's Financial Reporting Direction 24 *Reporting of Environmental data by government entities* on requirements related to 'organisational boundary'<sup>1</sup>).

- Determination of value chain for public sector entities as there are specific issues for the public sector that do not apply to the private sector. For example, the boundary of the value chain for the General Government Sector given the number of activities undertaken by the government. It is also not clear whether it is necessary for governments to undertake extensive analysis of the underlying sources of taxation and grant revenue, and certain types of expenses such as grants, subsidies and social benefits, to be able to comply with GHG Scope 3 reporting requirements.

**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.**

Given our suggestions around significant research that needs to be undertaken to help refine the requirements for public sector entities, ACAG understands and supports the AASB's rationale for waiting for outcomes of the IPSASB's project on Climate-related Disclosures.

However, some public sector entities in Australia are required to report (such as in NSW and Commonwealth from 2024-25 and 2023-24 respectively) before the AASB will be able to fully consider the IPSASB's proposals. Additionally, ACAG is aware of some entities that would like to voluntarily make climate-related disclosures. Therefore, the AASB may have to step in and provide guidance on public sector issues e.g., regarding value chain, consolidation of information and other areas highlighted in Q23, Q25 and Q28. In the absence of guidance by the AASB, treasuries within the jurisdictions may need to develop their own specific guidance which may result in different interpretations until specific guidance is developed. This may not be cost effective especially considering our comments around coordination between various levels of government to provide meaningful and transparent disclosures to users.

### General Matters for Comment

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

ACAG questions whether the AASB Sustainability Reporting Standard-Setting Framework (September 2023) has been applied appropriately in developing the proposals in this Exposure Draft given our comments in:

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<sup>1</sup> As per the requirements of Victorian DTF's FRD 24, the organisational boundary of the entity for the purpose of environmental reporting must include: a) all operations of the entity; b) the operations of any other public sector entity hosted entirely within the entity's facilities (where there is agreement between the entities for the reporting of these operations); and c) operations of any public asset by a private entity, including those that are within the scope of AASB 1059 or AASB 16, where the environmental impacts of those assets are within the operational control of the entity (see Guidance Manual for further information on 'operational control'). Only the activities associated with asset operations should be considered, and not those from office or other corporate facilities that are not part of any service concession or lease. All entities must disclose the organisational boundary of the entity for the purpose of environmental reporting, including any other entities, leases and service concessions that are included within the entity's reporting.

- Q 17 in relation to Scope 3 and the costs / benefits in the public sector;
- Q 26 where ACAG has mentioned that it is not currently clear whether the draft ASRS 1 and 2 sufficiently address the cost/benefit and scalability concerns for NFP entities preparing climate related financial disclosures;
- Q 23, Q25 and Q28 where ACAG proposes further research before finalisation of the proposals for public sector entities by the AASB;
- relation to Australian modifications that may not be necessary/justified in all cases.

**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?**

ACAG is not aware of any regulatory issues at this stage.

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

ACAG is of the view that in the absence of clear direction and certainty in the reporting standards, it is difficult to ascertain what a complete list of the assurance challenges might be.

However, some of the challenges may include:

- The mandates within the enabling legislation of jurisdictional audit offices may require amendment to enable audits of sustainability reports. Some jurisdictions' mandates use explicit wording related to financial audits and performance audits, and not just 'audits';
- the readiness of entities to prepare climate-related disclosures that will be subject to audit, and ability of entities to access the appropriate skills in the marketplace or train staff. There is also a supply shortage of auditors with knowledge of climate-related reporting and expertise in auditing these reports. Reporting entities and assurance practitioners may find it difficult to access experts in a market that has seen a rapid increase in demand for skills while supply has not been able to keep up. This will put pressure on quality and meeting reporting deadlines;
- significant amounts of management judgement and disclosures based on estimates and forward-looking information, which are inherently difficult for auditors to obtain sufficient and appropriate audit evidence on. The draft legislation proposes that limited assurance is required until 2030; and while this will assist auditors in the short-term; significant guidance on expected practices and how to transition to a reasonable assurance engagement will be required;
- determining what is material for disclosure by a reporting entity, and a material misstatement will be problematic without clearer guidance. ACAG suggests updating AASB's *Practice Statement 2 Making Materiality Judgements* with explicit reference to S1 and S2 examples.

To be more specific, ACAG has identified the following areas in which it will be difficult to obtain sufficient and appropriate audit evidence:

- identifying 'all reasonable and supportable information that is available to the entity without undue cost or effort';
- the scope and breadth of entities in the entity's value chain, which becomes more challenging for group audits especially determining the entities in the value chain of the whole of government. This matter relates to determining what is material, and what is sufficient appropriate audit evidence. ACAG notes that the value chain relates to scope 2 (upstream from energy consumption) and scope 3 emissions (which includes downstream), and that scope 3 is not initially in scope. However, this time should be used to improve guidance for reporting entities and assurance practitioners to determine what is in-scope and out-of-scope; and what is sufficient appropriate evidence for preparers to obtain and auditors to request. For example, auditors will not be able to readily access current assurance reports for scope 2 or scope 3 emissions; making it difficult to arrive at a reasonable assurance conclusion;
- GHG emissions disclosures particularly those relating to scope 3 emissions. Difficulties associated with the auditability of scope 3 emissions and obtaining sufficient and appropriate audit evidence include:
  - whether the measurement approach selected is appropriate;
  - obtaining assurance over estimations that are not based on direct measurement or specific activities in an entity's value chain and based on industry averages;
  - assessing whether the information is representative of the entity's value chain;
  - entities using unverified data in their estimates;
- scenario analysis and the entity's projections or future plans which are prepared based on hypothetical assumptions and whether there is auditable data;
- the appropriateness of climate-related metrics and targets set by the entity.

Other auditing and assurance challenges include:

- the systems, processes and controls within organisations to manage and report on climate-related disclosures for many entities will be in various stages of early development. This will make it inherently difficult to detect fraud or errors in information. Furthermore, it will also make it difficult to take a controls reliance approach, resulting in more substantive work, which may mean more experts are required, increasing cost;
- the expectation and reliance that will be placed on the assurance provided on climate-related reporting that is in the early stages of development;
- where there is a combination of information for which some is unaudited, it will be challenging to provide clarity on what information has been subject to audit and which disclosures are excluded from the audit scope e.g., scope 3 emissions disclosures which do not require assurance under the Commonwealth draft legislation or AASB's proposals to permit voluntary disclosures;

- determining what are material climate-related disclosures for users, particularly qualitative disclosures due to their inherent nature. This is also likely to be an area of contention and disagreement between preparers and auditors;
- assessing qualitative disclosures, including the appropriateness of aggregation and disaggregation and whether they are indicative of management bias or exaggeration.

**33. Would the proposals result overall in climate-related financial information that is useful to users?**

ACAG has suggested several areas where more research is required or additional guidance is necessary (please see our response to Q 17 and Q 23 to 28). Therefore, until the time the AASB provides such guidance, research outcomes or more insights on how certain implementation challenges may be addressed including understanding who the users are, and their information needs in relation to climate related disclosures, it is difficult to comment on this question.

**34. Are the proposals in the best interests of the Australian economy?**

Similar to our comments to Q30 and Q 33, ACAG is not able to comment whether the proposals in their current form are in the best interests of the Australian economy.

**35. 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.**

ACAG believes the benefits of the proposals are that they provide users with information about climate risks and opportunities of an entity and how the entity is responding to these risks and opportunities. However, this is subject to the AASB addressing the implementation challenges highlighted by ACAG.

While the costs of the proposals are difficult to quantify, ACAG expects these to be significant given entities will need to develop systems, processes and controls within organisations to manage and report on climate-related risks and opportunities, become familiar with the new requirements, build capacity in the entity and engage experts due to the specialised nature of the proposals, and the potential cost on suppliers, customers and the general economy in preparing Scope 3 disclosures. Likewise, the volume, complexity and materiality of disclosures will drive the audit effort required.

**OTHER COMMENTS:**

**Location of disclosures:** Based on ED SR1, there is confusion among stakeholders whether the disclosures proposed by ED SR 1 are required to be provided within financial statements or the



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broader annual report. It is ACAG's understanding that the proposed disclosures by ED SR 1 are required to be made in the broader annual report and not as part of the financial statements. ACAG notes that the Commonwealth exposure draft legislation requires disclosures in a separate sustainability report, although it is not clear whether such a sustainability report will be part of the annual report or will it be a stand-alone report by itself. In this regard, ACAG suggests the AASB clarify the requirements accordingly.

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