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Australian Accounting Standards Board (AASB)
via the "Current Projects – Open for Comment" page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment)

Response to AASB ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (ED SR1)

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We submit the following in response to the AASB Exposure Draft, which includes three draft Australian Sustainability Reporting Standards (ASRS Standards):

a. [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using IFRS S1 as the baseline but with a scope limitation to climate-related financial disclosure;

b. [draft] ASRS 2 *Climate-related Financial Disclosures*, developed using IFRS S2 as the baseline; and

c. [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service standard that would be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.

General Comments

What is not explained in [draft] SR 1 regarding the AASB's need to choose Options 1, 2 or 3 is why the AASB proposes to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures. Much of the world is adopting IFRS S1 and IFRS S2 in their entirety other than amending for jurisdictional issues. The arguments for adopting IFRS Accounting Standards in their entirety to the extent possible are relevant here. Although the Australian Accounting Standards did not transition initially to mirroring IFRS Accounting Standards to the extent possible, with unique Aus paragraphs, the need to adopt as close a possible transition to the international versions soon became apparent.

Academic research shows that analysts were not fully conversant with the Australian versions and are biased against covering Australian listed companies. This affected new listings on the Australian Securities Exchange, cross-listings and the cost of capital for Australian companies (e.g., Chalmers et al., 2011; Chalmers et al., 2012) and similarly for New Zealand companies (Houqe et al., 2016). These positive research findings counter the negative perceptions of IFRS adoption by those at the coalface at that time (e.g., Morris et al., 2014) and no doubt there will be similarly negative perceptions expressed at this mandated adoption.

Selective adoption of IFRS S1 and S2 in the Australian equivalents will, it is argued, create costs for Australian companies and its capital market more generally, even though a minimalist approach might most appease critics. Academic research shows that capital markets value sustainability-related disclosures, especially if they are assured (e.g., Fuhrmann et al., 2017). Research also shows that analysts increasingly take into account sustainability information in their analyses, reducing their forecast errors (e.g., Dhaliwal et al., 2012; Hertl and Maniora, 2023), and we know that analyst coverage of listed companies reduces information asymmetry. To the extent analyst coverage is discouraged by idiosyncratic deviations from commonly adopted standards and wording in those standards, there will be pejorative capital market implications. Why would Australia make the same mistake twice?

Given the decision to focus on climate-related disclosures, Option 2 would have kept the Australian version of the standards more consistent with the IFRS S1 and S2, which may have alleviated some of the concerns expressed in Option 1 above. Changing the wording of both Australian equivalents of both standards will likely cause confusion internationally, especially among analysts. Additionally, given that under the Treasury's draft legislation enabling mandatory use of the AASB's SR 1 when finalised, companies' financial audit firms must assure their climate-related financial disclosures, the non-standardised wording will make such joint audit/assurance engagements less efficient for both types of engagements, with global firms needing to adapt their training resources for Australian personnel and international personnel conducting engagements for cross and dual-listed companies. Hence, Option 2 is preferred over the approach taken.

Given this logic, it follows that for the remaining specific questions, we support options that maintain wording as closely as possible to IFRS S1 and IFRS S2 on which ED SR1 is based, including reliance on the SASB industry categorisation as reflected in the ISSB's internationalised SASB industry versions to maximise interoperability and reduce costs for global companies and their service providers.

Yours sincerely,

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