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Office of Australian Accounting Standards Board
Collins St West
VIC 8007

By email: standard@asb.gov.au

ED SR1 - Australian Sustainability Reporting Standards Disclosure of Climate-related Financial Information

The Australian Financial Markets Association (AFMA) is making comment on the ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (SR1).

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, and other specialist markets, including environmental products, carbon and sustainability related and linked products. Our membership base is comprised of over 125 of Australia's leading financial market participants, from Australian and international banks, leading brokers, securities companies and state government treasury corporations to fund managers, energy companies and industry service providers. AFMA members are some of the major issuers and intermediaries of sustainability products, as well as some of the key investors in sustainable activity and products.

Overall, AFMA supports the AASB moving forward with the standard SR1. Critical to this reporting will be improvements in data collection through standardisation. AFMA views the need to address data and analytical challenges as paramount. Specifically, AFMA has identified the following challenges as key and requiring prioritisation:

- Consolidated, machine readable and democratised data accessible to all.
- Support and resources to enable later in-scope SMEs to provide the data that reporting entities will rely upon.
- Consistency in baseline assumptions and scenario analysis, including standard language and definitions;

- Defining and provide commonality for minimum reporting requirements for different scenarios.
- Upscale assurance providers to service reporting entities at the scale required.
- Facilitate streamlined information sharing from NGER entities to reporting entities.
- NGER requirements should be expanded to other sectors and relevant SMEs whose data reporting entities will rely upon.

Resourcing, assurance, and data require investment, enhancement, and immediate attention to facilitate the forthcoming disclosure requirements. These tools are central pillars to the framework but remain in an underdeveloped state, the capabilities and resources are not yet consistent with the requirements in SR1.

1. Presenting core content of IFRS S1

Consistency with IASB presentation and formatting are preferred. While there are sound arguments around more logical and duplicative presentation of the standards, our emphasis is on international consistency. If the read across to the Australian standard is not direct and easy, the advice we have received is that it will not be recognised as compatible and inconsistent regardless of whether the content is substantively the same. This is likely to mark Australia as a non-compliant state regardless of our early adoption. Accordingly, we support Option 2.

2. Reliance on parent entity reporting

A major issue for AFMA's members, many of which are international financial institution, is consistency in global reporting. The standard needs to allow an Australian subsidiary of foreign parent to leverage on foreign parent's climate report.

To reduce compliance burden and utilise group level disclosure which will yield better insights for global institutions with diversified business across jurisdictions, a way forward is to have non-listed companies to be exempted from preparation of the sustainability report with substituted compliance with the below conditions:

- Its immediate, intermediate, or ultimate parent (local or foreign) is preparing climate or sustainability reports in accordance with globally acceptable climate reporting framework such as US SEC rules (when issued), Global ISSB standards, GRI and TCFD).
- Its business activities are included in that parent's report, which is available for public use.

3. Transition issues

3.1. Scope 3 lag

While a 3-year implementation window is broadly consistent with EU reporting legislation certain 'transitional elements' are important, especially with respect to emissions reporting (Scope 3). Issuers still face difficulties with reporting Scope 3 emissions (especially those related to upstream supply chain emissions) due to data inaccuracies and dependence on third part data. This should be accommodated for as much as possible through transitional arrangements, such as through

not having to report Scope 3 emissions in the first applicable reporting period and phase in approach to market-based Scope 2 emissions.

3.2. Extend transition time to allow companies to be “assurance” ready

Climate disclosures will be subject to similar assurance requirements to those currently in the Corporations Act, which require companies to undertake mandatory audit and assurance of financial reports. The sustainability disclosure report would be audited by the auditor of the financial report. We agree with the phasing in assurance requirement over time, where only limited assurance on climate statements relating to Scope 1 or 2 GHG emission.

For this purpose, we propose for transition time to allow companies to be “assurance” ready, where limited assurance to be obtained on Scope 1 and 2 GHG emissions two years after mandatory reporting, instead of immediately, in the reporting year.

4. Extend the duration of Scope 3 GHG emissions disclosure

Climate reporting is relatively new to Australia as compared to certain other jurisdictions. To give entities time to implement robust processes, systems and controls, and to improve quality of their disclosures, it would be better to extend the duration of disclosure of Scope 3 GHG emission to third year an entity is required to prepare climate statements.

5. Propose to allow more time to prepare and filing of climate related disclosure instead of same timeline as financial reports.

It is proposed that climate-related financial disclosures will sit within a sustainability report, which will form the fourth report required as part of annual financial reporting obligations and be contained in a company’s annual report. However, the timing of annual report lodgement, including for those required to lodge with Australian Securities and Investment Commission (ASIC), will stay consistent with current requirements under section 319 of the Corporations Act.

Climate-related financial disclosure is an additional compliance burden to in-scope companies and the disclosure is separate from the financial information. We propose to allow more time to prepare and file climate related disclosure, say by another 3 months from the existing reporting and filing timelines for financial reports. Staggered reporting and filing deadline can offer delivery reliability and can avoid overburdening the companies.

6. Financed emissions

The consultation noted that entities participating in financial activities, including commercial and investment banks, asset managers and insurance entities, are increasingly monitoring and managing risks related to greenhouse gas emissions by measuring their financed emissions. This measurement serves as an indicator of an entity’s exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time. This raise a point not considered in the consultation about investments held for meeting liquidity / prudential requirements that have a GHG component will be handled.

This type of asset holding activity, such as APRA's HQLA (high quality liquid assets) requirement, is for a different purpose than the 'core business' of an ADI or government central borrowing authority, namely lending. Nonetheless, such asset holdings would appear to be captured under Financed Emissions for Asset management (B61.1). If this is the case, then it would imply that entities would need to report the scope 1,2&3 emissions of their HQLA counterparties, namely the likes of governments and ADIs. Similarly, ADIs would need to require this information from Government's and other financial institutions whose paper they hold for this purpose.

The answer is not obvious and leads to the suggestion that APRA should be consulted on this inter-relationship.

AFMA would be pleased to assist the Committee with any questions it may have on the submission. Please contact Monica Young either on 02 9776 7917 or by email myoung@afma.com.au regarding this letter.

Yours sincerely

A handwritten signature in blue ink that reads "David Love". The signature is written in a cursive, flowing style.

David Love
General Counsel