1 March 2024

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)

We write in response to your 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.

We are a collective of Australian scholars, based in Australia, dedicated to advancing research in the fields of sustainability and climate change accounting and reporting. As signatories, we are affiliated with the Social and Environmental Sustainability in Organisations (SESIO) Research Group at Swinburne University of Technology, Australia. Our mission within SESIO is to generate insights that enable organisations to avoid unethical, socially, and environmentally harmful business practices, while also providing actionable intelligence to policymakers to foster sustainable business environments. The SESIO research group serves as a nexus, bringing together academic and industry researchers along with practitioners from the business, government, and civil society sectors, both within Australia and on a global scale. The Exposure Draft – ED SR1 addresses issues of great significance to society and the environment and, therefore, to the stakeholders of the SESIO research group.

We support the AASB mandating climate-related financial information disclosures. In principle we consider ED SR1, once it becomes finalised gives a workable framework for climate-related reporting that can evolve with other Standards to encompass sustainability issues more broadly.

We advocate for a robust sustainability reporting framework which not only facilitates organisations in recognising and reporting on financially material climate-related risks but also organisations' impacts on the society and environment that do not have any consequences on the financial position, performance or cashflows of the organisation (i.e., impact material sustainability-related disclosures). Investors and other stakeholders are increasingly concerned about businesses' impacts on the environment and society regardless of the direct financial effects of those impacts on the business. Therefore, our position is that the sustainability reporting framework adopted in Australia should be based on the principle of double materiality, similar to the approach taken in Europe.

While we commend the AASB's objective to harmonise Australian sustainability reporting standards with the International Sustainability Standards Board's (ISSB) standards, we advocate for an approach that does not discourage the use of other frameworks, such as the GRI Standards, which emphasise impact materiality. It is crucial that entities retain the flexibility to report on the full scope of their sustainability impacts.

The Appendix contains responses to the questions asked by ED SR1.

If you have any queries on the provided comments, please contact Subhash Abhayawansa at sabhayawansa@swin.edu.au.

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Appendix: Specific matters for comment

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

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.**

We prefer Options 2 or 3. We note the differences between Options 2 and 3 relate to cross referencing. We acknowledge Option 3 will, because of cross referencing of duplicated paragraphs deliver a 'slimmed down' ASRS 2 compared to Option 2. We have no position on the advantages or disadvantages of this option for preparers of climate-related financial information.

We do not support Option 1 as this option is not consistent with the demarcation of IFRSs S1 and S2 as established by the International Sustainability Standards Board (ISSB).

Specifically, "IFRS S1 will establish the basis for further development of IFRS Sustainability Disclosure Standards by the ISSB in the future" (IFRS S1 paragraph BC6). Ecosystem services, biodiversity, human capital and human rights are examples of possible future sustainability disclosure standards; neither has a direct relationship with climate. Options 1 and 2 would provide scope to amend ASRS 1 when the Australian Government decides to mandate the disclosure of additional sustainability-related information, such as those relating to the topics mentioned above.

Replacing duplicated content with references to the Conceptual 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.

Yes, we agree replacing duplicated content with references to the conceptual frameworks.

IFRS S1 serves both as a conceptual framework for sustainability reporting and a Sustainability Disclosure Standard. This dual function contrasts with the International Accounting Standards Board (IASB)'s approach, where the Conceptual Framework for Financial Reporting and the IFRSs/IASs are maintained as distinct documents.

In Australia, unlike the existing AASB Standards, the AASB's conceptual framework for financial reporting do not have mandatory status. To ensure consistency with the Australian approach relating to the conceptual framework for financial reporting we support continuation of this approach for sustainability reporting. Furthermore, employing both the Conceptual Framework for Financial Reporting and the Framework for the Preparation and Presentation of Financial Statements will guarantee that sustainability reporting is founded on the same underlying premises, principles, and qualitative characteristics that are central to financial reporting.

We consider AASB's proposed approach an effective mechanism for ensuring framework definitions and content is not made enforceable by inclusion in ASRSs 1 and 2.

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

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.

Yes, we agree with requiring entities that do not have material climate-related risks and opportunities to make an explicit statement of this fact and explain how it came to that conclusion. We consider the proposed requirements provide a useful frame for business to think about climate-related risks and opportunities and make the management more accountable for their decisions.

We also highlight that due to the subjectivity involved in determining materiality in relation to climate related risks and opportunities it is imperative that entities disclose how they assessed materiality in their explanation of how they came to the conclusion.

We note [draft] ASRS 1 paragraph 74 "relieves an entity from disclosing information about a climate-related opportunity otherwise required by an Australian Sustainability Reporting Standard if that information is commercially sensitive".

When finalising [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2 we encourage the AASB to consider how preparers using the paragraph 74 relief would reflect this in their statement.

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

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

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

Yes, we agree with the modifications to the baseline of IFRS S1 for [draft] ASRS 1 in relation to the SASB Standards.

However, we advocate for an approach that does not discourage the use of other frameworks. We note an entity that wishes to make additional, voluntary disclosures using SASB Standards, or the Standards listed in Appendix C of IFRS S1, would be able to do so. We are opposed to explicit references to SASB Standards as it would incorrectly imply the superiority of SASB standards above others.

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.

Yes, we agree with the AASB's view. It is prudent to relate an entity's disclosures to industry-based norms taking into consideration the applicability of well-established and best practice metrics while making due reference to generally accepted local and global standards. This would enhance comparability, clearer view of an entity's performance within a specific industry or sector. We believe that application of AASB's view would balance the competing interests of consistency and relevance of disclosures.

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.

We advocate that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks of pronouncements including but not limited to the SASB and the GRI Standards. We consider it crucial that entities retain the flexibility to report on the full scope of their sustainability impacts. An explicit permission to provide other voluntary disclosures (such as those required under GRI Standards) could encourage companies to disclosure their climate related impacts that might create longer term risks which would not otherwise be considered as per the ASRSs.

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

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.

No, we do not agree. One of the key objectives of climate-related financial disclosures is to enhance the level of transparency and to allow users/stakeholders to make informed judgements. By encouraging entities to creatively design the format of disclosures, we believe that (1) clarity and accessibility of information, (2) easy navigation through disclosures avoiding information clutter, (3) flexibility in adoption of industry specific reporting styles could be achieved. Since there can be much variation among companies in relation to where and in what format information about governance, strategy, risk management, and metrics and targets is disclosed, an index table is necessary for users to efficiently obtain relevant information.

We do not believe that this requirement is onerous as organisations adopting the GRI standards have been voluntarily preparing an index table. The inclusion of an index table will also enhance searchability of information in the sustainability reports using digital tools.

Interim reporting

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

We recommend that entities opting for voluntary interim reporting of climate-related financial disclosures receive explicit guidance within ASRS 1. For those entities choosing to include climate-related financial disclosures in their interim reports, it is advised to incorporate a specific provision within the standards. This provision should mandate that such entities declare whether they have fully adhered to both ASRS 1 and ASRS 2 standards or specify any deviations. This approach ensures transparency and accountability, providing stakeholders with a clear understanding of the extent of compliance with the established reporting standards.

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

Scope of [draft] ASRS 2

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.

No. We do not agree. Ozone depletion and global warming are related environmental issues. Both phenomena involve changes to the Earth's atmosphere that can influence global climate patterns. For example, ozone depletion can lead to cooling in the stratosphere, which may have complex effects on weather and climate. Due to the connection between the two phenomena, we believe delimiting emissions to greenhouse gases is not appropriate from the point of view of reporting on climate related risks and opportunities.

Climate resilience

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

We do not agree with the proposal in [draft] ASRS paragraph Aus22.1.

[Draft] paragraph Aus22.1 would require an entity required by the Corporations Act to prepare climate-related financial disclosures to disclose its climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the Climate Change Act 2022.

We note this approach to scenario analysis is not consistent with the approach applied in New Zealand, whereby, a climate reporting entity is required to consider, at a minimum, three climate-related change scenarios since pre-industrial times:

- a 1.5 degrees Celsius scenario;
- a 3 degrees Celsius or greater scenario; and
- a third scenario chosen by the entity.

We encourage the AASB to adopt the New Zealand approach, noting that doing so is consistent with the Single Economic Market outcomes framework of principles and a range of shared medium term practical outcomes for developing cross border initiatives as agreed by the Prime Ministers of Australia and New Zealand on 29 August 2009.

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.

In our response to Question 10 above, we encourage the AASB to adopt the New Zealand approach that includes a 1.5 degrees Celsius scenario, a 3 degrees Celsius or greater scenario in addition to an entity selected scenario. In addition to our stated reasons provided above, we consider the New Zealand architecture has the advantage of providing clarity to companies that a 3 degrees Celsius or greater scenario should form part of the entity's approach to assessing its exposure and resilience to material climate-related impacts. This clarity helps ensure that all entities assess their risks against consistent, scientifically grounded scenarios, which is crucial for accurate and meaningful risk assessment. When companies use a common set of temperature scenarios to assess and report on their climate-related risks, it significantly enhances the comparability of disclosures across entities and sectors.

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.

Yes, we believe that the disclosures outlined in paragraphs 29(b)–29(g) of IFRS S2 are indeed valuable to users. Specifically, paragraphs 29(b) to 29(d) offer insights into an entity's level of exposure (quantified) to climate-related transitional and physical risks and opportunities, which is crucial for assessing its vulnerability and resilience. The disclosure requirement in paragraph 29(e) is vital for understanding how entities are responding to these climate-related risks and opportunities. Moreover, considering that companies may apply varying internal carbon prices—often influenced by the market prices of carbon credits they utilize—having specific disclosures as mentioned in paragraph 29(f) is essential. This facilitates users in gauging and comparing the efficacy of entities' strategic decisions. Furthermore, as entities increasingly link executive compensation with climate-related performance, disclosing the extent of remuneration connected to climate considerations becomes an important indicator of the degree to which climate-related risks and opportunities are integrated into their governance and strategy.

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

13 Do you agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose the information described in points (a) and (b) in the above box? In your opinion, will this requirement result in information useful to users? Please provide reasons to support your view.

Yes, we agree. The reasons are provided in response to question 12. In addition, we emphases the need to make Australian climate-related disclosures comparable with those of entities in other jurisdictions adopting ISSB Sustainability Disclosure Standards.

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

Definition of greenhouse gases

14 Do you agree with the AASB's proposal to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification? Please provide reasons to support your view.

Yes, we agree. The adoption of definitions from IFRS S2 will enhance the comparability of information provided by Australian entities with entities from other jurisdictions adopting IFRS S2. We advocate that all the Greenhouse Gases defined in the Kyoto Protocol should be included. They are:

Carbon dioxide (CO_2): The most prevalent greenhouse gas, primarily emitted from burning fossil fuels, deforestation, and land-use changes.

Methane (CH_4): Released during livestock digestion, rice cultivation, and fossil fuel extraction.

Nitrous oxide (N_2O): Emitted from agricultural practices, industrial processes, and combustion.

Hydrofluorocarbons (HFCs): Synthetic compounds used in refrigeration, air conditioning, and electronics.

Perfluorocarbons (PFCs): Byproducts of aluminum production and semiconductor manufacturing.

Sulfur hexafluoride (SF_6): Used in electrical equipment and as a tracer gas.

Nitrogen trifluoride (NF_3): Found in electronics manufacturing processes.

By including Nitrogen Trifluoride, although not significantly high in Australia currently, would enhance global bench marking as well as discourage entities taking advantage of this omission in the future.

Converting greenhouse gases into a CO_2 equivalent value

15 Do you agree with the AASB's view that an Australian entity should be required to convert greenhouse gases using GWP values in line with the reporting requirements under NGER Scheme legislation? Please provide reasons to support your view.

No, we do not agree that an Australian entity should be required to convert greenhouse gases using GWP values in line with the reporting requirements under NGER Scheme legislation.

We note that as entities reporting under the NGER Scheme legislation are required to use the GWP values in the IPCC 5th assessment report, the AASB proposal is ASRS 2 require the conversion of greenhouse gases using IPCC5. In contrast, under IFRS S2 entities would be required to convert greenhouse gases using the GWP values in the 6th assessment report.

We encourage the AASB to include in ASRS 2 the option for preparers to use either of IPCC5 or IPCC6 GWP values for converting greenhouse gases and include an anti-abuse option to prevent cherry picking of approach.

Market-based Scope 2 GHG emissions

16 Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2? Please provide reasons to support your view.

Yes, we agree with paragraph Aus31.1 and AusC4.2. Disclosure of location-based Scope 2 emissions and market-based scope 2 emissions encourages entities to comply with IFRS reporting requirements and Treasury directives. Also, providing a 3-year transition period allows entities to adjust to the new reporting conventions.

GHG emission measurement methodologies

17 Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view.

Yes, we agree. Requiring entities to report Scope 1, 2 & 3 emissions separately would enhance the quality of information for making an easy judgement on the level and types of emissions, avoiding the 'covering behind aggregation'. When it comes to selecting measurement methodologies, it is prudent to point to the NGER as the preferred scheme and make alternative options available for entities that find it impractical to apply NGER scheme.

Providing relief relating to Scope 3 GHG emissions

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

We agree with the proposed paragraph subject to a minor correction to the phrase '*unless reasonable and supportable data related to that reporting period is not available to the entity at the reporting date without undue cost or effort'*. We are of the view that the inclusion of 'without undue cost or effort' could be vague, and this could be used as a reason for not making a genuine effort to use data related to the current reporting period. If data is available and the cost and effort to extract is prohibitive, this needs to be disclosed.

Scope 3 GHG emission categories

19 Do you agree with the AASB's approach in [draft] ASRS 2 paragraph AusB33.1 to include the Scope 3 GHG emission categories in IFRS S2 as examples of categories that an entity could consider when disclosing the sources of its Scope 3 GHG emissions, rather than requiring an entity to categorise the sources of emissions in accordance with the categories of the GHG Protocol Standards? Please provide reasons to support your view.

No. We do not agree. IFRS S2 paragraph B32 requires an entity to consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) and disclose which of these categories are included in its Scope 3 greenhouse gas emissions disclosures.

The 15 categories should not be treated as mere examples. An entity should be required to categorise the sources of Scope 3 emissions using the GHG Protocol Standard categories. This approach will enhance comparability and transparency.

Financed emissions

20 Do you agree with the AASB's proposal to require an entity to consider the applicability of those disclosures related to its financed emissions, as set out in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information? Please provide reasons to support your view.

No, we do not agree with the AASB's proposal. For entities deeply involved in asset management, commercial banking, and insurance sectors, financed emissions represent a primary source of climate-related risks and opportunities. The detailed disclosures specified in paragraphs B61-63 of IFRS S2 are crucial for stakeholders to gauge these entities' exposure to climate impacts accurately. Although there may be current limitations in gathering the necessary data for disaggregated disclosures as mandated by IFRS S2 paragraphs B61-B63, entities within these sectors typically possess the resources and capabilities needed to collect and report this information effectively. Given the escalating implications of climate change, the ability of customers and investors to understand an entity's financed emissions is increasingly critical. Access to disaggregated data on financed emissions is not merely beneficial but essential for transparent reporting and informed decision-making by stakeholders. This level of detail supports a more accurate assessment of how climate-related risks and opportunities are managed and mitigated, underscoring the need for explicit disclosure requirements rather than a discretionary approach.

Superannuation entities

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.

We have no response to this question.

Carbon credits

22 Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2? Please provide reasons to support your view.

Yes, we agree. This change of wording indicates a deliberate effort to align the definition with the specific context of the Australian Carbon Credit Unit Scheme, thereby allowing for broader inclusion of carbon credits beyond those compliant with the Kyoto Protocol. By retaining the requirement for uniqueness through serialisation, the amendment maintains consistency with the broader understanding of carbon credits while accommodating the specific requirements of the Australian scheme. While agreeing to this, it is important to note that fundamentally it does not make a difference in recognition or treatment of carbon credits.

Questions specific to not-for-profit entities

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.

Yes, we agree with paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2. AASBs approach reflect a growing recognition of the importance of environmental sustainability and its impact on organisational objectives of not-for profit entities beyond their financial performance and access to finance.

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.

Not-for-profit entities would also benefit by being able to disclose the impacts of their activities on climate change or climate change mitigation. The primary users of information provided by not-for-profit entities are more likely to be concerned about the impacts of the entity's activities rather than how climate change might impact the entity.

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.

We have no response to this question.

26 Do you agree with the AASB's view noted in paragraphs BC31–BC33 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view.

We have no response to this question.

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.

We have no response to this question.

Questions specific to 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.**

The primary users of government sector sustainability reports are more likely to be concerned about the impacts of the entity's activities on the environment and society rather than how climate change might impact the entity. The government sector also discharges a public service obligation. Hence, we strongly advocate the adoption of double materiality at least in relation to the government sector and not-for-profit sector.

29 Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view.

We have no response to this question.

General matters for comment

The AASB would also particularly value comments on the following general matters:

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

We have no response to this question.

31 Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any issues relating to:

(a) **not-for-profit entities; and**

(b) **public sector entities?**

We are not aware of any issues arising from the Exposure Draft specifically pertaining to not-for-profit entities or public sector entities.

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

We believe the proposals might pose potential auditing and assurance challenges, particularly concerning the incorporation of climate risk disclosures into annual audits. The inclusion of climate risk disclosures within the scope of annual audits is contingent upon the stipulated requirements and the degree of clarity provided within ASRSs. The ease and effectiveness of auditors' tasks hinges on the specificity of the disclosure requirements. Clear and well-defined reporting criteria facilitate auditors in effectively carrying out their responsibilities. For instance, as highlighted above requiring entities to exercise judgment in providing information can impede the auditability of such information. There can be much variation among companies in relation to where and in what format information about governance, strategy, risk management, and metrics and targets is disclosed. Therefore, we recommend the implementation of an index table to facilitate users, including auditors, efficiently access pertinent information. Moreover, given the subjective nature of determining materiality concerning climate-related risks and opportunities, it is crucial for entities to disclose their assessment of materiality in their explanations. As noted, it is also important to provide a useful framework for business to think about climate-related risks and opportunities to improve the consistency and auditability of information. Another area for improving auditability would involve providing detailed disclosures as specified in paragraphs B61-63 of IFRS S2 to assess these entities' exposure to financed emissions.

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

Yes, it will.

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

Yes, the proposal is in the best interest 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.

The 2023 Intergenerational Report observes the expanded use of digital and data technology and climate change and the net zero transformation as two of five factors that will influence the future path and structure of our economy and change how Australians live, work, and engage with the world. Ignoring the expanded use of digital and data technology including current and proposed developments in the use of AI (see for example "Meet ChatPwC, the custom-built AI tool" AFR 6 February 2024) will distort any assessment of costs and benefits of the proposal. The cost of compliance and provision of required disclosures will be

significantly affected by the adoption of digital technologies for collecting, aggregating, analysing and visualising climate-related information. While initially entities will need to invest in new technologies and capabilities, in the long run the cost of compliance will reduce.

In our recent (2023) cross sectional survey of global sustainability reporting stakeholders, we investigated the types of digital technologies (DTs) organisations are currently using or not using for sustainability reporting, and the frequency with which they use or don't use these DTs over time. Although there are scale and sophistication of use issues, this is nevertheless a proxy indicator of organisations' digital technology capability, insofar as it relates to sustainability reporting and management. Of the Australian organisations studied, close to 50% undertaking or supporting sustainability reporting have never used or rarely use key established DTs that are critical to current and growing sustainability reporting requirements. Also, we find that over 70% of Australian organisations undertaking or supporting sustainability reporting, and that participated in our survey, have never used or rarely use key emerging DTs that are critical to sustainability reporting. These findings indicate that there is significant potential for Australian entities to adopt DTs for measurement, management and reporting of climate-related financial information. The determination of requisite disclosures within the ASRSs should be informed by the capabilities and opportunities presented by established and emerging DTs, regardless of whether they are currently being utilised or not.