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

AGL Energy Limited (AGL) welcomes the opportunity to contribute to the Australian Accounting Standard Board's (AASB's) Exposure Draft ED SR1 Australian Sustainability Reporting Standards (ASRS) - Disclosure of Climate-related Financial Information ("Exposure Draft").

AGL is a leading integrated essential service provider, delivering 4.3 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest privately owned electricity generation portfolio and have the largest renewables and storage portfolio of any ASX-listed company, having invested billions over two decades in renewable and firming generation.

As the global community responds to the risks of climate change, AGL, as Australia's largest corporate emitter of greenhouse gases, recognises the role that we must play in the transition to a low carbon economy.

In September 2022, AGL released its inaugural Climate Transition Action Plan (CTAP) which states AGL's updated ambition for decarbonisation, including the following commitments:

- Targeting a full exit from coal-fired generation by the end of FY35 (up to a decade earlier than previously announced);
- Ambition to supply customer energy demand with around 12 GW of new firming and renewable capacity by 2036; and,
- An initial target of having up to 5 GW of new firming and renewable capacity in place by 2030.

Our plan recognises that a balance needs to be struck between responsible transition and rapid decarbonisation to keep Australia's electricity supply secure, reliable, and affordable. We are committed to working constructively with our stakeholders, including government, our people and the communities in which we operate, to lead a responsible and orderly transition.

AGL's responses to the Exposure Draft's questions are set out in Appendix A

Should you wish to discuss any aspect of AGL's submission, please contact Theo Comino (tcomino@agl.com) or James Mooney (jmooney2@agl.com.au).

Yours sincerely,

Anita George and Cathlin Thurbon

Head of Sustainability

AGL Energy Limited



Appendix A – AGL's responses to the Exposure Draft

	PRESENTING THE CORE CONTENT OF IFRS S1 IN [DRAFT] ASRS STANDARDS	AGL comments
1	<p>In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:</p> <p>(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;</p> <p>(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;</p> <p>(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</p> <p>(d) another presentation approach (please provide details of that presentation method)? Please provide reasons to support your view.</p>	<p>AGL prefers Option 1, providing the standard is drafted in such a way that it can evolve over time to include broader sustainability issues beyond climate change without undue administrative burden, while ensuring alignment with International Financial Reporting Standards (IFRS).</p> <p>AGL considers that Option 1 would remove duplicative requirements and improve interpretation and useability in comparison to Option 2 and Option 3, given that the subject matter of the two proposed ASRS standards is specific to climate change only.</p>
	REPLACING DUPLICATED CONTENT WITH REFERENCES TO THE CONCEPTUAL FRAMEWORKS	
2	<p>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 ED SR1 8 INTRODUCTION 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.</p>	-



	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	-
	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.	AGL believes that Australian entities should be able to make voluntary climate-related and broader ESG disclosures against other standards (including SASB) in order to meet stakeholder expectations. The AASB should not preclude the use of voluntary reporting frameworks.
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.	AGL agrees with the proposed approach. This is consistent with AGL's current disclosures on an industry basis. However, as entities may operate across various sectors, AGL suggests that any requirement to consider industry-based metrics be limited to the material aspects of an entity's business operations.
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.	AGL agrees with the proposal that ASRS should expressly permit entities to report against other voluntary standards. Entities should be able to determine the appropriate location for making these disclosures, including the option to integrate these alongside disclosures made to satisfy the ASRS standards, as long as they do not obscure or conflict with the required disclosures.
	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.	AGL believes that entities should be able to meet the ASRS requirements by either integrating the required disclosures throughout the Annual Report (including Operating and Financial Review, Financial Statements and Corporate Governance Statement) or by reporting these in a separate chapter. AGL considers that an ASRS Index would provide a useful tool to ensure that report users can readily locate climate-related information within an Annual Report.



		AGL suggests that the AASB and Treasury align on their approach to the required location of the proposed disclosures to ensure there is no ambiguity between the requirements in the Corporations Act and within the ASRS standards.
	Interim reporting	
8	Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.	-
	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.	-
	Climate resilience	
10	Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view.	<p>AGL agrees that a minimum of two scenarios is appropriate.</p> <p>AGL considers that there is limited value in modelling a 1.5-degree scenario for physical risk, as the material physical climate-related risks arise under higher temperature scenarios. AGL considers the requirement to disclose existing climate-related physical risk sufficient to cover risks which are equivalent to those under a 1.5-degree scenario.</p> <p>AGL suggests that the AASB clarifies whether entities will be required to undertake both physical and transition analysis for each scenario. AGL suggests that it may be appropriate to use different scenarios to assess transition risks and physical risks.</p>
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.	<p>AGL agrees with the proposal. We consider that an entity should be given flexibility to determine the most appropriate upper temperature scenario for its business.</p> <p>AGL notes that any requirement for an upper temperature scenario should be limited to physical risk scenario analysis only.</p>
	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	AGL agrees that cross-industry metrics can provide a useful comparison between entities.



	to users about an entity’s performance in relation to its climate-related risks and opportunities? Please provide reasons to support your view.	AGL seeks clarification and further guidance around the definition of “vulnerable to climate-related risks” and “aligned with climate-related opportunities”. Further clarity on these definitions will allow for increased comparability between entities.
	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.	<p>AGL is supportive of additional disclosure requirements on how climate-related considerations are factored into executive remuneration. We recommend the following to ensure consistency of reporting and ease of understanding:</p> <ul style="list-style-type: none"> KMP Definition: Key management personnel in accordance with AASB refers to both Executive Management and Non-Executive Directors (per definition below). We suggest that it has the same meaning as Executive KMP, rather than KMP more broadly. AASB 124 defines Key Management Personnel as “those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.” The percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations: AGL suggests that the disclosure relate to the percentage of contractual target or maximum remuneration that is linked to climate-related considerations, rather than linked to statutory remuneration disclosed in line with the accounting standards in the Remuneration Report. Statutory remuneration takes into account pro-rations for part-year KMP, one-off payments, expense reversals for non-market-based conditions and share-based payments, which can impact the comparability of this data across companies and financial years reported, and the level of understanding of this metric.
	GREENHOUSE GAS (GHG) EMISSIONS (PARAGRAPHS AUS31.1 AND B19AUSB63.1 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.	As the National Greenhouse and Energy Reporting (NGER) scheme provides the legislative framework for the calculation and reporting of scope 1 and 2 emissions in Australia, it is AGL’s view that all scope 1 and 2 calculations should be based on



		<p>NGER requirements and NF₃ should only be included via amendments to the NGER scheme.</p> <p>There should be consistency in the approach for scope 1 and 2 emissions calculations, noting that the approach the AASB outlines here differs from that outlined in question 15.</p>
	Converting greenhouse gases into a CO2 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.	AGL agrees with the proposed approach. As outlined in the response to Question 14, AGL considers that all scope 1 and 2 calculations should be based on NGER requirements.
	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.	AGL agrees with this proposal.
	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.	<p>AGL agrees with this proposal.</p> <p>AGL notes that the GHG Protocol does not provide detailed technical guidelines on accounting methodologies for Scope 3 greenhouse gas emissions and as such individual companies may apply different approaches to defining boundaries and methodologies.</p> <p>AGL recommends that the standard requires entities to disclose material scope 3 emissions and allows for estimations to be made where data is unavailable or not material to the overall scope 3 emissions profile of the entity.</p>
18	Providing relief relating to Scope 3 GHG emissions	
	Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2? Please provide reasons to support your view.	AGL agrees with this proposal.
19	Scope 3 GHG emission categories	
	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	AGL agrees with this proposal.



	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.	
	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.	This proposal refers to a requirement an entity that participates in asset management, commercial banking or financial activities associated with insurance to provide additional disclosures relating to its financed emissions. AGL does not fall into this category.
	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.	This proposal refers to a requirement for superannuation entities. AGL does not fall into this category.
22	Carbon credits	
	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.	AGL agrees with this proposal.
	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.	This proposal refers to a requirement for not-for-profit entities. AGL does not fall into this category.
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.	This proposal refers to a requirement for not-for-profit entities. AGL does not fall into this category.



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.	This proposal refers to a requirement for not-for-profit entities. AGL does not fall into this category.
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.	This proposal refers to a requirement for not-for-profit entities. AGL does not fall into this category.
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.	This proposal refers to a requirement for not-for-profit entities. AGL does not fall into this category.
QUESTIONS SPECIFIC TO NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES		
28	<p>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:</p> <p>(a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and</p> <p>(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?</p> <p>In your response, please specify:</p> <p>(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</p>	This proposal refers to a requirement for not-for-profit entities. AGL does not fall into this category.



	<p>(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.</p> <p>(i) Whole of Government; (ii) General Government Sector; (iii) Government departments; (iv) Government entities; and (v) Local governments.</p>	
29	<p>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.</p>	<p>This proposal refers to a requirement for not-for-profit entities. AGL does not fall into this category.</p>
	<p>GENERAL MATTERS FOR COMMENT</p>	
30	<p>Has the AASB Sustainability Reporting Standard-Setting Framework (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?</p>	<p>-</p>
31	<p>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:</p> <p>(a) not-for-profit entities; and (b) public sector entities?</p>	<p>AGL understands that under section 45 of the Security of Critical Infrastructure (SOCi) Act 2018, it is a criminal offence to disclose protected information and that some information relating to material physical climate risks may be categorised as protected information for entities and/or assets deemed to be critical infrastructure.</p> <p>AGL requests the AASB to provide clarity on whether exemption under section 46 of the SOCi Act will apply to ASRS disclosures, or whether entities should refrain from reporting protected information as per section B33 of ASRS1 Appendix B of the exposure draft.</p> <p>AGL recommends that an exemption to the SOCi Act be carved out for the purposes of reporting physical risks under the ASRS.</p>
32	<p>Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?</p>	<p>AGL is concerned about the pending assurance regime that will be applied to the ASRS standards given current lack of detail.</p>



		<p>AGL considers the uncertainty surrounding assurance levels and timeframes, presents challenges in the implementation and planning for ASRS requirements.</p> <p>Additionally, we express concerns over the capacity of auditors to perform assurance procedures on ASRS qualitative disclosures, given resource constraints. Access to auditors is likely to become increasingly difficult as this reporting regime expands to groups Two and Three in future periods.</p>
33	<p>Would the proposals result overall in climate-related financial information that is useful to users?</p>	<p>AGL is supportive of the AASB and Treasury mandating climate-related financial reporting for Australian entities.</p> <p>AGL suggests that the AASB and Treasury should align on a uniform approach regarding the required location of the proposed disclosures.</p> <p>AGL believes that entities should be able choose to meet the ASRS requirements by either integrating the required disclosures throughout the Annual Report (including Operating and Financial Review, Financial Statements and Corporate Governance Statement) or by reporting these in a separate chapter.</p>
34	<p>Are the proposals in the best interests of the Australian economy?</p>	<p>AGL acknowledges the evolving expectations of stakeholders and investors regarding comprehensive sustainability reporting beyond climate-related aspects. We understand that the IFRS standards are intended to capture a broader and increasing range of sustainability concerns as they evolve, with IFRS S1 establishing the overall guiding principles for the IFRS S2 (climate) standard and any future sustainability standards.</p> <p>While we note that Australia is initially only focusing on climate-related disclosures, we would like to understand how the proposed structure of the ASRS standards (via Options 1, 2 or 3 as outlined in Question 1) allows for the future expansion of the standards to other sustainability issues, in line with the evolution of the IFRS standards.</p> <p>As the IFRS standards are adopted in other jurisdictions, Australian entities that compete for capital in global markets will be expected to make comparable sustainability disclosures to their international counterparts. As such, it is important to ensure that Australian entities are able to easily and effectively meet mandatory ASRS requirements alongside voluntary disclosures to meet IFRS standards should they choose to do so. The way that the AASB has chosen to amend the IFRS standards may present some challenges to this.</p>



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.	-
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