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Lodged online

Dear Australian Accounting Standards Board

HSF Submission on Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

Scope of this submission

This submission is made by Herbert Smith Freehills (**HSF**) in response to Exposure Draft SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (**Exposure Draft SR1**) released by the Australian Accounting Standards Board (**AASB**) on 23 October 2023.

Key submissions in response to Exposure Draft SR1

We continue to welcome the introduction of a mandatory climate reporting regime in Australia, which aligns with the International Sustainability Standards Board's (**ISSB**) standards on climate-related disclosure, as adapted by the AASB for the Australian context. Our submissions to the specific questions requested by the AASB are set out in the table at Attachment 1.

Given the volume of changes, it might be useful for stakeholders if the AASB undertakes to review the implementation of Exposure Draft SR1 after 12 months and invite submissions to correct unintended consequences or matters that are not workable in practice.

Further questions

If you have any questions or comments about our submissions, please do not hesitate to contact us using the details below.

Yours sincerely



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HSF submissions in response to the AASB’s public consultation on Exposure Draft SR1

No.	Context	Question	Comments
Presenting the core content of IFRS S1 in [draft] ASRS Standards			
1	<p>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).</p> <p>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.</p>	<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>We prefer Option 3, which presents the core disclosure requirements of IFRS S1 as two separate [draft] ASRS Standards, with:</p> <ul style="list-style-type: none"> • [draft] ASRS 1 containing the requirements relating to disclosures of governance, strategy and risk management; and • [draft] ASRS 2 replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding paragraphs in [draft] ASRS 1. <p>Presenting the core disclosure requirements as two separate [draft] ASRS Standards that replicate the structure of IFRS S1 and S2 (with relevant modifications to suit the Australian landscape) will assist multi-jurisdictional entities maintain consistency with their existing climate-related financial disclosures made under IFRS S1 and S2.</p> <p>In light of there being two separate [draft] ASRS Standards, we also recommend that the AASB prepares a consolidated checklist of the requirements under both Standards. This will assist in providing comfort to the directors of entities who will be required to declare compliance with the</p>

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		(d) another presentation approach (please provide details of that presentation method)? Please provide reasons to support your view.	Standards (notably, during the initial phase-in of the regime, in the absence of reasonable assurance being conducted).
Replacing duplicated content with references to the Conceptual Frameworks			
2	As noted in paragraphs BC25–BC27, the AASB is of the view that since the <i>Conceptual Framework for Financial Reporting</i> (in respect to for-profit entities) and the <i>Framework for the Preparation and Presentation of Financial Statements</i> (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.	Do you agree with the AASB's approach to make references to its <i>Conceptual Framework for Financial Reporting</i> (in respect to for-profit entities) and the <i>Framework for the Preparation and Presentation of Financial Statements</i> (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.	We agree with the AASB's approach to make references to its <i>Conceptual Framework for Financial Reporting</i> (in respect to for-profit entities) and the <i>Framework for the Preparation and Presentation of Financial Statements</i> (in respect to not-for-profit entities) (together, the Frameworks) instead of duplicating definitions and contents of those Frameworks in [draft] ASRS 1 and [draft] ASRS 2. This approach is consistent with the Australian Accounting Standards. In addition, the Frameworks are not legally enforceable and therefore the definitions and contents contained within are not expected to be relied upon in a formal sense.
Entities that do not have material climate-related risks and opportunities			
3	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	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.	We agree with the proposed requirement. Proposed [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2 appropriately require an entity to consider and determine whether it faces material climate-related risks or opportunities that could reasonably be expected to affect the entity's prospects. To enable users of general-purpose financial reports to compare entities and understand the future prospects of an

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entity shall disclose that fact and explain how it came to that conclusion (see paragraphs BC34–BC36).

entity, it follows that where an entity assesses that there are no material climate-related risks and opportunities, this fact should be disclosed with an explanation of how the entity came to that conclusion.

We note that this requirement dove-tails neatly with proposed section 296B in the Treasury Laws Amendment Bill 2024: Climate-related financial disclosure (Cth). Under proposed section 296B, the third group of entities to be phased into the regime do not have to prepare full climate reporting disclosures if they do not face material climate risks or do not have material climate opportunities. Instead, it will be sufficient for the entity to state that it does not have material climate risks or opportunities for the relevant financial year.

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

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

4	<p>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:</p> <p>(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</p>	<p>Do you agree with the AASB’s views noted in paragraphs BC39–BC41?</p> <p>Please provide reasons to support your view.</p>	<p>We agree with the proposal to remove the requirement for an entity to consider the applicability of the SASB Standards in the short-term. For the initial implementation phase, it makes sense to allow for a reasonable level of flexibility to allow entities to adjust to the regime and our experience on ‘gap analysis’ exercises has been that the SASB Standards can significantly add to the level of reporting (to the extent that many companies may struggle to deliver to that level of reporting). In our view, the initial focus of the Australian regime should be on developing robust reporting frameworks and baselines.</p>
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	<p>Implementing IFRS S2) and for the AASB to appropriately apply its own due process;</p> <p>(b) not all of the proposals in Appendix B to [draft] IFRS S2 are related to climate-related risks and opportunities; and</p> <p>(c) the SASB Standards are US-centric and not representative of the Australian or global market.</p>		<p>Beyond the initial implementation phase, if there is a clear global majority that have implemented the ISSB requirements in relation to the SASB Standards verbatim, then Australia could look to phase in the requirement in due course.</p>
5	<p>The industry classification system used in Australia is the <i>Australian and New Zealand Standard Industrial Classification (ANZSIC)</i> 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).</p>	<p>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?</p> <p>Please provide reasons to support your view</p>	<p>If an entity elects to make industry-based disclosures, it makes sense to check the applicability of those disclosures against common and established frameworks. However, this proposal does not necessarily suit all entities. For example, this would include diversified entities with climate risks that sit in an arm of the business that is different to the entity’s overarching industry classification.</p> <p>A potential middle ground could be to adopt an “if not, why not” disclosure requirement where entities would need to explain why they are not relying on well-established and understood metrics for their industry.</p>
6	<p>See above.</p>	<p>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.</p> <p>Please provide reasons to support your view.</p>	<p>We consider that the ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks, and in particular the SASB Standards.</p> <p>A key intention of the Australian regime is international alignment, and the SASB Standards are identified in the ISSB Standards as the basis for “disclosure topics”. Various entities under the ASRS Standards will also need to comply with other domestic implementations of the ISSB</p>

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Standards which may well require disclosures based on the SASB Standards.

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

7	<p>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.</p> <p>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.</p>	<p>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?</p> <p>Please provide reasons to support your view.</p>	<p>In our view, it would be beneficial for entities to disclose a detailed index table that displays the climate-related financial disclosure requirements (i.e. governance, strategy, risk management, and metrics and targets) and the relevant disclosure section and page number. This will assist an entity’s stakeholders to understand how the entity complies with the climate-related financial disclosure requirements and where they can locate that information. It will likely also assist the company (as a cross-check), its board (in understanding compliance and to support its declaration) and the external assurance team (with sign-posting).</p> <p>However, it would not be appropriate for the detailed index table to required to be included in the annual report (for example, on the inside front cover) because it would be lengthy and is likely to run over several pages. Instead, we recommend that entities be offered the option to choose where to include the detailed index table. For example, it could be included in an entity’s ESG data book, which sits separately from their annual report and allows the entity to have their suite of index tables for different global frameworks that they comply with in one location (for example climate-related financial disclosures, sustainability and modern slavery). If an entity chooses to include the detailed index table in a different document, the entity should include a statement and hyperlink in their annual report with its location.</p>
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Interim reporting			
8	<p>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:</p> <p>(a) IFRS S1 paragraph 69, which requires an entity electing to prepare interim reports to comply with IFRS S1 paragraph B48; and</p> <p>(b) IFRS S1 paragraph B48, which provides guidance on the content of interim disclosures should an entity elect to prepare interim reports.</p>	<p>Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48?</p> <p>Please provide reasons to support your view.</p>	<p>We agree with the proposed omission of IFRS S1 paragraphs 69 and B48 which included the option for entities to prepare interim reports on their climate-related financial disclosures. This will remove any confusion that entities might have over whether they are required to prepare interim reports.</p>
Modifications to the baseline of IFRS S2 for [draft] ASRS 2			
Scope of [draft] ASRS 2			
9	<p>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</p>	<p>Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard?</p> <p>Please provide reasons to support your view.</p>	<p>We agree with the proposal in [draft] ASRS 2 paragraph Aus3.1, which clarifies the scope of the Standard.</p>



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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).

Climate resilience

10	<p>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.</p> <p>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 <i>Corporations Act 2001</i> 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 <i>Climate Change Act 2022 (Climate Change Act)</i> (i.e. 1.5°C above pre-industrial levels).</p> <p>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</p>	<p>Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1?</p> <p>Please provide reasons to support your view.</p>	<p>We agree with the proposal in [draft] ASRS 2 paragraph 22.1 but are wary that the Australian Government’s baseline commitment to limiting global temperature increases may shift overtime. For example, if the Australian Government changes its commitment to limiting the temperature increase to 1.6°C above pre-industrial levels, this change will not flow through to ASRS 2 paragraph Aus22.1 unless the Climate Change Act is amended (which is contingent on passage through both houses of Parliament). Accordingly, instead of referring to the Climate Change Act, it may be preferable to use a more flexible reference point or broader language in [draft] ASRS 2 paragraph 22.1. For example:</p> <p>“Further to paragraph 22, an entity required by the Corporations Act 2001 to prepare climate-related financial disclosures shall disclose its climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most</p>
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	<p>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).</p> <p>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.</p>		<p>ambitious global temperature goal <u>set by the Australian Government (whether that goal be expressed in legislation or other policy documents).</u>”</p> <p>Additionally, we suggest that some flexibility also be included as to transitioning to other scenarios if there is any change to the legislated or policy commitment. That is, if the Australian Government’s commitment was to change, companies would need time to flow that through their scenario analysis, risk management and planning systems – depending on when in the reporting cycle that occurs, it may not be possible for companies to develop or report on those findings in time.</p>
11	See above.	<p>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?</p> <p>Please provide reasons to support your view.</p>	<p>We agree that the ASRS Standards should not specify the upper-temperature scenario. In practice, there may be a limited range of credible future states that exist for entities to base their resilience modelling against. Further, it is appropriate to give entities the flexibility to choose the climate-related scenario analysis that best suits their facts and circumstances, given the wide variation between the nature and location of operations.</p>
<p>Cross-industry metric disclosures (paragraphs 29(b)–29(g))</p>			
12	N/A.	<p>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?</p>	<p>We consider the cross industry metric disclosures set out in paragraphs 29(b) – 29(g) of IFRS S2 would provide useful information to users.</p> <p>These metric disclosures are consistent with (and build on) the recommended disclosures in the</p>



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		Please provide reasons to support your view.	<p>TCFD All-Sector Guidance which for example, includes recommendations to disclose the “amount and extent of assets or business activities vulnerable to transition risks” [comparable to [draft] ASRS 2 29(b)] and the “price on each ton of GHG emissions used internally by an organisation” [comparable to [draft] ASRS 2 29(f)].</p> <p>The UK Financial Reporting Council’s (FRC) 2022 thematic review of TCFD disclosures (here) indicates that entities may find some of the quantitative disclosures difficult to measure at least in the implementation phase. For example, the “Metrics & targets recommended disclosure (a)” table on page 62 shows that just over 20% of sample entities provided internal carbon prices.</p> <p>Similarly the FRC’s review shows that entities may also find it challenging to meaningfully quantify the amount and percentage of assets aligned with climate related opportunities ([draft] ASRS 2 29(d)).</p> <p>These UK findings suggest that Australian entities could benefit from some additional guidance to support meaningful disclosures.</p> <p>While there may be some initial quantification difficulties, the proposed cross industry metric disclosures would likely help users gauge the scale and size of an issue within the context of the company’s business. Transparency around internal carbon prices and remuneration linkages will be particularly important for users to gain insights into an entity’s transition strategy.</p>
<p>Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)</p>			



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13	<p>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):</p> <ul style="list-style-type: none"> (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. <p>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.</p> <p>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.</p>	<p>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?</p> <p>Please provide reasons to support your view.</p>	<p>As above, the linkages between remuneration and climate-related considerations of an entity will be important to stakeholders.</p> <p>The proposed requirements will likely also form part of remuneration report disclosures in their own right, so it makes sense to mandate this for consistency across disclosure frameworks.</p>
<p>Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19– AusB63.1 and Australian application guidance)</p>			
<p>Definition of greenhouse gases</p>			



No.	Context	Question	Comments
14	<p>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 (NF₃), is not listed in the <i>National Greenhouse and Energy Reporting Act 2007</i> and related regulations (NGER Scheme legislation) as a class of greenhouse gas.</p> <p>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 NF₃. Therefore, it is expected that not many Australian entities would have material NF₃ emissions to report.</p>	<p>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.</p>	<p>We disagree with the AASB’s proposal to include NF₃ in the definition of “greenhouse gases” in [draft] ASRS 2.</p> <p>As noted, NF₃ is not included in the NGER Scheme legislation. When the NGER Scheme legislation was drafted, NF₃ was not yet included as a greenhouse gas in the Kyoto Protocol. To date, the NGER Scheme legislation has not been updated, which may be due to Australia not being a large emitter of NF₃. Alternatively, it could be a policy decision by the legislature.</p> <p>There are two issues that potentially arise by including NF₃ in the definition of “greenhouse gases” in [draft] ASRS 2:</p> <p>First, Australian entities that report under the NGER Scheme legislation and also do emit NF₃ will have to produce an additional set of reporting for the purposes of [draft] ASRS 2. However, we believe that the fact Australia does not have a significant presence in NF₃ manufacturing indicates that the scope of this burden is likely to be limited.</p> <p>Second, for entities that are required to report on NF₃, [draft] ASRS 2 does not provide a clear methodology and this may lead to inconsistent reporting, contrary to the purpose of ASRS:</p> <ul style="list-style-type: none">• The [draft] ASRS 2 states that the methodologies for estimating greenhouse gas emissions should be consistent with the NGER Scheme legislation methodologies. As the NGER Scheme legislation does not currently include NF₃, there is no methodology within the NGER Scheme legislation to calculate NF₃.• The [draft] ASRS 2 states that where a NGER Scheme legislation methodology is not practicable, an entity may apply a methodology consistent with methods required by a jurisdictional authority, or an exchange on



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			which the entity is listed that are relevant to the sources of the GHG emissions, or a relevant methodology that is consistent with GHG Protocol Standards. We are concerned that in the absence of an NGER Scheme legislation methodology, the alternative methods may result in inconsistent estimations in relation to NF ₃ , unless and until the NGER Scheme legislation is updated to include a methodology for NF ₃ .
Converting greenhouse gases into a CO₂ equivalent value			
15	Paragraphs B21 and B22 of IFRS S2 require an entity to convert greenhouse gases into a CO ₂ 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).	<p>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?</p> <p>Please provide reasons to support your view.</p>	<p>We agree that Australian entities should be required to convert greenhouse gases using GWP values in line with the reporting requirements under the NGER Scheme legislation (that is, the GWP values in the IPCC's 5th assessment report (AR5) – rather than the 6th assessment report (AR6)).</p> <p>Currently, the GWP values in AR5 are used for Australian entities reporting under the Paris Agreement and the NGER Scheme legislation. It is unclear whether the Paris Agreement or the NGER Scheme legislation will be updated to use the GWP values in AR6.</p> <p>Therefore, at this stage, it would be a significant burden to require Australian entities to modify their current processes and convert their greenhouse gases using GWP values in AR6.</p>
Market-based Scope 2 GHG emissions			



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16	<p>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).</p>	<p>Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2?</p> <p>Please provide reasons to support your view.</p>	<p>Location-based Scope 2 GHG emissions refer to the average emissions intensity of grids in which the entity's energy consumption occurs.</p> <p>Market-based Scope 2 GHG emissions refer to the average emissions intensity from electricity that the entity has purposefully chosen (that is, the average emissions intensity of a specific purchase contract or agreement for energy that the entity has entered into).</p> <p>We agree with the proposal set out in [draft] ASRS 2 paragraph Aus31.1(f), which requires an entity that would be required by the <i>Corporations Act 2001</i> (Cth) to prepare climate financial disclosures to disclose both location-based scope 2 GHG emissions and market-based scope 2 GHG emissions. However, [draft] ASRS 2 should clarify that emissions using the location-based method and market-based method should not be aggregated, which is consistent with Note 2 of section 7.1 of the <i>National Greenhouse and Energy Reporting (Measurement) Determination 2008</i> (Cth). Both pieces of information tell an important story about the entity's carbon footprint:</p> <ul style="list-style-type: none">a) Location-based scope 2 GHG emissions reveals what the entity is physically putting into the atmosphere due to the entity's energy consumption. This better reflects the actual generation and distribution of an entity's energy consumption.b) Market-based scope 2 GHG emissions reveals the emissions that the entity is responsible for through its purchasing decisions. This better reflects the risks and opportunities associated with supplier portfolios. <p>Given that it is more difficult for an entity to calculate its market-based scope 2 GHG</p>

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			<p>emissions, we agree with the proposal set out in [draft] ASRS 2 paragraph AusC4.2, which exempts entities under paragraph Aus31.1(f) from reporting their market-based scope 2 GHG emissions in the first three annual reporting periods. This will provide entities with time to develop the necessary frameworks and processes to begin reporting their market-based scope 2 GHG emissions in their fourth year of reporting.</p>
<p>GHG emission measurement methodologies</p>			
17	<p>The AASB added paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 to specify that an entity would be required to:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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 	<p>Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1?</p> <p>Please provide reasons to support your view.</p>	<p>We agree with the proposal set out in [draft] ASRS 2 paragraph Aus31.1(b), which requires entities to separately consider the measurement of different scopes of GHG emissions. This is consistent with the recommendations of the Task Force for Climate-related Disclosure and the Global Reporting Initiative and provides clarity around the scopes of GHG emissions.</p> <p>We also agree with the proposal set out in [draft] ASRS 2 paragraph AusB25.1 which requires entities to apply methodologies set out in the NGER Scheme legislation or a methodology that is otherwise consistent with a jurisdictional authority or GHG Protocol Standards. This will provide data consistency and comparability, while retaining flexibility for multi-jurisdictional entities.</p>



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	<p>(ii) in the absence of such a methodology, a relevant methodology that is consistent with GHG Protocol Standards.</p> <p>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.</p>		
<p>Providing relief relating to Scope 3 GHG emissions</p>			
18	<p>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.</p>	<p>Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2?</p> <p>Please provide reasons to support your view.</p>	<p>At least in the short-term, we agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2 on the condition that there is clear meaning attributed to the each of the phrases “reasonable and supportable” and “unavailable”.</p> <p>We can see that there are reasons why this could be helpful – for example, in a mergers and acquisitions context or where suppliers in an entity’s value chain adhere to a different financial year.</p> <p>When data modelling and availability matures, the utility of this proposal could then be revisited.</p>
<p>Scope 3 GHG emission categories</p>			
19	<p>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</p>	<p>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</p>	<p>We agree with the proposed approach. To date, the market has already developed a practice of using the categories in the GHG Protocol Standards. The approach proposed by the AASB ensures there is sufficient flexibility for entities to</p>



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	<p>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.</p> <p>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.</p> <p>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).</p>	<p>the sources of emissions in accordance with the categories of the GHG Protocol Standards?</p> <p>Please provide reasons to support your view.</p>	<p>continue this approach whilst disclosing only what is relevant to their circumstances and business operations.</p> <p>We acknowledge that this approach may impact the comparability of categories between entities. However, in our view, the AASB’s proposed flexible approach supports relevant and succinct disclosures.</p>
<p>Financed emissions</p>			
20	<p>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</p>	<p>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</p>	<p>In our view, it would be ideal for the reporting regime under the ASRS Standards to provide protections for “best endeavours” disclosures by</p>

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	<p>activities associated with insurance to provide additional disclosures relating to its financed emissions.</p> <p>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.</p> <p>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.</p>	<p>AusB59.1, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information?</p> <p>Please provide reasons to support your view.</p>	<p>entities that participate in asset management, commercial banking or financial activities associated with insurance (together, financial service entities). However, in the absence of those protections, we believe that it may be difficult for many financial service entities (particularly smaller entities) to accurately calculate and disclose their financed emissions.</p> <p>Accordingly, we agree that financial service entities should be provided flexibility to only disclose the information outlined in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1 if those disclosures are applicable to the entity.</p> <p>We expect that over time investors and external pressure will require financial service entities to make more fulsome disclosures relating to their financed emissions. This is due to the critical role of financial service entities in Australia’s commitment to achieve net zero GHG emissions. In due course, this may mean that financial service entities are expected by various stakeholders to treat the disclosures in in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1 as mandatory.</p>
Superannuation entities			
21	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.	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	Context - As at 31 December 2024, net assets held by superannuation funds in Australia totalled approximately \$3.7 trillion. ¹ To put this in perspective, this amount exceeds the value of all

¹ Australian Prudential Regulation Authority, ‘Quarterly superannuation performance statistics - September 2004 to December 2023’, Quarterly Superannuation Statistics (27 February 2024) <<https://www.apra.gov.au/quarterly-superannuation-performance-statistics-highlights-december-2023>>.

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		would lead to superannuation entities being unable to comply with the proposed requirements or else able to comply only with undue cost or effort.	<p>the companies listed² on the Australian Securities Exchange (ASX) by approximately 41% and represents a little over 176% of Australia's annual Gross Domestic Product (GDP) of \$2.1 trillion.³</p> <p>What is more, the values of these assets are expected to grow to a staggering \$9.2 trillion or almost 190% of GDP by 2041⁴ and 245% of GDP by 2060.⁵</p> <p>As at 31 December 2024, these assets are disproportionately shared amongst only 70 Australian Prudential Regulation Authority (APRA) licenced superannuation trustees (RSE licensees) who are responsible for 108 APRA regulated and public sector superannuation funds (accounting for approximately 74% of all superannuation assets).⁶ With ongoing superannuation fund mergers, the assets held by APRA regulated and public sector funds are becoming increasingly concentrated such that it is anticipated that, by 2025, there may not be more than 50 such funds.⁷</p> <p>Prospects – In light of the fact that superannuation funds are investment vehicles and, as a result, their prospects are a direct function of the performance of their investments, we submit that it is unclear how superannuation entities would disclose climate-related risks and opportunities that could</p>

² Estimated to be \$2.63 trillion as at December 2024. See 'Historical Market Statistics', Australian Securities Exchange (Web Page) <https://www2.asx.com.au/about/market-statistics/historical-market-statistics>.

³ Australian Bureau of Statistics, 'Australian National Accounts: National Income, Expenditure and Product, September 2023' <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release>.

⁴ Deloitte, Dynamics of the Australian Superannuation System (Report, December 2021) 6.

⁵ Treasury of the Australian Government, The Superannuation System in Aggregate (2019) 2.

⁶ Australian Prudential Regulation Authority, 'Quarterly superannuation performance statistics - September 2004 to December 2023', Quarterly Superannuation Statistics (27 February 2024) <https://www.apra.gov.au/quarterly-superannuation-performance-statistics-highlights-december-2023>.

⁷ A report by JP Morgan dated March 2022 found that almost one-quarter of respondents to JP Morgan's industry-wide survey believed there will be fewer than 50 funds by 2025: JP Morgan, Future of Superannuation (March 2022) 7.



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			<p>reasonably be expected to affect their prospects. This would, in effect, require measuring the prospects of a significant portion of the Australian economy and a growing proportion of the global economy, in which they invest.</p> <p>Cash Flow – Cash flow for a superannuation entity predominantly consists of:</p> <ol style="list-style-type: none">1 investment returns achieved on the fund's investments; and2 contributions made by members and employer sponsors of the funds. <p>In respect to contributions, requiring superannuation funds to disclose the effects of climate-related risks and opportunities on cash flow would require each superannuation fund to assess the impact of those risks and opportunities of climate change on the ability and the propensity of all members and employer sponsors of the Fund continuing to make superannuation contributions to the Fund.</p> <p>Putting aside the question of how a superannuation fund would even be able to make such assessment, the extent of the task is overwhelming.</p> <p>To give a sense of scale of the task (if in fact it was even able to be undertaken), between Australian Super, Australian Retirement Trust and Aware Super, these funds have approximately 6.7 million members, against approximately 7 million full time workers currently in Australia. Accordingly, disclosing the effects of climate-related risks and opportunities in respect to contributions is a task that would require a significant and costly allocation of resources.</p> <p>As mentioned, there is also the question of how a superannuation fund would even begin to assess</p>



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			<p>the impact of climate change on its ongoing contribution flows.</p> <p>In light of this, we submit that the disclosure in respect of cash flows for superannuation entities should be limited to those related only to investment returns.</p> <p>Value chain – The term ‘value chain’ in respect to superannuation entities is ambiguous. As mentioned above, superannuation funds are investment vehicles. For the same reasons discussed above, we submit that it is unclear how superannuation entities would disclose the impact of climate-related risks and opportunities on their value chain. This would, in effect, require measuring the impact of climate change on a significant portion of the Australian economy and a growing proportion of the global economy, in which they invest. We recommend that separate Standards are issued that set out superannuation-specific disclosures in respect to value chain (if disclosures of this type are required at all given the nature of these entities).</p> <p>Metrics and targets – As contextualised above, the scale of net assets held by Australian superannuation funds, both domestically and across the global, is exceptionally large and diverse. Gathering data to enable disclosure under Pillar 4: Metrics and Targets will be challenging and also require a significant and costly allocation of resources. This cost will be borne by members of the relevant superannuation fund, which we submit will undermine the fundamental retirement income policy of superannuation, which is to maximise members’ retirement savings.</p> <p>We note that Treasury’s second consultation paper noted an expectation “that superannuation funds would be likely to need to model or estimate a significant proportion of the economy in order to</p>



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estimate their financed Scope 3 GHG emissions.”
We agree with this assessment but are unsure how it sits alongside the AASB’s observation (on p100 of ED SR1) that “a superannuation entity would be required to prepare climate-related financial disclosures based on the information available without undue cost or effort, depending on its specific circumstances.”

We submit that it would be preferable to have separate Standards that set out superannuation-specific climate-related disclosure requirements. Alternatively, specific guidance will be required to guide superannuation entities on how to tailor their disclosures against ASRS 1 & ASRS 2.

Carbon credits

22 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 (**ACCUs**) 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.

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.

We agree with the proposal to modify the definition of “carbon credit” in [draft] ASRS 2. This modification will help integrate the Australian ACCUs Scheme with the ASRS Standards and improve the accuracy of disclosures regarding net emissions. This modification is also important for the development of Australia’s carbon market, in allowing Australian entities to rely on non-Kyoto ACCUs for the purposes of reporting under the ASRS Standards.

General matters for comment



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33	N/A.	Would the proposals result overall in climate-related financial information that is useful to users?	<p>Having undertaken 'gap analysis' and reporting readiness projects with various clients, we do have concerns about the extent of the disclosures required under the ASRS Standards (including the requirement to disclose forward-looking statements and the lack of protections for those statements). We are also concerned with the internal uplift that would be required by Australian entities reporting under the ASRS Standards, as well as the associated financial costs. Therefore, we expect that Australian entities will require more time to adjust to reporting under the ASRS Standards.</p> <p>Overall, we do expect that it would be useful to users, generally, for Australian entities to report under the ASRS Standards. This is necessary step for our country to be aligned with other jurisdictions that already mandate such disclosures.</p>
34	N/A.	Are the proposals in the best interests of the Australian economy?	See our response above to question 33.
35	N/A.	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.	See our response above to question 33.