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Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

1 March 2024

Submitted via AASB website: [Open for Comment \(aasb.gov.au\)](https://aasb.gov.au)

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

Ernst & Young is pleased to comment on the above Exposure Draft.

The publication of the Exposure Draft (ED) of proposed Australian Sustainability Reporting Standards (ASRS Standards) is a welcome development. It will:

- ▶ bring about greater consistency in the disclosure of climate-related financial information by Australian reporting entities; and
- ▶ lead to the users of the general purpose financial reports being better informed about the reporting entity's climate-related risks and opportunities compared to existing disclosure practices.

We acknowledge that the development of the draft ASRS standards is an atypical process in standard setting because the proposed amendments to the *Corporations Act 2001* to introduce a mandate for climate reporting is being developed by the Treasury at the same time as the reporting content requirements are being developed by the AASB. Within that context, the AASB has been able to incorporate or consider Treasury's proposals and the feedback received from its consultation processes into the development of draft ASRS Standards that are based on the IFRS Sustainability Disclosure Standards of the International Sustainability Standards Board (ISSB).

We encourage the AASB to go further and to *adopt* the ISSB Standards baseline so that an Australian entity that complies with ASRS Standards could simultaneously also comply with ISSB Standards if the entity chose to also disclose the sustainability-related financial information beyond climate that is required by IFRS Sustainability Disclosure Standards. In our view, this should be an objective of the ED. For almost 20 years, the AASB has standard setting processes in place to adopt IFRS Accounting Standards and thereby lower the cost of capital for Australia entities. Over that time, the AASB has calibrated the process such that it is evident to the global capital markets that the financial statements of for-profit Australian companies, including Australian subsidiaries of multinational companies, that are prepared in accordance with Australian Accounting Standards also simultaneously comply with IFRS Accounting Standards. In our view, the proposals outlined in this Exposure Draft are taking a different approach to the successful model that the AASB has developed for the adoption of IFRS Accounting Standards.

Our main comments on the proposals in the ED are summarised as follows:

1. ASRS Standards should maximise alignment with ISSB standards.

The differences in scope between draft ASRS Standards and the ISSB Standards upon which they are based has two implications:

- ▶ Narrowing the scope of the Australian version of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* by finding all references of ‘sustainability-related risks and opportunities’ and replacing them with references to ‘climate-related risks and opportunities’ means that an Australian entity that voluntarily chooses to disclose sustainability-related financial information for all of its sustainability-related risks and opportunities will need to apply the ISSB standards in addition to ASRS Standards. It is unclear whether this outcome is consistent with the Government’s intent given the exposure draft legislation released by Treasury contemplates in draft subsection 296A(6) that an entity that complies with sustainability standards (which draft section 336A indicates are standards made by the AASB) might make an explicit and unreserved statement of compliance with international sustainability reporting standards. In our view, it is not possible for an entity that prepares disclosures in accordance with ASRS Standards to make an explicit and unreserved statement of compliance with IFRS Sustainability Disclosure Standards.
- ▶ Due to changes that the AASB has made to the ISSB Standards baseline (e.g., not requiring disaggregation of Scope 3 greenhouse gas (GHG) emissions into the categories described in the GHG Protocol), an entity applying the minimum required disclosures in ASRS Standards will not be in compliance with the ‘climate first’ aspects of ISSB Standards.

Both differences hinder the ability of an Australian entity to voluntarily comply with ISSB Standards and also creates confusion in international capital markets about whether Australia is adopting the ISSB Standards baseline or a jurisdictional-specific variant.

2. The structure of ASRS 1 and ASRS 2 causes confusion and impedes comprehension.

We acknowledge that there is repetition in the core content disclosure requirements in IFRS S1 and IFRS S2 *Climate-related Disclosures* and that this repetition becomes even more pronounced if the scope of the Australian version of IFRS S1 is narrowed to only refer to climate-related risks and opportunities. Our experience in working with the draft ASRS Standards with our clients is that, although the structure of the draft ASRS Standards may have eliminated most of the duplication, this has been achieved at the cost of readability and comprehension. Splitting the core content disclosure requirements across both ASRS 1 and ASRS 2 makes it difficult to follow and understand those disclosure requirements as a package, especially when compared to the ISSB Standards. Furthermore, by removing climate-specific disclosure requirements from the Australian version of IFRS S2 and instead including them in the Australian version of IFRS S1, it will also make it difficult for users of ASRS Standards to leverage the infrastructure that is being built around the ISSB Standards including training materials, education and interpretative guidance materials, and software products. This may add to the compliance costs of Australian preparers. This approach may also complicate the process to incorporate in ASRS Standards future amendments made by the ISSB to IFRS S1 and IFRS S2 as well as any new IFRS Sustainability Disclosure Standards that will be adopted in Australia.

Our preferred view is to align the wording in ASRS 1 and ASRS 2 with IFRS S1 and IFRS S2 and to extend the ‘climate first’ transition relief so that it can be applied indefinitely. This approach would address our concerns. A second, but less preferred, alternative would be to remove all the duplicative core content disclosure requirements from ASRS 1 so that all disclosures about climate-related risks and opportunities are co-located in ASRS 2.

3. Requiring the application of NGER Scheme legislation measurement methodologies beyond NGER reporters should be reconsidered.

In general, we support ASRS Standards referring to the use of NGER Scheme legislation (NGER) to measure GHG emissions for Australian assets and operations because it will:

- ▶ reduce the compliance costs for existing NGER reporters; and
- ▶ provide consistent disclosures of GHG emissions across Australian entities.

However, in our view, ASRS Standards should allow the use of NGER (i.e., as an option) rather than requiring all entities to apply NGER ‘to the extent practicable’, which as drafted sets a high hurdle for an entity to use different measurement methodologies such as those contained in the GHG Protocol. Appendix A of ASRS 1 defines ‘impracticable’ as “applying a requirement is impracticable when an entity cannot apply it after making every reasonable effort to do so”.

In our view, there are valid reasons for an entity to use another framework such as the GHG Protocol instead of NGER. This may include:

- ▶ An Australian entity has international peers that report GHG emissions under the GHG Protocol and the entity wants to provide users in global capital markets with disclosures that are comparable with international peers
- ▶ An Australian entity has assets and operations in international jurisdictions and the entity wants its global GHG emissions to be measured on the same basis
- ▶ An Australian entity has an international parent and the group’s global GHG emissions are measured under the GHG Protocol.

Requiring the use of NGER in any or all of these circumstances could impose an incremental regulatory burden on those entities, impede comparability, and potentially result in those entities reporting their GHG emissions on a basis other than how they manage their business (e.g., if an entity sets emissions reduction targets on a financial control basis rather than on an operational control basis as required by NGER). For that reason, we recommend that the use of NGER should be permitted but not required.

Despite the fact that differences exist between NGER and GHG Protocol, we think that the differences may be perceived to be starker in concept than in practice. The hierarchy specified in ASRS 2 at paragraph Aus31.1(b) and in the Australian application guidance that, in effect, identifies NGER as ‘first option’ and GHG Protocol as ‘third and final/least preferred option’ contributes to this perception. In our view, ASRS standards should emphasise the commonality between the frameworks, including in:

- ▶ the definitions of Scope 1 and Scope 2; and
- ▶ indicating that in measuring GHG emissions for Australian operations, the emissions factors specified in the NGER guidance would be the “emissions factors that best represent the entity’s activity as its basis for measuring its greenhouse gas emissions”, as required by IFRS S2.B29.

As a result, we understand that the main practical distinction between NGER and GHG Protocol is that NGER requires GHG emissions to be measured based on operational control whereas the GHG Protocol allows for a choice of three measurement bases. On this point, we note that ASRS Standards (and IFRS S2) already requires a reconciliation of Scope 1 and Scope 2 GHG emissions to the

emissions attributable to the consolidated group (see ASRS 2.Aus31.1(d)), which will enhance the consistency and comparability of this information.

If the AASB believes that it is in the best interests of the Australian economy for all Australian reporting entities to measure GHG emissions on an operational control basis, we recommend that the ASRS Standards should limit the application of the GHG Protocol to operational control instead of requiring all Australian reporting entities to use NGER. In applying the GHG Protocol, the AASB could also develop Australian application guidance that encourages Australian reporting entities to consider the data and assumption requirements in NGER to the extent that they are applicable.

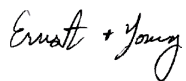
4. Incorporating proposals from Treasury process

The ED includes proposals that will apply only to entities required by the Corporations Act to prepare climate-related financial disclosures (e.g., requiring disclosure of Scope 2 GHG emissions measured under the markets-based approach). This has been done to give effect to Treasury's proposals. In our view, the AASB should consider, as a separate standard setting initiative, undertaking a broader analysis of differential reporting requirements under ASRS Standards to identify whether there should be incremental disclosure relief for entities that do not have public accountability. This would mirror the approach taken by the AASB in developing simplified disclosures in Australian Accounting Standards.

Our responses to the specific and general matters for comment are set out in the Appendix.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 9248 5555 or Glenn Brady on (03) 8650 7311.

Yours sincerely



Ernst & Young

APPENDIX

Responses to Specific matters for comment

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

Q1) 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)?

For the reasons outlined in the cover letter, we do not support either Options 1, 2 or 3. Our preferred view is to align the wording in ASRS 1 and ASRS 2 with IFRS S1 and IFRS S2 and instead extend the 'climate first' transition relief in IFRS S1.E5 so that it can be applied indefinitely. A second, but less preferred, alternative would be to remove all the duplicative core content disclosure requirements from ASRS 1 so that all disclosures about climate-related risks and opportunities are co-located in ASRS 2. However, this approach would require subsequent amendments to add back those requirements when and if future sustainability topics are added to ASRS Standards.

Replacing duplicated content with references to the Conceptual Frameworks

Q2) 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?

We do not agree with the approach taken by the AASB.

Given the ISSB does not have a conceptual framework yet, we think that the approach taken in IFRS S1 and IFRS S2 to duplicate some of the components of the Framework regarding the qualitative characteristics of useful information as requirements with which an entity must comply is not only appropriate but also beneficial for the reasons outlined below:

- ▶ The incorporation of the qualitative characteristics of useful information directly into ASRS Standards ensures that these concepts are intrinsically applied throughout the Standards, which fosters an intuitive application of its concepts in practice.
- ▶ This approach is consistent with the methodology adopted in Australian Accounting Standards where the concepts underpinning the Frameworks are often incorporated directly into the standards themselves.
- ▶ Embedding the Framework's concepts within the Standards enhances clarity and accessibility. Practitioners do not need to cross-reference another document to understand the concepts underpinning the Standards' requirements. This not only streamlines the application process but also reduces the potential for misinterpretation.

In our view, there is not a compelling reason to depart from the ISSB Standards baseline in this area. Replacing these paragraphs with cross references to the AASB's Framework also risks fostering a perception that there may be a substantive difference between the ASRS Standards and ISSB Standards in this area. We do not think that change in ASRS Standards creates a substantive difference. In our view, the fact that it does not create a substantive difference is also a reason not to depart from the ISSB Standards baseline at all.

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

Q3) Do you agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2?

We agree with the proposed requirements for the reasons outlined in the ED.

Given the AASB's proposals in the ED preceded Treasury's exposure draft legislation, we recommend that the intent and design of these related proposals should be aligned, noting that the Treasury's proposal was that Group 3 entities only need to provide climate-related financial disclosures if they identify material climate-related risks or opportunities for that reporting period. To the extent that this proposal is revised to align with the Treasury's exposure draft legislation, we recommend that the AASB provide more guidance on what needs to be disclosed when a Group 1 or Group 2 entity assesses that its climate related risks and opportunities are not material. For instance, would those entities need to include climate-related financial disclosures in their climate statements (such as on governance arrangements and GHG emissions) even though they assess that they have no material climate-related risks or opportunities?

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

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

Q4) Do you agree with the AASB's views noted in paragraphs BC39–BC41?

This proposal to remove the requirement for an entity "to consider the applicability of" SASB Standards and references to *Industry-based Guidance on Implementing IFRS S2* creates a distinction between the ISSB Standards baseline and ASRS Standards, but it does not create a practical difference between the

Standards. This is because, if the guidance is not applicable, an entity does not need to comply with it. We note that the AASB has provided reasons why this guidance is not generally applicable to Australian entities. On that basis, we are supportive of this proposal provided that:

- ▶ commentary is added, such as in Australian application guidance or in the Basis for Conclusions, to clearly and prominently identify the guidance that is available (including scope and breadth of the guidance) and to explain that this guidance can be used under ASRS Standards if an entity considers it useful; and
- ▶ the Industry-Based Guidance is subsequently included in ASRS standards when it has been updated, internationalised and subjected to relevant due process requirements.

We also note that the ASRS Standards do not require an entity to “disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry”, as required in IFRS S2.32. Instead, ASRS 2.Aus32.1 states that an entity may disclose industry-based metrics. Given the importance of industry-based metrics to users of general purpose financial reports, we recommend that the IFRS S2.32 requirement is retained in ASRS 2 with an option (possibly for a transitional period) to permit an entity to elect to not disclose industry-based metrics.

Q5) 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?

We agree with the proposed requirements. However, we also consider that the Industry-based Guidance should also be referenced – refer to our response to question 4 above.

Until such time as the Industry-based Guidance has been sufficiently internationalised and also been through a full due process including the AASB’s due process, we think that the “ANZSIC approach” outlined in the ED represents a reasonable supplement to the ISSB’s requirements to “shall refer to and consider the applicability of...”. Importantly, the ED is not requiring the ANZSIC approach must be implemented by the entity but it is encouraging an entity to provide metrics that are aligned with good industry practice. Ultimately, the goal should be for international applicable, standardised industry- (or activity-) based metrics that an entity is required to disclose. In our view, this proposal represents useful interim guidance to promote greater comparability between entities in the same industry.

Q6) 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.

We agree that an entity that wishes to make additional, voluntary disclosures using SASB Standards or the Standards listed in Appendix C of IFRS S1 should be able to do so. Given this does not cause a practical difference between the ISSB Standards baseline and ASRS Standards, the reference to this guidance could be included either in the ASRS Standards or in commentary such as in the Basis for Conclusions. However, we think it is important for preparers to be made aware of this guidance so that

they can consider whether to provide additional disclosures in accordance with those other frameworks or pronouncements.

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

Q7) 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?

We agree with the proposed requirements for the reasons outlined in the ED.

Interim reporting

Q8) Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48?

While we understand the AASB's intent to simplify and prevent confusion, we believe that the guidance provided in IFRS S1 for interim reporting is not only beneficial but necessary for entities and users of financial reports. The omission of these paragraphs could result in a lack of clarity and consistency in interim disclosures related to climate-related issues. Furthermore, we are concerned that omitting this requirement from ASRS 1 would create a theoretical distinction with IFRS S1 that would not result in a practical difference.

The guidance in IFRS S1 is aligned with global best practice and provides a framework that is recognised and understood by international stakeholders. Its application promotes comparability and consistency across jurisdictions, which is essential for entities operating in global markets. The guidance provided in IFRS S1 paragraphs 69 and B48 offers clarity on the preparation of interim reports. Removing these references could create further ambiguity, leading entities to make assumptions about the expectations for interim reporting, potentially resulting in a diversity of reporting practices.

In the context of the adoption of IFRS Accounting Standards, the AASB's decision to adopt IAS 34 *Interim Reporting* as AASB 134 does not mean that it is mandatory for all entities complying with Australian Accounting Standards to prepare an interim report. However, entities that do prepare interim reports will apply AASB 134, which provides clarity and ensures consistency in the manner in which entities prepare interim financial reports. This is the same lens that should be applied when considering whether the interim reporting requirements in IFRS S1 should be retained in ASRS 1. As mentioned earlier, to ensure consistency and clarity in reporting, those requirements should be retained.

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

Scope of [draft] ASRS 2

Q9) Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard?

We disagree with this proposal to narrow the scope of ASRS 2. The ISSB developed IFRS S2 with a broad perspective on climate-related disclosures, which does not exclude specific types of emissions, such as those affecting the ozone layer. This inclusive approach is critical to providing a complete picture of an entity's climate-related risks.

Global investors and markets benefit from standardised reporting that allows for comparison and informed decision-making. By aligning with the ISSB's standards, the AASB can ensure that Australian entities meet these global expectations without the need for additional clarification or adjustments.

We note that there is also likely to be some boundary questions about the scope of climate-related risks and opportunities under the ISSB Standards baseline. These scoping questions will only exist for the first year of the ISSB Standards because the 'climate first' transition relief in IFRS S1.E5 is only available for one year. However, given the adoption of ISSB Standards by companies and international jurisdictions will occur gradually over many years, this question will remain a 'live' question for Australia generally (not a particular company) for more than one year and therefore this question may be resolved by either the ISSB providing further guidance or by emerging interpretations and practices. A decision by the AASB to narrow the scope of ASRS Standards now may necessitate future revisions to keep pace with these future developments in the application of the ISSB Standards baseline.

In our view, the ED's approach does not resolve this scoping boundary question under the ISSB Standards baseline. Instead, it creates separate and jurisdictional-specific boundaries for Australian entities to interpret. Therefore, deviating from IFRS S2's scope creates potential confusion for global capital markets and for entities that operate both domestically and internationally, and in doing so could also place an incremental and unnecessary burden on those entities to reconcile different reporting requirements. Furthermore, if the practical implications of this scoping decision are limited, we consider this would mean that there is limited benefit to be derived from departing from the ISSB Standards baseline.

Based on the above, we recommend that the AASB re-evaluates its decision and not limit the scoping of ASRS 2.

Climate resilience

Q10) Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1?

Q11) 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?

We agree with these proposals. We consider the proposal to require entities to assess their climate resilience against at least two possible future states is akin to a jurisdictional clarification rather than the addition of incremental disclosure requirements.

By aligning a climate scenario with the global temperature goal in the *Climate Change Act 2022*, Australian entities will be assessing the resilience of their strategies and business models to an objective that future Government policies and regulations might be designed to meet. Therefore, this represents a common transition risk (and/or opportunity) that Australian entities will face. In that regard, we agree with the proposals to:

- ▶ refer to the Climate Change Act for the scenario rather than specifying the scenario directly in the Standard—this proposal will enhance the durability of the Standard because the scenario analysis will be prepared based on whatever temperature goal is included in the Act at that time; and
- ▶ refer to the most ambitious global temperature goal in the Act and, thereby, identifying a specific scenario when the temperature goal is expressed as a range—this proposal will enhance the consistency and comparability of the climate resilience assessments because all entities will be using the same scenario when those entities may be subject to the same economy-wide Government policies and regulation.

We recommend that the ASRS Standard clarify that the global temperature goal in the Climate Change Act is consistent with the latest international agreement on climate change. If and when there is a change in global science and in the international agreement of climate change and no corresponding change has been made to the Climate Change Act, the AASB should be prepared to amend the ASRS Standards to allow entities with either significant international assets and operations or international parents to instead prepare scenario analysis using the temperature goal in the latest international agreement on climate change.

A consequence of prescribing a specific scenario is that it is important to clarify that an entity cannot meet the objectives of the climate resilience disclosure requirement without analysing at least one other scenario. This ensures that an entity's climate resilience assessment includes at least one scenario that is specific to the entity's facts and circumstances and also ensures that the requirements in ASRS Standards are aligned with the corresponding IFRS S2 requirements.

Cross-industry metric disclosures (paragraphs 29(b)–29(g))

Q12) 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?

We agree that these cross-industry metric disclosures should remain consistent with IFRS S2. We are not aware of any compelling reasons for the ASRS Standards to depart from the ISSB Standards baseline in relation to these disclosures.

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

Q13) 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?

In our view, paragraph 29(g) must be included in ASRS Standards. We do not support departures from the ISSB Standards baseline.

We acknowledge that the ISSB Standards baseline does not define 'executive / executive management' and 'remuneration' and that it is reasonable to expect that readers of the Standards might initially wonder how these terms should be interpreted. However, we do not think that the degree of interpretative uncertainty is so great to require the AASB to add clarifying guidance. However, if the AASB decides to

add clarifying guidance, we recommend that paragraph Aus29.1 uses language that is less definitive than “has the same meaning as”.

EY has included guidance on this matter in our publication *Applying IFRS--IFRS sustainability disclosure standards- Introduction to IFRS S1 and IFRS S2*, which states:

“IFRS S2 does not define ‘executive management’. As such, entities will need to exercise judgement in determining which management roles will represent ‘executive management’ and are, therefore, within the scope of this disclosure requirement.

In our view, this disclosure would allow users of general purpose financial reports to understand whether, and to what extent, the managers of an entity that have the authority and responsibility for managing the activities of the entity are incentivised through remuneration for their performance in managing the entity’s climate-related risks and opportunities. In that context, to identify the management roles that represent ‘executive management’, an entity could consider the definition of ‘key management personnel’ in IAS 24 *Related Party Disclosures*, which states that “Key management personnel are 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”.

IFRS S2 also does not define ‘remuneration’. In our view, the ordinary meaning of ‘remuneration’ would be sufficient to apply this disclosure requirement. In determining what constitutes ‘remuneration’, an entity could also consider referring to the definition of ‘compensation’ in IAS 24, which includes short-term employee benefits (e.g., wages), post-employment benefits (e.g., pensions), other long-term employee benefits (e.g., long-service leave), termination benefits and share-based payment.”¹

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

Definition of greenhouse gases

Q14) 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?

We agree with the proposal to not modify the IFRS S2 definition of greenhouse gases.

Converting greenhouse gases into a CO2 equivalent value

Q15) 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?

We do not support this proposed requirement in its current form.

¹ EY, *Applying IFRS--IFRS sustainability disclosure standards- Introduction to IFRS S1 and IFRS S2*, December 2023, page 110

The need for this proposed requirement arises because of the decision to require Australian entities to measure GHG emissions in accordance with NGER Scheme legislation. Our broader views on ASRS Standards prescribing the use of NGER in preparing GHG emissions disclosures are set out in our cover letter.

On this specific point, our view is that an Australian entity disclosing GHG emissions based on NGER should be permitted, but not required, to use a GWP value in the IPCC's 5th assessment report (AR5) to convert GHG. Therefore, an Australian entity that is an NGER Reporter could choose to either:

- ▶ use a GWP value that is consistent with their NGER reporting obligations and avoid an incremental compliance cost when applying ASRS Standards, which has the consequence of the entity's GHG emissions being prepared on a basis that is inconsistent with the ISSB Standards baseline; or
- ▶ incur the incremental compliance cost of remeasuring its GHG emissions using the GWP values in the IPCC's 6th assessment report (AR6), but avoid the potential greater incremental preparation (and assurance) costs associated with disclosing separate measurement of GHG emissions that are 'ISSB Standards compliant'.

Market-based Scope 2 GHG emissions

Q16) Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2?

We are broadly supportive of the AASB's proposal to require the disclosure of market-based in addition to location-based Scope 2 GHG emissions, noting that requiring both location-based and market-based Scope 2 GHG emissions disclosures goes beyond the current requirements of IFRS S2.

The three-year relief period will facilitate the transition towards these enhanced disclosures. We believe that the relevance of the market-based method will continue to grow in the short-to-medium term. In the longer term, as more fossil fuels exit the Australian energy market, the difference between these measurement methods will diminish and, as such, the usefulness of this incremental disclosure requirement will diminish too.

GHG emission measurement methodologies

Q17) Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1?

Please refer to our comments in the cover letter.

Q18) Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2?

We agree that requirements relating to the disclosure of Scope 3 GHG emissions should consider the complexities that an entity may face in measuring its Scope 3 GHG emissions. The ISSB acknowledged this by including in IFRS S2 requirements such as:

- ▶ paragraph B19, which the ISSB explains “[introduces] relief to address challenges associated with data from entities in the value chain that use reporting periods that differ from the entity’s reporting period, subject to some restrictions (see paragraph BC114)”; and
- ▶ paragraph B39, which states that “An entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 greenhouse gas emissions”.

In many cases, we expect that the relief being proposed in draft paragraph AusB39.1 would be the same relief that is available to an entity applying IFRS S2, but with paragraph AusB39.1 describing the relief in more practical language. However, including the phrase “Notwithstanding paragraph B19...” in paragraph AusB39.1 means that it is possible for the proposed relief offered by the AASB to extend beyond the relief available under IFRS S2.

We acknowledge that paragraph AusB39.1 has been proposed to align with Treasury’s proposals, which have also been informed by feedback from its consultation processes. However, we consider that the drafting of paragraph AusB39.1 needs to be revisited to more clearly indicate that an entity that elects to apply this relief may be disclosing Scope 3 GHG emissions in a manner that is not consistent with the requirements in IFRS S2.

Scope 3 GHG emission categories

Q19) 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?

We disagree with this proposal because it represents a departure from the ISSB Standards baseline without any clear analysis of the financial reporting cost and benefit implications of this proposal. One of the main justifications given is that “the AASB is unsure whether requiring categorisation of the sources of Scope 3 GHG emissions under the 15 categories would achieve international alignment if entities in other jurisdictions are able to disclose different categories”. Our concern is that this statement could be prescient because the effect of this proposal would be to contribute to the lack of international alignment in categorising the sources of Scope 3 GHG emissions.

Even from only an Australian economy and capital market perspective, we are concerned that this proposal would reduce the comparability and, therefore, the usefulness of Scope 3 GHG emissions disclosures. We also do not consider that the proposal would substantively reduce compliance costs compared with the IFRS S2 requirement for an entity to disclose the sources of its Scope 3 GHG emissions under the 15 categories taken from the GHG Protocol because:

- ▶ the proposal still requires an entity to disclose the sources of its Scope 3 GHG emissions into categories, but an entity (and its auditors) will need to exercise greater degrees of judgement to determine categories that enable users of general purpose financial reports to understand the source of these emissions

- ▶ the ISSB has already acknowledged in paragraph BC110 to IFRS S2 that "...the categories included in an entity's Scope 3 measurement will depend on the entity's facts and circumstances. An entity is required to consider the relevance of all 15 categories, but might determine that not all categories are applicable to the entity and therefore do not need to be included in the measurement of its Scope 3 greenhouse gas emissions."
- ▶ since IFRS S2 already recognises that not all categories are relevant for all entities, making this change would unnecessarily move away from IFRS S2. In our view, any deviations from IFRS S2 should only be made if necessary to avoid problems with entities being able to comply with ASRS Standards, and to include a pathway to allow entities to comply with the ISSB Standards baseline without too much additional effort.

Financed emissions

Q20) 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?

We disagree with this proposal because it represents a departure from the ISSB Standards baseline and it allows for significantly optionality in the disclosure of financed emissions, which would limit the comparability of financed emissions disclosures between Australian entities and international entities. In our view, the limitations in information reported by NGER reporters, as noted in paragraph BC86, does not represent a compelling reason to depart from the ISSB Standards baseline. To the extent that classifying counterparties according to the Global Industry Classification Standard (GICS), which paragraph BC86 explains is not widely used in Australia, would impose significant compliance costs on entities, the AASB could consider providing an option for an entity to classify its counterparties according to GICS or ANZSIC.

Superannuation entities

Q21) 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 understand that both superannuation funds and asset managers have acknowledged some practical complexities in preparing climate-related financial disclosures, especially in relation to identifying the value chain and measuring Scope 3 GHG emissions. We understand that these concerns have been raised with Treasury as part of its consultation regarding determining which entities should be subject to mandatory climate reporting and from which date that reporting should commence. In our view, this issue is best addressed by Treasury in setting the mandate rather than by introducing exceptions or additional disclosure reliefs into ASRS Standards that are industry-specific and also not present in the corresponding ISSB Standards baseline.

If an industry has a specific concern about the preparation of disclosures that cannot be adequately addressed by the 'proportionality' principle in ASRS Standards, Treasury should assess whether it has appropriately calibrated the setting of the mandate.

Carbon credits

Q22) Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2?

We agree that ASRS Standards need to specifically address non-Kyoto ACCUs given that Australian entities will hold these carbon credits and use them as offsets. Non-Kyoto ACCUs are rights that exist and which have an economic consequence on the entity. For that reason, the existence and use of the non-Kyoto ACCUs needs to be addressed by ASRS Standards even though they do not meet the definition of a 'carbon credit' under IFRS S2 because they are not uniquely serialised.

The information that IFRS S2 requires to be disclosed about carbon credits and their use centres on the quality of the carbon credit. In setting an international standard, it is reasonable to expect that a carbon credit that is not uniquely serialised may be perceived to be of low quality and at risk of being double counted. As such, it can be regarded as a general safeguard introduced into the ISSB Standards baseline rather than indicating specific concerns on, for example, any non-Kyoto ACCU schemes.

To maintain consistency with the ISSB Standards baseline, we recommend that instead of changing the definition the ASRS Standards should require an entity to separately disclose information about its carbon credits that meet the IFRS S2 definition and information about its non-Kyoto ACCUs. We note that IFRS S2.36(e)(iv) and ASRS 2.36(e)(iv) already require an entity to disclose "any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the carbon credits the entity plans to use (for example, assumptions regarding the permanence of the carbon offset)".

Questions specific to not-for-profit entities

Q23) 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?

Q24) 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.

Q25) Do you agree with the proposal in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1?

Q26) 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?

Q27) 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 agree with the AASB's decision to extend the application of ASRS Standards to not-for-profit (NFP) entities, including public sector entities. This reflects the fact that all entities, regardless of sector, may be exposed to climate-related risks and opportunities. It is also consistent with the AASB's long-standing commitment to developing standards that are transaction or sector neutral.

In particular, we agree with the decision to clarify concepts of 'the entity's prospects' and 'business model' in ASRS Standards so that NFP entities would be required to consider the effect of climate-related risks and opportunities on "the entity's ability to further its objectives" in addition to considering the effect on the entity's cash flows and its access to finance or cost of capital over the short, medium and long term. These clarifications as well as other related modifications to definitions in ASRS Standards for NFP entities are consistent with the AASB's previous NFP clarifications in AASB 10 *Consolidated Financial Statements* and AASB 15 *Revenue from Contracts with Customers* which also extended the application of concepts in those Standards to refer to "the entity's ability to further its objectives".

In relation to the added guidance in ASRS 1.Aus6.1 and ASRS 2.Aus4.1, we think this guidance should be clarified further. As noted in paragraph BC30(c) of the ED, this guidance has been added to clarify that a NFP entity "need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, but is required to prepare material climate-related financial information for which reasonable and supportable information is available to the entity at the reporting date without undue cost or effort". We agree that this is a helpful clarification for NFP entities. However, an unintended consequence of this guidance is that a for-profit entity might consider that it is unable to avail itself to the same 'proportional' relief even though that relief is available when the entity studies the application of ASRS 1 paragraphs B6, B8 and B10. For this reason, this NFP guidance should be rephrased to clarify that this is proportional relief that is available for all entities.

More broadly, we recommend that the AASB considers undertaking a specific NFP project to further assess whether other NFP-specific amendments or clarifications to ASRS Standards may be required to promote high quality disclosure of climate related financial information by NFP entities. This is consistent with the approach taken with the introduction of accounting standards such as AASB 10 and AASB 15. Any additional guidance or requirements that is being considered by a NFP project should be to address issues that are unique to the NFP sector. This is because some NFP entities will have similar assets and operations as their for-profit peers and, as such, the climate-related financial information prepared by those entities should be comparable.

Questions specific to not-for-profit public sector entities

Q28) 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?**

As noted in our earlier response, we recommend that the AASB consider undertaking a NFP specific project to determine whether any supplemental requirements or guidance should be provided in ASRS Standards that is specific to the NFP sector, including the public sector. This further research may include analysing how the value chain concept should be applied in the NFP sector, given the potential breadth of the value chain. For instance, in the NFP public sector, what are the implications with including all taxpayers and all recipients of government funding (pensioners, grant recipients etc) within the NFP entity's value chain?

Q29) 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?

Developing a future ASRS Standard that addresses Australian public sector climate-related impact reporting could be a significant undertaking. We encourage the AASB further analyse the feasibility of developing a future standard on this topic to better understand the costs and benefits that would be associated with developing an impact reporting standard for Australian public sector entities.

Responses to General matters for comment

Q30) Has the AASB Sustainability Reporting Standard-Setting Framework (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?

As articulated in our earlier responses, we have identified some proposals whereby we consider changes or departures from the requirements in the IFRS S1 and IFRS S2 are not warranted and should be reconsidered by the AASB.

Q31) 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?**

Refer to our earlier responses. We do not have any further comments.

Q32) Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?

In our view, any auditing and assurance challenges associated with climate-related financial disclosures should be addressed by Treasury and the Auditing and Assurance Standards Board in setting the requirements for assurance of the disclosures. We do not think that the AASB should consider amending the ASRS Standards in an attempt to address any specific auditing and assurance concerns.

Q33) Would the proposals result overall in climate-related financial information that is useful to users?

Q34) Are the proposals in the best interests of the Australian economy?

Q35) 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.

We consider that the ASRS Standards will result in climate-related financial information that is useful to users. This is because the proposals are based on the ISSB Standards baseline, which was subject to an extensive consultation process and those standards were based on the well established TCFD framework.

However, in our view, for the ASRS Standards to be in the best interests of the Australian economy, the AASB should adopt the ISSB Standards baseline without Australian-specific departures.