Australian Finance Industry Association

1 March 2024

Siobhan Hammond
Sustainability Director
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
Submitted via website to - www.aasb.gov.au/current-projects/open-for-comment/submit-comment-letter

Dear Ms Hammond

EXPOSURE DRAFT ED SR1 AUSTRALIAN SUSTAINABILITY REPORTING STANDARDS – DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION (MARCH 2024)

The Australian Finance Industry Association (AFIA)[1] appreciates the opportunity to respond to the Australian Accounting Standards Board's (AASB's) *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* ('the consultation paper').[2]

AFIA is the only peak body representing the entire finance industry in Australia.

We represent over 150 providers of consumer, commercial and wholesale finance in Australia, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

[1] www.afia.asn.au.
[2] Australian Accounting Standards Board (October 2023) Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

INTRODUCTORY COMMENTS

The finance industry plays a critical role in supporting consumers and businesses and we recognise that, as the Australian Prudential Regulation Authority (APRA) has said, climate change poses a 'material risk' to the financial system.[3]

Sustainability is a key strategic priority for AFIA, and we strive to champion a sustainable and timely transition to net-zero through green finance solutions and Environmental, Social and Governance (ESG) initiatives, including encouraging our members to use climate-related financial disclosures and supporting them in preparations for changes to financial reporting to build upon climate-related risks and opportunities.[4]

Our members finance Australia's transition to net-zero through various initiatives such as expanding Electric Vehicle (EV) uptake, supporting the Government's National EV Strategy and providing finance for the solar market.[5] These products play a significant role in Australia's efforts to achieve climate goals by generating renewable energy, reducing emissions and encouraging innovation and investment.

AFIA supports and recognises the importance of the introduction of climate-related disclosure obligations in Australia. Most recently, we responded to Treasury's climate-related financial disclosure exposure draft legislation in February 2024.[6] This response builds upon AFIA's three previous submissions made to Treasury on the introduction of Australian mandatory climate-related financial disclosures, as well as the Government's consultation on a Sustainable Finance Strategy.[7]

AFIA has endorsed a global approach to the development and implementation of climate-related reporting standards.[8] AFIA members are affected by the development of mandatory climate-related reporting standards within other jurisdictions. Therefore, we consider it crucial for entities to be able to collect data efficiently and report in a way that avoids duplication. We believe that the reporting burden should also be considered, and reduced where possible, for Australian subsidiaries of international organisations.

We note the AASB's role in developing, issuing and maintaining principles-based Australian accounting and reporting standards and guidance. AFIA supports the AASB aligning the ASRS with

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[3] Australian Prudential Regulation Authority's response to climate-related financial risks
[4] See AFIA Annual Review FY23, page 20.
[5] See AFIA (September 2023), EV Finance: Driving Down Australia's Emissions and AFIA (January 2023), The Economic impact of Buy now pay later in Australia.
[6] Treasury (January 2024) Climate-related financial disclosure exposure draft legislation. See also AFIA (February 2024) Climate disclosures exposure legislation.
[7] See AFIA (February 2023) Submission on Climate-related financial disclosure – consultation, AFIA Submission (July 2023) Second consultation on climate related disclosures and most recently, AFIA (February 2024) Climate-related financial disclosure exposure draft legislation. See also Treasury (November 2023) Sustainable Finance Strategy consultation.
[8] See AFIA (February 2023) Submission on Climate-related financial disclosure – consultation and AFIA Submission (July 2023) Second consultation on climate related disclosures.

the International Sustainability Standards Board (ISSB) issued standards as much as possible to avoid any risk of regulatory fragmentation and to align key definitions and concepts.

AFIA believes that to ensure successful implementation of the disclosure requirements, is critical that the legislation and Sustainability Reporting Standards (ASRS) are clearly aligned.

While some larger Australian entities are reasonably prepared for the introduction of new disclosure standards, they will be subject to a high burden with the new reporting requirements. Furthermore, smaller organisations will require time to scale up their expertise and capacity. They will be impacted by high upfront costs and have limited resources to address the significant financial, compliance, legal, and public interest risks.

AFIA believes proportionality and flexibility are key and we advocate for a tiered reporting structure which allows for adequate transition periods to recognise the challenges for Australian reporting entities. Smaller to medium sized entities (reporting entities within Group 3) in particular, would benefit from extended transition periods for disclosure requirements, including those relating to Scope 3 emissions reporting, to help streamline the transition.

Please find our detailed comments and recommendations within **Appendix A.**

CLOSING COMMENTS

Thank you for the opportunity to respond to the consultation. We appreciate the AASB's work in developing the Australian Sustainability Reporting Standards and for the longer period of consultation.

Should you wish to discuss our submission or require additional information, please feel free to contact AFIA Policy Director, Leisha Watson at Leisha.watson@afia.asn.au.

Yours sincerely

Leisha Watson
Policy Director

APPENDIX A

Question 1: Presenting the core content of IFRS S1 in [draft] ASRS Standards

AFIA notes the stated mission of the AASB includes contributing to developing a single set of accounting and external reporting standards for worldwide use.[9]

We believe it is essential to ensure Australia remains aligned with other major international markets. Furthermore, it is vital that businesses, investors, regulators and the public have a clear and collective understanding of obligations for entities to disclose climate-related financial risks and opportunities.[10]

AFIA supports the aim of the Government and the AASB to ensure the requirements are aligned with the ISSB, who released its inaugural sustainability standards (IFRS S1 and IFRS S2) in 2023, providing a global baseline.[11]

As previously stated in AFIA's earlier submissions to Treasury, we support aligning the ASRS with the ISSB standards as much as possible to avoid any risk of regulatory fragmentation and to align key definitions and concepts.[12]

We note that the AASB is proposing to develop two [draft] ASRS ([draft] ASRS 1, based on ISSB IFRS S1, and [draft] ASRS 2, based on IFRS S2. The AASB proposes that instead of having the same requirements duplicated in both draft standards:

- to include in the draft ASRS 1 Standard the requirements relating to core content disclosures of governance, strategy and risk management, and
- in the draft ASRS 2 Standard, to replace relevant IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing the corresponding paragraphs in the draft ASRS 1 Standard.[13]

AFIA appreciates the efforts made to rationalise the ASRS. We recommend that the AASB consider any risks of changing the numbering leading to confusion or difficulty in tracking the disclosure requirements internationally, in order to maintain consistency in reporting. The aim of reducing duplication may not, for example, outweigh the need for interoperability with international requirements.

[9] AUASB and AASB Strategy: 2022-23
[10] *ibid.*
[11] International Financial Reporting Standards (IFRS) (News release June 2023), 'ISSB issues inaugural global sustainability disclosure standards'.
[12] AFIA (February 2023) Submission on Climate-related financial disclosure – consultation, page 3.
[13] AASB Exposure Draft (ED) SR1, question 1, page 7.

As a result, AFIA prefers Option 2 outlined in the consultation paper in order to enhance interoperability and usability for users. Option 2 could also provide flexibility as the framework evolves over time.

Question 2: Replacing duplicated content with references to the Conceptual Frameworks

AFIA notes the AASB's approach. We agree in principle that reference to the Conceptual Frameworks may help to improve ease of reporting and help to future proof the standard.[14]

Question 3: Entities that do not have material climate-related risks and opportunities

AFIA believes it is important that flexibility and scalability should be applied to obligations that will require entities to disclose that there are no material climate-related risks and how they came to that conclusion, taking into account proportionality in the reporting burden.

AFIA notes the AASB proposal 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 entity '*shall disclose that act and explain how it came to that conclusion'*.[15] The AASB rationale builds on Treasury's indication in their second round of consultation on climate-related disclosure in 2023, that '*where an entity assesses climate-related risks and opportunities as not material, disclosing that fact would be useful information to users*.'[16]

AFIA notes that Treasury consulted on climate-related financial disclosure exposure draft legislation, known as the Treasury Laws Amendment Bill 2024: Climate-related Financial Disclosure between January and February 2024. The draft Bill states:

> *It is intended that extensive climate statements would not be required for smaller entities who do not have material risks or opportunities for the financial year. If an entity required to prepare a climate statement does not have material climate risks or opportunities for the financial year, the entity's climate statement will only include a statement to that effect, made in accordance with the sustainability standards that relate to climate.*[17]

Taking into account the above, it appears from the draft bill that Treasury's intention is for such entities to provide a statement that they do not have material climate risks or opportunities for the relevant financial year.

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[14] AASB Exposure Draft (ED) SR1, question 1, pages 7-8.
[15] Australian Accounting Standards Board (October 2023) Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information, paragraphs BC34-BC36.
[16] c2023-402245.pdf (treasury.gov.au) and Australian Accounting Standards Board (October 2023) Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information, paragraphs BC34-BC36.
[17] Treasury Laws Amendment Bill 2024: Climate-related Financial Disclosure, paragraph 1.46 (page 15).

AFIA submits that it is essential to achieve consistency between the legislation and the ASRS. We recommend this proposal is reviewed in line with the draft bill.

AFIA recommends further guidance is provided by the AASB on materiality to assist entities in assessing the materiality of their climate-related risks and opportunities, including what the expectations are around the principles of materiality and expectations.

Questions 5-6: Industry classification system

AFIA agrees that industry-based disclosures should refer to well established and understood metrics. There is a need for flexibility for reporting entities to decide which industry-based disclosures are appropriate.

AFIA supports an express provision permitting entities to provide additional voluntary disclosures beyond the minimum requirements. These should be made within the relevant frameworks, which will assist international entities to streamline reporting.[18]

Question 7: Disclosing the location of the entity's climate-related financial disclosures

AFIA agrees in principle with the AASB that the benefits of having a detailed index table may not outweigh the cost and effort required to prepare it or reflect the principles of the disclosure reform framework relating to flexibility and proportionality.[19]

Question 9: Modifications to the baseline of IFRS S2 for [draft] ASRS 2 (Scope of [draft] ASRS 2)

AFIA agrees in principle that the scope of the standard should be limited to climate-related risks and opportunities related to climate change, and that it does not apply to other climate-related emissions that are not greenhouse gases. We believe that the drafting of the ASRS should avoid any risk of scope creep which address other topics, without first going through due process.[20]

Questions 10-11: Climate resilience[21]

AFIA recognises there is a need for a common baseline in statements to allow for comparability. We have advocated for clear guidance and support for entities producing forward-looking statements, given the challenges some face with complex and diverse portfolios. We believe that further guidance will be required for entities on the scenarios they will be expected to report against. This could be achieved by the AASB providing non-mandatory guidance and educational materials.

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[18] AASB Exposure Draft (ED) SR1, page 8.
[19] ibid, pages 8-9.
[20] ibid, page 9.
[21] ibid, pages 9-10.

We believe that a non-prescriptive approach to scenarios required would be helpful to allow for needed flexibility for the wide variety of reporting entities, and as consider the ability for scenarios to evolve over time.

AFIA is supportive of the AASB considering ways to avoid additional unnecessary costs for reporting entities. The ISSB for example has considered efforts to mitigate costs and recognised the importance of proportionality, by introducing targeted relief measures and scaling some requirements.[22]

We recommend that further consideration be given to the challenges for smaller to medium sized reporting entities (Group 3), accounting for proportionality and risk by mandating fewer scenarios. The mandatory reporting requirements will create flow-on affects within industry supply chains, however many organisations will need to receive these disclosures before they can improve their own data collection and analysis. This will require a transition period as more intermediary organisations rely on external stakeholders.

Question 15: Converting greenhouse gases (GHG) into a CO2 equivalent value[23]

As many Australian reporting entities are currently required to provide disclosures for Scope 1 and 2 Greenhouse Gas Emissions to international investors, they will be familiar with aligning with the Intergovernmental Panel on Climate Change (IPCC) assessment reports.[24]

To provide flexibility for reporting entities and to improve international interoperability, entities that do not currently report under the National Greenhouse and Energy Reporting Scheme (NGER) should be given the option to use the IPCC 5th assessment report (AR5) or 6th assessment report (AR6), until there is global consistency.

Question 17: GHG emission measurement methodologies

We note that question 17 assumes entities will be required to apply methodologies set out in the NGER legislation, or when this is not practicable, apply:

(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*

(ii) *in the absence of such a methodology, a relevant methodology that is consistent with GHG Protocol Standards.*[25]

[22] IFRS Sustainability Disclosure Standards, 'Effects Analysis' on IFRS S1 and IFRS S2 (n 8), page 9.
[23] AASB Exposure Draft (ED) SR1, page 10.
[24] The Intergovernmental Panel on Climate Change (IPCC).
[25] AASB Exposure Draft (ED) SR1, page 11. See also National Greenhouse and Energy Reporting.

As global investors seek comparable information to make informed decisions, AFIA notes that the NGER Scheme is not currently aligned with the Greenhouse Gas Protocol. As such, any differences in the measurements need to be clearly outlined.

Question 19: Scope 3 GHG emission categories

AFIA supports- in-principle the AASB's approach 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, instead of requiring an entity to categorise the sources.[26]

We endorse a flexible approach for reporting entities, taking into account the recognised challenges related to Scope 3 emissions. As raised in AFIA's earlier submissions to Treasury, calculating scope 3 emissions poses various challenges in gathering the data, methods, and tools. As stated by Treasury, in relation to Scope 3 emissions, there are: '*concerns that there are significant data availability issues that do not allow for confident and accurate reporting of these emissions would appear well-founded in the short term*.'[27]

Question 32: Assurance

AFIA recognises the need for a consistent baseline and trust and confidence in the disclosure information provided. We have previously recommended a phased approach to assurance requirements for disclosures, and emphasised the challenges for assurance in this area as it is still maturing.

AFIA has also previously commented on the challenges with assurance in relation to ESG reporting, particularly in relation to scenario models and Scope 3 emissions in climate-related financial reporting.[28] This is due to the levels of estimation and variability in assumptions while assurance is maturing. There will be increased demand and capacity issues for independent assurers and auditors, who may struggle to make demand.

Additionally, reporting entities will encounter increasing costs for the preparation of detailed assurance, which will increase with the move towards reasonable assurance. Treasury's latest consultation paper reports that reasonable assurance costs will likely be 1.66 times higher than limited assurance costs, adding that this is likely to be an underestimate of actual costs given the novel nature of climate information.[29]

Question 35: Costs

[26] AASB Exposure Draft (ED) SR1, page 12.
[27] Treasury, climate-related financial disclosure: second consultation, page 27.
[28] AFIA Submission (February 2023), Climate-related financial disclosure - consultation.
[29] AFIA (February 2024) Climate disclosures exposure legislation.

There will be significant up-front, as well as ongoing, compliance costs which will pose challenges, in particular for smaller and less resourced entities. These costs include additional resources around data collection and instructing external expert advisory services to conduct risk assessments, scenario analysis, measurement, verification, and assurance. The implementation of ISSB standards for example incurs significant costs for companies, including recruiting expertise, modifying systems, and adapting data collection and reporting processes.[30]

[30] IFRS Sustainability Disclosure Standards, 'Effects Analysis', on IFRS S1 and IFRS S2 (n 8), page 7.