

Friday, March 01, 2024

Australian Accounting Standards Board
530 Collins Street
Melbourne VIC 3000

Feedback on the AASB Sustainability Reporting Exposure Draft

Please find enclosed feedback from Greenbase Pty Ltd (Greenbase) on the AASB Sustainability Reporting Exposure Draft (ED SR1).

The core of Greenbase's expertise is non-financial accounting and Greenbase has a wealth of experience in determining Scope 1, 2 and 3 greenhouse gas (GHG) emissions on behalf of their clients. Greenbase's objective with this feedback is to provide insights into the impacts of the specific implementation of ED SR1 on GHG emissions accounting from a technical standpoint.

This feedback is specifically based on Greenbase's experience in National Greenhouse and Energy Reporting (NGER) and the industry application of the Corporate Value Chain (Scope 3) Standard by the Greenhouse Gas Protocol. Both of which form key pillars in the Scope 1, 2 and 3 emissions disclosure under ED SR1. We have also seen how the application of these standards fit into existing international ESG reporting frameworks and where there are challenges in interoperability.

As such Greenbase has chosen to limit the scope of feedback to sections of the ED SR1 that relate to the implementation of GHG emissions accounting. Attached to this letter is feedback on the following two topics related to the AASB Sustainability Reporting Exposure Draft (ED SR1).

- The organisational boundary used in determining Scope 1 & Scope 2 emissions inventories, other metrics and target setting. (**Annex A**)
- The case for requiring emissions intensities to be reported under these standards and the comments on this made in the Basis of Conclusions (BC100 - BC102). (**Annex B**)

Yours sincerely,

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Annex A

The organisational boundary used in determining Scope 1 and 2 emissions inventories, other metrics and target setting.

Currently Australian controlling corporations that meet specific emissions and energy consumption thresholds have a requirement to report on Scope 1 and 2 greenhouse gas (GHG) emissions under the National Greenhouse and Energy Reporting (NGER) scheme. This reporting is based on emissions inventories for organisations based on their operational control over facilities that have Scope 1 and 2 emissions associated with them.

An alternate way of defining the boundaries of an organisation's Scope 1 and 2 emissions inventories is using financial control. Our understanding of the IFRS sustainability disclosure standards is that a reporting entity may choose either operational control or financial control to define their Scope 1 and 2 emissions boundaries.

Where possible, to avoid confusion, the standards should either clearly define which boundaries to use for their emissions inventories, or clearly state that entities have the choice to define their reporting boundaries either way. If entities have the option to use operational control or financial control, it's suggested that they need to disclose the boundary applied for transparency.

If entities have the choice to report using operational or financial control, it may result in double counting or potential gaps in the reporting of Scope 1 emissions. This is relevant if the intention is to use disclosed emissions information to determine the total Scope 1 emissions of Australian entities covered.

Additionally, if this is left ambiguous, it is likely that where a facility is jointly owned by multiple Australian entities, the Scope 1 emissions of that facility may be partially double counted or not completely accounted for. This will be the case if these entities use a mixture of financial and operational control for their Scope 1 emissions disclosure.

For example, there may be a case where Entity A has 60% ownership and operational control of a facility and Entity B has 40% ownership of a facility. Entity A is accounting for emissions using operational control and Entity B is accounting for emissions using financial control. Entity A reports 100% of the facility's Scope 1 emissions and Entity B reports 40% of the facility's emissions. In this case 140% of this facility's emissions are disclosed under AASB. Conversely if Entity A uses financial control and Entity B uses operational control then only 60% of this facility's emissions would be accounted for.

This is not an issue if there is no intention to ever aggregate these emissions across sectors or all reporting entities. But users of this data should be made aware of this for transparency. Notably, emissions are always double counted between the distinct scope's Scope 1 and 2. Scope 3 emissions involve double counting of some type in nearly all cases. But these two limitations are givens and widely understood by parties using this data.

More specifically, not defining Scope 1 emissions reporting boundaries removes the unique opportunity to aggregate Scope 1 emissions, in some cases, in potentially unexpected ways.

Operational vs Financial Control

Based on our experience, the following advantages and disadvantages in accounting for emissions using either boundary have been noted.

Using Operational Control

- Using operational control aligns with the NGER scheme and would generally reduce reporting burden on entities. Notably, entities operating non-Australian based facilities will have different inventory boundaries regardless.

- Using operational control is likely to increase data quality as the operator of an activity is in the best place to determine accurate emissions inventories. This is particularly the case where an Australian entity has a financial interest in an international facility where there is no rigorous GHG reporting framework currently legislated.
- Using operational control may define different boundaries for emissions reporting and general purpose financial statements. Therefore, in some cases investors may not be informed of climate risk associated with emissions intensive activities that contribute to revenues, assets and other financial disclosures. Although these activities will be covered under Scope 3 inventories (GHG Protocol Category 15), this is less transparent and in the short term it is likely less rigour will be applied to Scope 3 inventories. There is also a 12-month delay in reporting these emissions.

Using Financial Control

- Using financial control is likely to increase alignment with general purpose financial reporting and communicating appropriate climate risk to investors.
- Using financial control is likely to increase the reporting burden in cases where AASB and NGER Scope 1 and 2 emissions inventories have different boundaries.

Annex B

The case for requiring emissions intensities to be reported under these standards and the comments on this made in the Basis of Conclusions (BC100 - BC102).

Greenbase's position is that the standard of reporting would be significantly increased if entities were required to disclose emissions intensities of key/material products or services produced by the entity. Currently our understanding of the standards is that this metric is only required to be disclosed if it relates to an organisation's climate-related targets.

We acknowledge the assumption made in the comments in BC102 (b) where it is stated that users of GPFR would be able to calculate an emissions intensity based on already disclosed information. However, many companies provide more than one product and, in the current ED standards, absolute GHG emissions are not required to be disaggregated into these products. Nor is this generally common practice. Furthermore, entities don't necessarily provide a quantity of product sold in the GPFRs in cases where their quantity of a product sold isn't financially material (however it might be material from a climate risk point of view).

To demonstrate the limitations of this, we have used an example where a reporting entity produces two potentially carbon intensive products, lime and cement. The entity may report tonnes of lime and cement produced and their aggregated corporate emissions numbers. Entities purchasing this lime and/or cement cannot disaggregate product intensities for this lime and cement based on the aggregated emissions number disclosed. This may mean that less accurate spend factors are used by purchasers of this lime and cement to calculate Scope 3 emissions, which could be avoided if the supplying entity disclosed product specific intensities.

Even if the reporting entity did disaggregate emissions by product, this entity may, for example, supply lime and cement to 100 other reporting entities who must then separately calculate emissions intensities for purchased products. If intensities for carbon intensive products were disclosed, the lime and cement producer could do this calculation once and publicly disclose it, thereby reducing the complexity in the reporting Scope 3 emissions for the purchasers of those products (as well as the auditing process for these entities).

For these reasons, disclosing individual product intensity information will greatly reduce the overall reporting burden and streamline Scope 3 emissions inventory determination for companies purchasing products. It will also greatly increase accuracy and relevancy of the reporting of Scope 3 emissions as, in many cases, the lack of product specific intensity information will result in entities falling back on less accurate spend factors.

An alternative to consider is that entities could be required to report absolute GHG emissions disaggregated by product, as well as the quantity of any products that they produce that are material from a climate risk perspective – if not disclosed elsewhere. This is almost the same as reporting an intensity in our view. However, it would discourage attempts at uninformed comparisons of intensities as alluded to in BC102 (a).

We acknowledge that the primary purpose of these standards is to communicate climate risk to investors, and that the reasons we have provided for disclosing product intensity information do not necessarily align with this purpose. To this end Greenbase agrees with the comments made in BC102 (a) that intensities would not necessarily be comparable across reporting entities.

However, a counterpoint to this acknowledgement, is that a reason Scope 3 reporting lags twelve months behind Scope 1 and 2 reporting is to increase the accuracy in Scope 3 emissions reporting as entities can use Scope 1 and 2 emissions data in determining their own Scope 3 emissions. It is also our understanding that part of the reason not-for profit and government entities will be required to disclose Scope 1 and 2 emissions is because they form part of the supply chain of the for-profit sector. To these two points, it is our understanding that these standards aim to improve the overall understanding of supply chain carbon risk. Without the requirement for reporting product specific carbon intensities this aim may be harder to achieve.