Yarra Funds Management Limited

YARRA CAPITAL MANAGEMENT

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Australian Accounting Standards Board (AASB)
P.O. Box 204
Collins Street West
Melbourne VIC 8007
(submitted via the AASB website)

1 March 2024

Dear Sir/Madam,

Submission in relation to Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

Yarra Capital Management welcomes the opportunity to make a submission on the Australian Sustainability Reporting Exposure Draft 1, which seeks views on proposed climate-related financial disclosures in Australia.

About Yarra Capital Management (YCM)

Yarra Capital Management is a leading independent, active Australian asset manager, managing approximately $20bn of investment assets. The Yarra Capital Management Group offers its clients access to investment solutions across:

- Australian style neutral equities
- Australian value equities
- Fixed income, including core fixed income, hybrids, credit, macro and RMBS.
- International equity products in conjunction with global asset managers

Our range of investments covers investments in large ASX listed public companies, through to small, microcap and private companies. Additionally our Fixed Income investment strategies invest in Australian based public and private companies and offshore entities issuing into the Australia market.

Yarra serves a wide range of clients, including Australian institutional, International institutional clients and High Net Worth, wholesale and retail markets its Australia. Our clients include leading Australian institutional asset owners, international insurance and investment firms, many of whom are themselves subject to international reporting requirements.

We have been a signatory of the United Nations Principles of Responsible Investment since our inception in 2017. As investment managers, we are committed to managing our clients' assets responsibly and sustainably and operating as a responsible business.

Summary Recommendations

1. **YCM supports the introduction of a mandatory, internationally-aligned framework for disclosure of climate-related financial information in Australia.**

   As an Australian asset manager and steward of our clients' investments, we support the proposed introduction of mandatory climate-related financial disclosures in the Australian market. Climate disclosures are an important data input for us and the broader investment community to make financially material assessments on how companies are performing. We recognise the risks and challenges associated with climate change and are encouraged by an increasing uptake in efforts toward decarbonising the economy. These draft reporting standards put forward by the AASB would serve as an important policy lever to continue to facilitate steps toward more transparent information flows that lead to improved accountability across the investment chain and improved decision-making in alignment with net zero ambitions and global goals.

2. **YCM encourages further alignment with international sustainability reporting standards for the Australian market.**

   While the introduction of the draft Australian climate-related financial disclosure standards (ASRS1, ASRS2, ASRS101 ED1) are aligning with global standards, we would encourage Australian standards to fully align to and adopt global sustainability disclosure standards (IFRS sustainability disclosure standards under the International Sustainability Standards Board (ISSB)).

   In particular, we note that the AASB draft standards propose disclosing emissions in alignment with the Australian National Greenhouse and Energy Reporting Scheme (NGERS) rather than the ISSB methodology under the Greenhouse Gas Protocol (GHG Protocol). We feel this is an opportunity to align the Australian Clean Energy Regulator with global standards and would provide investors, such as YCM, to understand how climate risks are concentrated and distributed across our portfolios. Notably under the GHG Protocol, there are 15 categories of scope 3 financed emissions, including for e.g. purchased goods & services; fuel & energy related activity; upstream transport & distribution; waste generated in ops; employee commuting; end of life treatment of products; downstream leased assets; investments.

   YCM, and most other investors, operates in an environment with clients and companies operating in a global landscape. In some cases, our global clients will be aligning to ISSB requirements, and will be seeking aligned reporting from their asset managers and underlying investments. If the ISSB standards are seeking reporting against specific categories of emissions, it would be useful to require and/or encourage Australian entities to provide the same type and categorisation of data.

While the current regulation requires Australian entities of a certain size to disclose and report under NGERS, we believe new standards should be introduced to require those entities not currently reporting under NGERS to align with global standards. This would help ensure clarity in data aggregation and decision-making. To bridge this gap, we would suggest the AASB standards incorporate flexibility in the early years to adopt either NGERS or the GHG Protocol, with encouragement to move toward the GHG Protocol for global alignment.

Additionally, we would like to see the Australian standards move to adopt other sustainability related financial disclosures beyond climate, as broader sustainability themes hold material financial impacts. Over time, we recommend the AASB outlines its timeline for introducing and adopting future sustainability themes. This would help Australian entities ensure their vendors and sources of information not only cover climate-related information but also near-term sustainability related disclosures. Given the lead time required by some entities to invest in the capabilities to measure and report in these areas, indicating future themes and timelines would be helpful.

3. **YCM recommends that Australian standards specify acceptable methodologies for scenario analysis.**

   Understanding forward-looking scenarios in relation to climate change is a technical exercise that is currently characterised by a number of methodologies and underlying assumptions. Entities seeking to develop credible forward-looking assessments of climate risk and transition plans often struggle to navigate uneven resources and opaque information. While YCM is highly supportive of including forward-looking climate-related risk assessments and scenario analysis to align with global climate goals, we would recommend the Australian standards specify what constitutes a credible methodology and, ideally, recommend or endorse specific methodologies.

4. **YCM suggests that the AASB clarify acceptable methodologies for reporting scope 3 financed emissions.**

   The draft ASRS2 ED1 notes under section B61.1(d) asks that asset managers consider disclosing the methodology to calculate financed emissions. Given the emerging nature of the field and disparate methodologies, YCM would note that the AASB could help guide best practice and implementation for asset managers by specifying which methodologies are preferred and/or acceptable under the reporting standards.

5. **YCM encourages the AASB to provide resources for successful implementation and capacity building.**

   Given the highly technical nature of climate-related financial disclosures, YCM encourages the AASB to work to ensure it can support entities to build internal capabilities and accessible resources, particularly for smaller entities who may not have worked through sophisticated climate-related financial disclosures until now. Even for entities already reporting climate-related financial disclosures, the changes in regulations can be significantly technical, bringing confusion and barriers to successful implementation. This would be particularly acute for entities where internal resources are constrained and/or do not have the means to build the reporting capabilities within the specified reporting timelines. One suggestion that could help investors like YCM is to work with third-party data providers and intermediaries to standardise their approach to passing through climate-related information, reducing reporting inefficiencies along the way. Additional resources may include methodology and implementation guidance specific to different industries.

<u>Recommendations on specific AASB proposals</u>

Proposal	Question	YCM response
5	Do you agree with the AASB's view that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC? Please provide reasons to support your view.	**Yes, YCM supports the AASB view that the reporting entity should consider the applicability of well-established and understood metrics within their industry. However, we note that ANZSIC may not be the most relevant classification system for climate and eventually more broadly sustainability related financial disclosures. Aligning with global standards (to the AASB's proposals 3 and 4), such as SASB, may aid reporting entities to align with globally identified common material issues, particularly in the early years where materiality considerations are highly subjective.**
6	Do you consider that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards)? Entities are able to provide additional disclosures provided that they do not obscure or conflict with required	**YCM believes that if entities choose to provide additional voluntary disclosures that do not conflict with or obscure required disclosures, this could be additive. Some entities will be required to disclose additional information under other reporting standards and may choose to voluntarily report useful and material information that could be additive to the AASB standards.**

	disclosures. Please provide reasons to support your view	
7	Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 to [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures. Do you agree with that proposed requirement? Please provide reasons to support your view.	**YCM agrees that being able to navigate/locate specific information is what is relevant and that the format to do so should not be specified.**
10	Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view {Scenario Analysis}	**YCM supports the proposal in ASRS2 specifying that at least one scenario adhere to the 1.5 degree scenario at a minimum.**
13	Do you agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose the information described in points (a) and (b) in the above box? In your opinion, will this requirement result in information useful to users? Please provide reasons to support your view. (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.	**YCM agrees that it would be useful for entities to disclose remuneration considerations in relation to climate (a).** **Disclosures related to (b) could be worthwhile if not taken in isolation. One of the concerns with requiring the disclosure of percentage of management with remuneration tied to climate-related considerations is it could orient entities to strive to increase this target at other costs. This may not be appropriate, given the interrelated nature of many sustainability-related considerations and financial considerations. For example, a company may strive to maximise its climate performance at the expense of the wellbeing of people or other outcomes. On balance, increasing accountability for how measures of climate-progress are related to remuneration and incentives can be useful if balanced with more holistic considerations.** **With that context, we expect it would likely be more harmful than helpful to understand quantitative figures of remuneration linked to climate issues without qualitative, descriptive**

		accounts of how these targets are set, achieved and balanced with other considerations. **We would support disclosures related to (a). We would support disclosures related to (b) if descriptive accounts of how targets are set, achieved and balanced with other considerations is also present.**
17	Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view. The AASB added paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 to specify that an entity would be required to: (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: (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.	**YCM agrees with these proposals with the caveat that reporting entities be given the flexibility to report under either the NGERS methodology or the GHG Protocol methodology. We encourage the Australian standards to move toward standardising under the global GHG Protocol.**
18	Do you agree with the proposal in paragraph AusB39.1 of [draft]	**YCM is supportive of this proposal, acknowledging that there can be delays in**

	ASRS 2? Please provide reasons to support your view. 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.	**aggregating data. e.g. for investors who rely on underlying disclosures.**
19	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? Please provide reasons to support your view.	**Over time it would be useful to standardise how scope 3 emissions are categorised and disclosed to assist in aggregation and analysis. This is particularly relevant for investors who want to be able to compare and aggregate like-for-like sources of emissions to understand where climate risks are concentrated. It seems that the most useful framework for this is the globally endorsed GHG Protocol; however, we support that in the early years, a framework of categories is suggested rather than mandated while early data may be less available.**
20	Do you agree with the AASB's proposal to require an entity to consider the applicability of those disclosures related to its financed emissions, as set out in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information? Please provide reasons to support your view. [Financed Emissions]	**Given how the draft standards are currently written (ED1), we believe it makes sense to encourage entities to consider applicability of disclosures related to financed emissions rather than requiring entities to disclose financed emissions.**

General Matters for Comment

Proposal	Question	YCM response
33	Would the proposals result overall in climate-related financial information that is useful to users?	**Yes. Improving the standardisation of climate-related financial disclosures to align with global standards is very useful to users of financial information, including to support investors like us to make investment decisions.**
34	Are the proposals in the best interests of the Australian economy?	**Yes, YCM believes that setting mandatory climate-related financial disclosures will help the Australian economy move toward increased transparency and accountability for global climate goals and will materially impact Australian society and its economy.**
35	Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs of the proposals.	**While many larger companies are already disclosing climate-related information, all reporting entities will need to invest increased resources to comply with these new standards.** **As an asset manager and in relation to financed emissions, we are aware that adhering to these new disclosure standards will require a significant increase in accessing additional data from investee companies, to allow our team to interpret, collate and assess this information.** **This may require significant investment in building internal systems and/or investing in robust sources of data from data providers. There will also be investment required to support the provision of aggregated information and reports to clients, including supporting their own financed emissions reporting.** **We recommend the AASB provides support to reporting entities, including clarity and guidance on implementation and methodology. It would also be useful to flag any pending changes or likely inclusions to future standards where possible.**

We look forward to engaging with the Australian Accounting Standards Board on these matters. If you have any questions in relation to this submission, please do not hesitate to make contact.

Yours faithfully,

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Yarra Capital Management

Dr Erin Kuo
Chief Sustainability Officer
Yarra Capital Management