W GROUP

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Australian Accounting Standards Board

Email: standard@aasb.gov.au

Westpac Place
Level 19, 275 Kent Street
Sydney NSW 2000
westpac.com.au

Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

Westpac welcomes the opportunity to provide feedback on the Australian Accounting Standards Board (**AASB**) exposure draft consultation on standards for disclosure of climate-related financial information (**exposure draft**).

It's noted that the Australian Banking Association (**ABA**) has provided a detailed submission on behalf of its members, in the development of which Westpac actively engaged, and broadly support. Nevertheless, further to the ABA submission there are a few matters that we would like to provide additional clarity on that we feel would be helpful to the AASB in their deliberations.

1. Climate scenarios:

Climate scenarios can be challenging, both to determine which scenario to use and in interpreting the results. To improve the comparability of information and make it easier for the primary users of reports we believe increasing standardisation is required.

Westpac supports companies using 1.5°C-aligned scenarios, this is commonly seen as a base case and it is important that we seek to be ambitious in the economy's goals. However, multiple 1.5°C-aligned scenarios currently exist which can create confusion amongst investors. Westpac would welcome further guidance on choice of scenario (such as RCP 1.9 or RCP 2.6 aligned). Noting that within the banking industry, RCP 2.6 is commonly used, and that a shift toward RCP 1.9 would be a significant change.

To further drive consistency, Westpac believes that the standard should also specify one upper-temperature scenario that an entity must use in its climate-related scenario analysis. We believe this could be a 4.0°C aligned scenario (such as RCP 8.5 aligned), which is commonly considered an upper bound. We believe this is vital for users of accounts so they can more easily compare outcomes of analysis across companies. This approach would not preclude companies conducting additional analysis with different scenarios (which we recommend to be also referenced in standards) but it would make reporting clearer.

2. Reporting period:

Westpac recommends clarifying the reporting period for quantitative metrics such as scope 1, 2 and 3 emissions, noting that that reporting for the National Greenhouse and Energy Reporting (NGER) scheme is aligned with 30 June whereas the AASB currently requires the reporting period to be aligned with financials statements, which is not always 30 June.

Climate statistics differ to financial statistics as they involve more estimation and are less affected by supply/demand and cost issues. Accordingly, the cut-off date for the end of a financial period will, in most cases, be immaterial. As a result, the annual carbon footprint of a company (scope 1,2 and 3

emissions) will not be materially different if it ends at June or September. This is particularly true given the factors used in determining a company's emissions are often more than 12 months old.

Given the significant cost and estimation required in determining a company's emissions, we believe that calculating once per year is sufficient and avoids unnecessary confusion. If a company already determines its emissions for NGER this should be sufficient for annual reporting up to 6 months after the June NGER period. For investors this has the following benefits:

- Providing only one external reporting source of truth for a company's annual emissions;
- Aligning regulatory reporting with AASB reporting, reducing costs; and
- Simplifying comparisons across companies.

Westpac currently reports its scope 1 and 2 emissions in alignment with NGER (30 June) while our remaining climate data are reported in alignment with our financial reporting (30 September). Under the AASB standards, will Westpac be required to report its scope 1 and 2 emissions both at 30 June and 30 September reporting period? There is significant cost and estimation involved in calculating our emissions and we believe having a reporting period in alignment with NGER (at least for scope 1 and 2 emissions) would better support companies and investors.

3. Financed emissions:

We support the ABA position on disclosure of financed emission by asset class and provide the following additional rationale.

Calculation of financed emissions for our portfolio is complex and currently we receive no feedback from investors on the calculation or the detail we provide. From a decision-making perspective, we feel it is important to disclose industry sector-based disclosure data, that is our financed emissions for each industry sector we lend to. Breaking up this reporting further by asset class provides no additional value to the providers of capital as we are assessing an emissions outcome rather than a financial outcome.

In the normal course of a banking business, detailing industries and asset classes has value because it potentially provides information on financial performance and risk. Providing finance by way of a long-term loan, an overdraft, a lease or via a project finance, could provide information of use to investors. The same is not true for emissions. In calculating emissions, banks do not typically disaggregate for facility type or asset class as it's a resource intensive exercise and it provides no additional value to the providers of capital. The most accurate source of asset-level/class data should be the entity for where the asset sits within operational control and is subject to NGER scheme requirements.

Furthermore, the standards should provide more clarity on how banks should interpret funded and undrawn commitments under the following requirements:

b) the gross exposure for each industry by asset class, expressed in the presentation currency of the entity's financial statements. For:

(i) funded amounts—gross exposure shall be calculated as the funded carrying amounts (before subtracting the loss allowance, when applicable) prepared in accordance with Australian Accounting Standards; and

(ii) undrawn loan commitments—the entity shall disclose the full amount of the commitment separately from the drawn portion of loan commitments;

Funded and unfunded are broad terms and to ensure consistency in reporting, a more detailed definition of these terms is required. For example, the undrawn part of an overdraft is committed but undrawn, as are foreign currency lines of credit, trade finance etc.

If the purpose of this requirement is to align with financial reporting, and to avoid any confusion, reference to relevant requirements from the AASB financial standards asking for the same information should be included.

Westpac would also like to confirm if "*funded amounts*" under the above requirements is intended to be used to calculate the *percentage of the entity's "gross exposure" included in the financed emissions calculation.*

Broadly, we would appreciate that the standards documents include a pro-forma reporting template for financed emissions, as this would greatly assist with the streamlining of this reporting to meet the exact requirements and drive greater consistency and comparability between banks. As an example, we highlight the recent draft consultative document from the Basel Committee on Banking Supervision for the Disclosure of climate-related financial risks that includes on page 27 an example of a pro-forma reporting template for similar information. Thus, it would not be unusual for a regulatory standard to provide a template to clarify complex subject matter and the associated reporting requirements.

4. Superannuation Funds:

Westpac has a slightly different view as to how superannuation funds should be considered in the new standards. This quite a complex area as there are a broad range of superannuation fund types, with each having differing roles in relation investment decision making, and also different structures as they relate to asset ownership, funds management control, and superannuation or platform administration.

As a principle, we believe that reporting should follow impact. That is, those that make active investment decisions about where money is invested and have a relationship with their investments should be captured under the new reporting. A superannuation fund making investment decisions on behalf of members to generate returns for those members (for example choosing to buy companies or other assets) should need to understand the carbon footprint of those investments and make this information available to members. This should be the same concept as for EFT's and other investment vehicles who invest directly.

Typically, large industry super funds with trustee directed investments would be captured using this lens. They are large, sophisticated and have strong connections with the investments they are choosing for their members. Pooled returns for an overall fund are generated and are then allocated to members.

However, some superannuation fund structures are connected to choice-based investment platforms. The responsible entities and superannuation trustees for those operations are typically not involved in the investment decision making, however are administering the investment choices of their members. In effect they exert no operational or financial control and are not rewarded or impacted directly by the performance of the investments, which are all individually traced to the individual members on their registry.

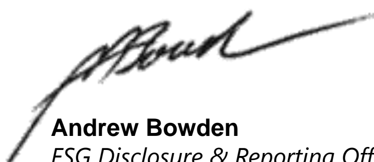
In this case, choice-based fund managers will typically permit members to invest in index funds, stocks or various other asset classes, and will not have direct or even indirect interaction with the funds/companies etc in which they invest. This lack of a relationship makes it difficult to source high quality financed emissions data. Bureau based provision of this data is in very early stages with coverage looking patchy, inconsistent on a lagged basis.

Accordingly, we believe the standards should not apply to choice-based investment platforms or superannuation funds. In summary, the grounds for excluding these entities are:

- They do not make active investment decisions and therefore do not drive a climate 'impact';
- Roles more administrative in relation to the investments;
- The actual emissions, if material will already be picked up by the investment manager or asset owner and so separately reporting results double counting with no further insight for the end investor; and
- The cost/effort is not justified by the outcomes, and information will not impact investor decision making.

If you have any question about this submission or other matters, please feel free to contact me.

Yours sincerely,



Andrew Bowden
ESG Disclosure & Reporting Officer
Westpac Group