

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

**Issued by the Australian Accounting Standards Board**

Comments from ACCA

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assurance services as well as driving sustainability best practices including ESG and climate action through engagements with regulators, industry as well as institution partners.

ACCA has a global strategic alliance with CAANZ (Chartered Accountants Australia and New Zealand) since 2016, seeing the two professional bodies shaping and leading the future of our profession together and amplifying our voice to influence key policy issues affecting the profession.

As part of our commitment to sustainability, ACCA has been at the forefront of fostering a more robust business environment in implementing sustainability into accounting and finance practices. We set up a sustainability hub providing access to S1 and S2 explainer videos, reports and articles to help our members and other accounting professionals keep up to date on sustainability matters. ACCA, IDI (INTOSAI Development Initiative) and IFAC have recently launched an introduction to sustainability reporting and assurance guide, intended for the public sector globally.

Further information about ACCA's comments can be requested from:

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## **GENERAL COMMENTS**

ACCA welcomes the opportunity to provide views in response to the Australian Accounting Standards Board's (AASB's) exposure draft ED SR1, Australian Sustainability Reporting Standards (ASRS) – Disclosure of Climate-related Financial Information.

ACCA commends the AASB for the pivotal role it is playing in advancing Australia's sustainability reporting agenda. By using the IFRS Sustainability Disclosure Standards as a baseline, AASB has championed a crucial step forward, bringing Australia sustainability reporting into the spotlight internationally.

We note the difficult task that the AASB is presented with, having to strike a delicate balance between ensuring that the standard is internationally aligned and, at the same time, caters appropriately to the Australian context.

We welcome the proposed standard and cannot overstate its significance as a crucial step towards driving globally aligned sustainability reporting. We are hopeful that this will catalyse the changes needed to inform a deeper awareness, and a healthy posture around sustainability reporting themes and practice, including but not limited to existential threats arising from climate change, both within the reporting entities themselves, and the broader stakeholder base of users in Australia and beyond.

In forming our responses, we draw from multiple consultations with a broad stakeholder base, including participants from academia, industry bodies, public practice and thought leaders in the sustainability reporting field.

### **1. Global Alignment**

ACCA advocates a global approach to the development and application of sustainability disclosure standards, and we support the role of the ISSB in setting a consistent and comparable global baseline to sustainability reporting around the world.

Global consistency, comparability and reliability of sustainability-related financial disclosures are desirable because they make the reports relevant to users across jurisdictions, geographies and industries. The consistency in reporting reduces the uncertainty for investors and other stakeholders relying on the reporting and will improve their understanding of businesses and of their performance, position and prospects. Participants in the markets will be able to make better risk assessments, resulting in better allocation, and reduced cost of capital. At a jurisdictional level, a broader base of investors will be attracted as a result, providing greater liquidity to the market.

This outcome is best achieved through alignment with the ISSB's IFRS Sustainability Disclosure Standards. These standards are intentionally built upon existing frameworks, including the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Notably, the IFRS Sustainability Disclosure Standards have received endorsement from the International Organization of Securities Commissions (IOSCO), thereby bolstering the potential for global consistency.

In addition, where ASRS disclosure requirements deviate from the IFRS Sustainability Disclosure Standards, this difference risks leading to increased compliance costs, especially for Australian businesses with exposures overseas that may necessitate reporting of their sustainability performances outside of Australia, as well as large international companies with significant operations in Australia.

In this respect, we observe several opportunities for greater alignment with the IFRS Sustainability Disclosure Standards as a global baseline, as set out in subsequent paragraphs.

## **2. Coherent, Broader Policy Framework**

The AASB has proposed to limit the scope of disclosure requirements to climate-related financial disclosure. We appreciate that this is aligned with the Australian government's policy priority to address the existential threats arising from climate change, a critical imperative. We would like to highlight, however, that the broader range of sustainability-related risks and opportunities and the connectivity between them and climate is increasingly recognised by investors and other stakeholders to be critical as well. The IFRS Sustainability Disclosure Standards cater to this wider scope of disclosure. ISSB has introduced various transitional reliefs, including allowing entities to only report climate-related risks and opportunities in the first year when IFRS S1 and S2 are applied. This means that there is an existing mechanism within the IFRS Sustainability Disclosure Standards that facilitates a 'climate-first' approach, and AASB could promote greater alignment with international sustainability reporting by allowing the AASB's standards (in particular, ASRS 1) to be applied to a broader scope of risks and opportunities beyond climate, applying transition reliefs in the initial period to enable a focus on climate change. This approach will allow a smoother transition to when broader disclosures beyond climate are required, in effect future-proofing the ASRS.

In this regard, we also urge the AASB, working with the Treasury, to clearly indicate a roadmap for broader sustainability reporting to provide greater certainty for business, enabling businesses to prepare and invest in the appropriate systems to support efficient implementation.

## **3. Other Aspects of Global Comparability**

We strongly encourage minimising jurisdictional modifications to the global baseline sustainability-related disclosure requirements, and to only introduce amendments where they are absolutely needed in the Australian context. We highlight in this section some key areas where we would recommend retaining the original requirements of the IFRS Sustainability Disclosure Standards.

### **3.1. Reassess the scope of ASRS 2**

The ISSB's IFRS S2 relates to all climate-related risks and opportunities. By comparison, the proposed scope of ASRS 2 is narrowly limited to climate-related risks and opportunities related to climate change and excludes other climate-related emissions (e.g. ozone depleting emissions) that are not greenhouse gas (GHG) emissions.

We acknowledge AASB's desire to minimise any confusion around the meaning of "climate", but in our view the proposed narrower scope is not helpful.

The deviation from IFRS S2 risks compromising global comparability. In drafting ASRS 2, we suggest retaining the principle-based requirements in IFRS S2 that require entities to determine disclosures that would be relevant and faithfully represent their activities, their dependencies on resources and relationships, and how their activities affect those resources and relationships. We also recommend that the ASRS, in general, should allow entities to determine which information will be material for disclosure to their stakeholders, and non-authoritative guidance should be provided to assist entities in making this determination.

### **3.2. Using a consistent methodology to alleviate reporting burdens faced by multinational entities**

We note that the Australian government has long had its own National Greenhouse and Energy Reporting Scheme legislation (NGER) in place for GHG emissions reporting. We commend this forward-thinking approach to sustainability reporting.

We observe that the draft ASRS requires entities to prioritise applying relevant methodologies from Australia's NGER Legislation as the default method in measuring their GHG emissions before referring to other Greenhouse Gas measurement methods or frameworks.

While we appreciate that many Australian entities would already have processes for collecting data and reporting under the NGER legislation, we note that the current NGER legislation does not require entities to collect and disclose Scope 3 emissions, as required by both ASRS 2 and IFRS S2. In this context, we have concerns about how usable NGER compliant data would be in driving globally comparable reports.

We encourage the AASB to adopt a long-term view in assessing whether and how the NGER legislation would support this outcome. Our roundtable participants repeatedly expressed a preference for the GHG Protocol for measuring GHG emissions, noting that larger multinational entities operating in Australia would probably need to comply with IFRS S2 requirements going forward, and having to then report GHG emissions using two different methodologies will be unhelpful and costly. In view of the need to minimise duplication in reporting, we encourage efforts by the AASB to work with the regulator to provide guidance on how both the GHG Protocol and NGER Scheme legislation interact with each other and promote greater alignment.

### **3.3. Disclosing Scope 3 emissions categories to help users understand the concentration of GHG emissions in the value chain**

While both IFRS S2 and ASRS 2 require disclosure of Scope 3 emissions, only IFRS S2 mandates categorising these emissions in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011). The draft ASRS presents these categories as examples to consider. This may result in disclosures of Scope 3 emissions under the ASRS having less details about the concentration of GHG emissions in an entity's value chain than disclosures made under the IFRS S2 and potentially being less useful to decision makers.

Our roundtable participants acknowledge the inherent challenges around driving comparability in the relatively new context of sustainability reporting. Understandably, jurisdictional and regional priorities may differ on what reporting should entail. We note that AASB considered several options in forming its own view and commend its bid to drive robust, internationally-aligned mandatory climate-related financial disclosures.

We believe that comparability is a key enhancing feature of useful information. This view is echoed in AASB's own [Conceptual Framework for Financial Reporting](#), which is referenced in ASRS 101 - References in Australian Sustainability Reporting Standards. We note that this framework is aligned with the IFRS's [Conceptual Framework for Financial Reporting](#). We observe the AASB's conceptual framework states that "*Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.*"

In this context, we suggest retaining the requirements in IFRS S2 to disclose Scope 3 categories in accordance with the GHG Protocol. Our roundtable participants have echoed this view. This will drive comparability and consistency both within Australia and beyond.

### **3.4. Reconsider omitting the requirement to disclose financed emissions**

The IFRS S2 mandates disclosure of financed emissions as one of the Scope 3 categories. This gives the users of sustainability reports insights into the greenhouse gas emissions linked to investment and lending activities of financial institutions.

By comparison, the draft ASRS 2 does not mandate disclosing financed emissions but requires entities to consider the applicability of disclosures related to their financed emissions.

Providers of finance play a key role in decarbonisation by facilitating the growth of green alternatives and supporting diversion of capital towards green solutions. Tracking financed emissions also helps providers of finance manage climate-related risks in their portfolios. In addition, there is notable interest in other ongoing consultations on this topic. For example, at the time of this submission the Basel Banking Supervisory Committee, a global, peak body for central banks, has an ongoing consultation titled [disclosure of climate related financial risks](#), in which they seek feedback on a range of topics, including financed emissions.

We recognise that entities applying methodologies set out in NGER Scheme legislation to measure their Scope 1 and Scope 2 GHG emissions may not have the information necessary for those disaggregated disclosures.

Consistent with our comment above on the disclosure of Scope 3 categories of GHG emissions, we suggest the AASB requires the disclosure of financed emissions as relevant to entities, where necessary, consider phasing in this requirement at a later date as a form of relief. This will eventually result in global comparability and consistency.

### **3.5. Industry-Specific Disclosures and Application Guidance**

Unlike IFRS Sustainability Disclosure Standards, the draft ASRS do not mandate industry-specific disclosures. Under the draft ASRS, reporting entities have the option of disclosing such metrics if they consider them applicable.

Further, we note that the draft ASRS do not provide any reference to application guidance to support the implementation of industry-specific disclosures, instead requiring such entities to *“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 [Australian and New Zealand Standard Industrial]”*

Unsurprisingly, our roundtable participants have voiced a preference for clarity in the standards around what needs to be disclosed.

We suggest the AASB consider requiring the disclosure of industry-based metrics to drive consistency in disclosures, both locally and globally, and consider phasing in this requirement to a later date as a form of relief.

Meanwhile, we suggest the AASB continue to study the applicability of the *Industry-based Guidance on Implementing IFRS S2* for the disclosure industry-based metrics by Australian entities. The *Industry-based Guidance* in IFRS S2 are based on the SASB Standards as

adopted by the ISSB. We note that the ISSB have undertaken significant efforts towards enhancing the international applicability of the SASB Standards.

#### **4. Not-For-Profits Provisions**

We note that the AASB has proposed several amendments in the draft ASRS that are specific to not-for-profit entities to clarify the regulatory intent in the context of not-for-profit entities, without mandating any changes to the disclosure requirements that are specific to them.

However, these proposed amendments are confusing and have reduced the understandability of the draft ASRS as a result.

In view of this, we recommend limiting any modifications to the ASRS to cater to specific sectors or types of entities. Instead, the needs of specific sectors, such as the not-for-profit may be fulfilled through supplementary implementation guidance.

#### **5. Encouraging implementation through interventions such as transition reliefs, education, and guidance**

The AASB and other relevant bodies should carefully consider the extent of the skills and human resources gap across the corporate reporting ecosystem in Australia, whereby the anticipated demand for sustainability reporting talent may far exceed the supply in reporting entities, consultants, assurance providers and regulators. Scarcity of talent, likely an even more acute issue for smaller entities, will have implications on the cost of compliance and is likely to persist beyond the initial transition period.

Instead of limiting the scope of the ASRS to climate and narrowing the scope of ASRS 2 as discussed in the preceding sections, we suggest the AASB consider allowing transition reliefs for the reporting of other sustainability-related risks and opportunities beyond climate, the reporting of financed emissions and industry-based metrics.

This approach would enable the AASB to phase the implementation of ASRS and facilitate the subsequent addition of standards for the disclosure of other sustainability topics, as they become available, without substantially amending the existing ASRS. This approach may reduce reporting burden and the associated cost of compliance in the longer term.

It is also likely that extensive application guidance and education material will be needed to support implementation. We suggest the AASB leverage on the ISSB's efforts to develop non-mandatory guidance, and indeed, partner with ISSB to develop such guidance to support implementation of the ASRS, introducing updates as other sustainability-related topics mature and relevant metrics become available.