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Dear AASB members

We appreciate the invitation to comment on Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (Exposure Draft). We have not responded to all the specific matters for comment requested by the AASB but have provided comments for the matters we felt were most relevant.

Presenting the core content of IFRS S1 in ASRS Standards

Q1: In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:

(a) Option 1 - one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgements, uncertainties and errors (i.e. all relevant requirements other than those relating to the core content that are exactly the same as the requirements in IFRS S2) within an Australian equivalent of IFRS S2;

(b) Option 2 - two ASRS Standards where the same requirements in respect to disclosures of governance, strategy and risk management would be included in both Standards;

(c) Option 3 - two ASRS Standards, by including in [DRAFT] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [DRAFT] ASRS 2, replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding paragraphs in [DRAFT] ASRS 1 (which is the option adopted by the AASB in developing the [DRAFT] ASRS 1 and [DRAFT] ASRS 2 *in this Exposure Draft); or*

(d) another presentation approach (please provide details of that presentation method)?

Please provide reasons to support your view.

In relation to the presentation of the core content disclosure requirements of IFRS S1, in our view, Option 2 is preferable.

Acknowledging this would result in duplicative language between the two Standards, as the AASB has indicated they are considering the potential for broader sustainability reporting standards beyond climate in future, Option 2

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would allow [DRAFT] ASRS 1 to be more efficiently revised in future to encompass broader sustainability-related risks and opportunities, such as those considered in IFRS S1, particularly in the context of the Sustainable Finance Strategy consultation paper from Treasury (November 2023) which indicated that nature-related risks are likely to be considered for future sustainability reporting.

In our view, Option 1 creates unwarranted departure from the structure of IFRS S1 & IFRS S2; presenting international alignment challenges in the long term.

Option 3 avoids duplication between [DRAFT] ASRS 1 and [DRAFT] ASRS 2 however, should [DRAFT] ASRS 1 be amended to broaden the scope of sustainability reporting beyond climate, the current cross-referencing between the two standards may necessitate future amendment to [DRAFT] ASRS 2 to reinstate the omitted content. We have also received feedback from stakeholders that indicates that the current cross-referencing approach is frustrating for preparers to use, as they are required to continually go back and forth between the two draft standards.

As a separate and alternative presentation we additionally suggest the following as an Option 4:

To maintain the integrity of IFRS S1, and increase international alignment of the ASRS with the IFRS Sustainability Disclosure Standards, we additionally propose that the original language of paragraph 1 of IFRS S1 be retained with paragraph Aus1.1 amended such that it limits the scope of 'sustainability-related risks' in application, to the defined 'climate-related risks and opportunities' introduced by the AASB in [DRAFT] ASRS 1

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

Q3: Do you agree with the proposed requirements in [DRAFT] ASRS 1 paragraph Aus6.2 and [DRAFT] ASRS 2 *paragraph Aus4.2? Please provide reasons to support your view.*

In relation to the proposed requirements in [DRAFT] ASRS 1 paragraph Aus6.2 and [DRAFT] ASRS 2 paragraph Aus4.2, we agree that in a scenario where the entity assesses there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, it would be useful information to the users of financial statements to understand how the entity came to this conclusion.

However, we are also of the view that the ability of an auditor to provide assurance over this statement would be potentially problematic.

Additionally, we note that paragraph BC34 of the Basis of Conclusions of [DRAFT] ASRS 1 currently states "In accordance with the nature of GPFR reporting and disclosing information limited to matters that are material to the reporting entity, the AASB observed that entities that do not have significant assets or operations vulnerable to climate change or that give rise to material greenhouse gas (GHG) emissions would likely determine that they do not have material climate-related financial information to disclose."

In our view, this statement is potentially problematic as the criteria listed in the statement are written as individual criterion and does not acknowledge that for many preparers, 'assets' are limited to those future economic benefits presented in the statement of financial position. For an example, an entity may interpret this statement as "an entity that does not have significant assets recorded in its statement of financial position…would likely determine that they do not have material climate-related financial information to disclose". Furthermore an entity may, be exposed to material climate-related risks or opportunities in their value chain even if their controlled assets or operations are not directly impacted. The sentence in BC34 makes no mention of the value chain or other assets that do not meet the recognition criteria in Australian Accounting Standards. Due to the risk that this sentence may be misinterpreted by an entity as strict guidance when identifying climate-related risks and opportunities, we would suggest the wording of the paragraph in the Basis of Conclusions is substantially revised, or removed.

Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards

Q4: Do you agree with the AASB's views noted in paragraphs BC39-BC41? Please provide reasons to support your view.

We note the AASB's views in BC39 – BC41 in relation to removing the requirement for an entity to consider the applicability of SASB Standards and references to Industry-based Guidance on Implementing IFRS S2.

We agree that the three reasons noted in BC40 are valid reasons to remove the requirement for an entity to consider the applicability of the SASB Standards. We also observe that since the Exposure Draft was published, the ISSB has issued the internationalised versions of the SASB standards.

However in our view, the adjustments made to IFRS S1.57-58 in [DRAFT] ASRS 1.Aus58.1 excessively depart from the IFRS S1 standard. At present the wording of Aus58.1 states:

> *In the absence of an Australian Sustainability Reporting Standard that specifically applies to a climate-related risk or opportunity, an entity may-to the extent that these sources do not conflict with Australian Sustainability Reporting Standards-refer to and consider the applicability of information, including well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC. An entity shall apply judgement to identify information that:*
>
> *(a) is relevant to the decision-making of users of general purpose financial reports; and*
>
> *(b) faithfully represents that climate-related risk or opportunity.*

This wording implies that the only source of guidance in the absence of ASRS is information disclosed by peer entities in the same industry, as classified in ANZSIC. This is a limited source of guidance particularly as sustainability reporting is relatively immature in Australia (see also our comments in relation to Q5). Furthermore, the potential for Australian-only generally accepted sustainability reporting principles to develop as a result of looking only to industry practice, has the potential to continuously diverge from international baselines (when developed), to the point where Australian industry-based sustainability reporting lacks comparability with international industry-based sustainability disclosures.

Additionally for any Australian reporting entities which also have international IFRS SDS compliant reporting obligations for the purposes of international group reporting, the removal of the reference to the SASB standards and replacement with Aus58.1 makes it difficult for entities to incorporate SASB disclosures effectively across the global group. This is because the SASB Standards are unlikely to align to the ANZSIC classification system in such a way to permit interoperability. This will likely increase the cost of Australian compliance for these entities as the industry-based disclosures will need to be completely redesigned for the Australian reporting environment.

Q5: ***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?***

We do not disagree conceptually with using peer companies in the same industry as a source of guidance for industry-based disclosures. However we make the following observations in relation to the ANZSIC classification requirement:

1) Meaning of "well-established and understood" metrics

Well-established and understood is a qualitative characteristic implying the equivalent of generally accepted accounting principles. As sustainability reporting is relatively new, and until recently lacked standardisation, one of the main critiques to date was the lack of comparability and consistency in reporting content and frameworks. It is unlikely that 'well-established and understood metrics' are able to be established in practice.

It would be helpful for preparers of sustainability reports if the AASB could provide clarification as to what qualitative characteristics would make a metric "well-established and understood".

2) Relevance and applicability of the ANZSIC industry classification for users of the financial statements

Although the Australian Bureau of Statistics uses ANZSIC for its classification of entities, the classification system is rarely used in general business in Australia. It does not otherwise form a significant part of business interactions.

The ASX indices use Global Industry Classification Standard (GICS) for 11 standardised industry definitions, plus 5 other sectors developed for the Australian market. GICS, developed by Standard & Poor's and MSCI, is very similar to Industrial Classification Benchmark (ICB), developed by Dow Jones and FTSE.

As such, we query whether the ANZSIC classification codes is relevant for users of general purpose financial statements. If the ANZSIC classification is rarely used in general business in Australia, it is unlikely that a user of general purpose financial statements will consider ANZSIC peer companies when making economic decisions.

3) Compliance burden for preparers of the financial statements

Furthermore, for the preparer of general purpose financial statements, requiring the use of industry as classified by ANZSIC places a compliance burden on preparers to identify the ANZSIC classification of potential peer companies, prior to considering the applicability of well-established and understood metrics in that ANZSIC industry. Given the relative maturity of sustainability reporting in overseas jurisdictions compared to Australia, it is likely that any metrics that are considered "well-established and understood" would be published by international peer companies, rather than Australian entities. By making ANZSIC industrial classification of the reporting entity and its identified peer companies, a necessary step in preparation of ASRS compliant reporting, the AASB is unnecessarily increasing the compliance burden for preparers.

4) ANZSIC industry classification potentially mismatched to the sustainability-related risks and opportunities of the entity

The purpose of industry-related disclosure requirements is aligned to the overall objective of providing the users of financial statements with information that is useful in making economic decisions.

In requiring the use of the ANZSIC classification system, the AASB has replaced the Sustainability Industry Classification System (SICS) used in the SASB Standards, the purpose of which is to provide the user with comparable metrics for the sustainability-related risks and opportunities to which entities were likely to be exposed. In SICS, an entity's sustainability risks and opportunities are more important for its classification than other traditional factors, such as economic cycles and revenue streams. SICS then identifies the entity's primary industry, however entities with substantial business in multiple SICS industries should refer to and consider the applicability of the disclosure topics and associated metrics in additional SASB Standards. The SICS approach will theoretically identify the "industry" that best reflects an entity's exposure to sustainability-related risks and opportunities across its business model and value chain. Although this is obviously judgemental, this judgement is akin to the identification of climate-related risks and opportunities, and the IFRS S1 requirements also required disclosure of the sources of guidance utilised for this reason.

By contrast ANZSIC uses supply-side based industry definitions and groupings. Using this approach, units engaged in similar productive activities are grouped together. ANZSIC Industry classes were formed only if they were economically significant in either Australia or New Zealand (based on turnover and employment). Consequently applying the ANZSIC classification of industry may result in grouping companies that are not well-aligned in terms of their sustainability-related risks and opportunities.

Additionally, the ANZSIC methodology for classification is based on "predominant activity", in which the activity with the highest value added is the predominant activity using a "top-down" method. Under the ANZSIC classification system, an entity can only be allocated to one classification. A reporting entity's activities may relate to multiple ANZSIC industry classifications, and under the top-down approach, these secondary activities may be disregarded.

In an entity with multiple operations which create exposure to varying climate-related risks and opportunities, the predominant activity may not be the most appropriate reflection of the climate-related risks and opportunities that the reporting entity and/or its value chain is exposed to. For the purposes of sustainability reporting, it is possible the secondary activities of an entity are just as material – or even more material – to the user of the financial statements than those of the primary activity used for its ANZSIC classification. In an example, an entity within industry "J – Information Media and Telecommunications" may also control an entity in industry "B - Mining". As a result, the restriction of using ANZSIC industry-based disclosures are less likely to provide the user with relevant climate-related financial information.

5) Departure from international baseline reduces comparability and increases risk of Australian divergence

The ANZSIC classification system is generally unaligned to the SICS used in the application of SASB, and therefore Australian industry-based disclosures would be wholly unaligned to the international standard. This would decrease the comparability of ASRS-compliant disclosures with IFRS SDS disclosures, and therefore reduce the international comparability of Australian industry-based disclosures with overseas entities.

Furthermore, as previously discussed, the ANZSIC requirement increases the potential for Australian-only divergence from international baseline to the point where Australian sustainability reporting lacks comparability with international sustainability reporting.

Q6: 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 disclosures. Please provide reasons to support your view.

In our view, IFRS S1.57-58 was modelled on the financial accounting equivalent IAS 8.10-12, in that it provided:

- the principles required to develop and apply sustainability reporting policies; and
- provided in descending order, sources of information to be referenced in making the judgement.

Our interpretation of the current wording in Aus58.1 is that the AASB has:

- moved the principles of reporting to the end of paragraph Aus58.1, and in so doing, made the principles subject to the limitations introduced on Aus58.1;
- removed all the sources of information to be referenced in making the judgement introduced by the ISSB; and
- introduced a limitation on all information to be considered as a source of guidance as restricted only to those disclosed by entities that operate in the same industry, as classified in ANZSIC.

In so doing, although the AASB question for specific feedback assumes that "*entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures"*, we believe that users may interpret the current Exposure Draft as "*entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures* ***AND the disclosure is made by entities that operate in the same industry, as classified with ANZSIC****".*

Furthermore, as the principles originally included in IFRS S1.57 have been moved to the end of Aus58.1, we interpret this change as indicating the limitations on the sources of information (i.e. ANZSIC industry) as overriding the principles originally outlined in IFRS S1.57. We query if this was the AASB's original intention.

Q4-Q6: Our proposed amendment to the standard

In light of the observations made above in Q4- Q6, we propose instead that:

- IFRS S1.57 is retained in full (but with the change from "sustainability-related" to "climate-related"), in order to retain the core principles of reporting; and
- Rather than deleting the entirety of IFRS S1.58(a) to IFRS S1.58(c), the substance of IFRS S1.58 is retained, and the wording of 58(a) is amended to: "an entity may – to the extent that these sources do not conflict with ASRS – refer to and consider the applicability of…"

This would therefore retain the inclusion of SASB Standards, CDSB Application Guidance, other standard setting bodies, and peer entities in the same industry or geographic region as potential sources of guidance for report preparers. This would provide report preparers with directionality in their sources of guidance, similar to the hierarchy outlined in AASB 108.10-12, and reduce the cost of Australian compliance for subsidiaries of international groups.

Interim reporting

Q8: Do you agree with the proposed omission of IFRS S1 ***paragraphs 69 and B48? Please provide reasons to support your view.***

While we acknowledge the AASB's rationale in BC46 in removing IFRS S1.69 and IFRS S1.B48, in removing the paragraphs, the AASB has removed any Australian guidance for situations where an entity may want or need to provide interim sustainability reporting of some kind. This might occur for reasons such as providing information to prospective investors, or to meet overseas listing rules requirements.

We would recommend retaining the two paragraphs in order to provide guidance for instances where an entity is potentially required to, or voluntarily wishes to prepare interim sustainability reports.

Scope of [DRAFT] ASRS 2

Q9: Do you agree with the proposal in [DRAFT] ASRS 2 paragraph Aus3.1 to clarify the scope of the [DRAFT] Standard? Please provide reasons to support your view.

The addition of [DRAFT] ASRS 2 paragraph Aus3.1, in our view, does not create clarity as to the meaning of "climate-related risks and opportunities in relation to climate change".

Additionally, the phrasing used in Aus3.1 of "climate-related emissions, such as ozone depleting emissions that are not greenhouse gas emissions", in our view creates more confusion, because the phrase "climate-related" implies that they should be within the scope of ASRS but are specifically scoped out due to paragraph Aus3.1.

When considering the ISSB's comments in IFRS S2 Basis of Conclusions paragraphs BC24 – BC25, the ISSB specifically did not seek to define the full scope of climate-related risks and opportunities that may affect an entity, nor prescribe the scope of "climate-related". BC25 notes that there may be indirect impacts of climate-related matters affecting access to fresh water, biodiversity loss, deforestation etc that may be disclosed if an entity determines it is material for users of general purpose financial reports.

We also note that the term "climate-related risks and opportunities" is the term that is used by comparable climate-focused disclosure frameworks (e.g. Taskforce on Climate-related Financial Disclosures (TCFD), and IFRS S2). We believe adding "in relation to climate-change" has the potential to create misalignment of Australian climate-related financial disclosures with other jurisdictions with climate-related financial disclosure requirements.

As such, we would recommend that the AASB consider avoiding language that suggests specific examples are definitively in or out of scope of [DRAFT] ASRS 2 given the ISSB was careful to avoid limiting language.

We recommend that [DRAFT] ASRS 2 paragraph Aus3.1 be deleted. We further note explaining the scope of[DRAFT] [DRAFT] ASRS 2 could be a part of guidance and implementation materials produced by the AASB.

We further recommend that the AASB include an explicit statement in [DRAFT] ASRS 2 that states to the reader that "the scope of ***climate-related physical risks, climate-related transition risks***, and ***climate-related risks and opportunities*** are explained in the definitions in Appendix A, which is an integral part of [DRAFT] ASRS 2 and has the same authority as the other parts of the standard."

Climate resilience

Q10: Do you agree with the proposal in [DRAFT] ASRS 2 *paragraph Aus22.1? Please provide reasons to support your view.*

We observe that the wording of [DRAFT] ASRS 2 Aus22.1 is that the entity shall disclose its climate resilience assessments against at least "two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set of in the *Climate Change Act 2022".* We further note that this requirement is limited only to entities required to apply the ASRS under the *Corporations Act 2001* (Corporations Act) (i.e. entities that voluntarily apply the ASRS would not be subject to this requirements).

We note that this will result in inconsistency in disclosure between voluntary and mandatory adopters of the ASRS. The limitation of Aus22.1 to only entities required to apply the ASRS by the Corporations Act will introduce a tiered application of the ASRS, which was not previously been communicated as a desired outcome.

The tiering created by Aus22.1 would not be consistent with the basis of tiered reporting defied in AASB 1053 *Application of Tiers of Australian Accounting Standards*, creating misalignment in application requirements between AAS and ASRS. We would therefore recommend that the scope of Aus22.1 be expanded to all entities reporting in compliance with ASRS. In our view, the concept of tiers of Australian Sustainability Reporting Standards should be considered separately to this exposure draft.

We are also concerned that there is also limited high quality physical risk data available for many Australian geographic locations, and this requirement, in the absence of readily available high quality data for preparers of

sustainability reports, may place disproportionate burden on preparers, increasing the cost of compliance. There is also a risk the requirement of Aus22.1 effectively reduces the flexibility of the proportionality measure introduced by the ISSB by requiring "an approach that is commensurate with the entity's circumstances". As a result, if the requirement in Aus 22.1 is retained, we recommend that the AASB provide clear and accessible application guidance for preparers of sustainability reports to guide implementation of a 1.5 degree climate-related scenario analysis, including guidance relating to example qualitative assumptions that could be used in a 1.5 degree scenario (subject to the entity's specific facts and circumstances).

Finally, the purpose of climate-related scenario analysis disclosures is to provide the user with information about the resilience to climate-related changes, developments, and uncertainties of the entity's strategy and business model. The 1.5 degree scenario is an extreme transition risk scenario, particularly as IPCC AR6 noted "In the near term, global warming is more likely than not to reach 1.5°C even under the very low GHG emission scenario (SSP1-1.9) and likely or very likely to exceed 1.5°C under higher emissions scenarios." We posit that the 1.5 degree scenario may be useful as a stress testing scenario, but may not be as useful as a plausible future scenario which may be of more interest to investors. There are potentially less ambitious but more plausible scenarios (e.g. SSP1-RCP2.6) that may provide the user of financial statements with a better sense of the resilience of the entity's strategy and business model to more plausible climate-related changes, developments and uncertainties.

As a result, we would encourage the AASB to consider investor viewpoints, if it does decide to require a particular scenario, as to whether mandating the use of an extreme 1.5 degree scenario would result in relevant information for the users of the financial statements.

Q*11: Do you agree with the AASB's view that it should not specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis? Please provide reasons to support your view.*

We observe that IFRS S2 BC66 states that the ISSB decided not to specify the particular scenarios as the relevant scenarios depends on facts and circumstances, including the nature and location of its operations and the physical and transition risks to which it is exposed. As such, we agree that the AASB should not specify the upper-temperature scenario that the entity must use in its climate-related scenario analysis.

Converting greenhouse gases into a CO2 equivalent value & GHG emission measurement methodologies

Q15: Do you agree with the AASB's view that an Australian entity should be required to convert greenhouse gases using GWP values in line with the reporting requirements under NGER Scheme legislation? Please provide reasons to support your view.

Q17: Do you agree with the proposals in [DRAFT] ASRS 2 *paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view.*

We disagree with the proposals to utilise NGER Scheme Legislation methodologies, including the IPCC 5th report GWP, in preference to the Greenhouse Gas Protocol, on the basis that this will:

- create significant misalignment in international reporting comparability; and
- impose significant regulatory burden and cost of compliance for non-NGER controlling corporations.

Due to the requirement to use NGER Scheme methodologies "if practicable", at present our interpretation is that all entities, irrespective of their current NGER registration status, would be able to apply NGER Scheme methodologies for scope 1 and scope 2 emissions. Our comments below are based on this interpretation of the phrase "if practicable".

Misalignment in international reporting comparability

The requirement to use NGER Scheme methodologies in the measurement of greenhouse gas emissions is a departure from the international IFRS S2 *Climate-related Disclosures* standard (IFRS S2) issued by the ISSB in June 2023, which require measurement of Scope 1 & 2 greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol Corporate Standard). It is also a departure from the approach to measuring greenhouse gas emissions in the European

Union, New Zealand, the UK and many other jurisdictions which measure their greenhouse gas emissions using the GHG Protocol Corporate Standard. These markets constitute a major source of capital for Australian entities.

In relation to the use of global warming potential inputs, we further note that the ESRS (ESRS E1-6, AR 39(d)) and IFRS Sustainability Disclosure Standards (IFRS S2.B21-B22) require the use of the most recent IPCC report (i.e. IPCC 6th assessment). As the requirements of ESRS and IFRS Sustainability Disclosure Standards reporting affect international value chains, it is likely that there will be Australian companies who are asked to provide emissions information to entities upstream or downstream. Australian subsidiaries of international groups reporting in accordance with ESRS or IFRS Sustainability Disclosure Standards make likewise be asked to report.

Furthermore, we expect the misalignment to standards issued by the ISSB will continue to increase over time. The GHG Protocol Corporate Standard is currently in a process of being updated following a consultation period from November 2022-March 2023. There are multiple proposed amendments to the GHG Protocol Corporate Standard being contemplated, including potential adjustments to organisational boundary approaches, and adjustments to the methodologies of Scope 2 emissions (both market-based and location-based approaches).

One of the suggested pieces of feedback to GHG Protocol Corporate Standard suggests amendment to the organisational boundary approaches such that a new consolidation approach aligned to financial accounting requirements would be required. In such an instance where this approach was adopted in the GHG Protocol Corporate Standard, Australian sustainability reports prepared in compliance with the Exposure Draft Legislation will not conform with international sustainability reporting standards.

Future amendments to the GHG Protocol Corporate Standard will likely widen the gap in definitions and reporting methodologies between NGER Scheme Legislation, resulting in Australian companies preparing information that increasingly diverges from internationally-accepted practice that is not comparable internationally, which is unlikely to make Australia an attractive destination for international capital.

We recommend that the basis of the measurement of greenhouse gas emissions reverts to the requirements of IFRS S2 (i.e. the GHG Protocol Corporate Standards) in alignment with the aforementioned jurisdictions. This will result in Australian sustainability reporting that is internationally aligned and supports the relevance of Australian sustainability reporting in international capital markets.

Furthermore, we observe that consistent with the AASB's Basis of Conclusions paragraph B64, the original wording of the international standard would not have increased the regulatory burden on NGER registered corporations. This is because IFRS S2 paragraph B24 permitted NGER registered corporations to disclose their emissions using methodologies in NGER Scheme legislation without departing from IFRS S2 in preparing its sustainability report. As such, we do not consider there to be additional regulatory burden created by the requirements of IFRS Sustainability Disclosure Standards for NGER registered entities.

Regulatory burden and cost of compliance for non-NGER controlling corporations

In our view, requiring the use of NGER methodologies for all reporting entities (i.e. non-NGER Scheme registered corporations), imposes a significant regulatory burden on non-NGER registered entities which represent a substantial majority of entities reporting in compliance with ASRS.

Our rationale is explained as follows:

1) International subsidiary reporting requirements

The most widely accepted model for the reporting of greenhouse gas emissions is the GHG Protocol Corporate Standard (consistent across all jurisdictions requiring sustainability reporting to date). Australian subsidiaries of multinational companies will be required to calculate their greenhouse gas emissions under two separate frameworks as a result:

- GHG Protocol Corporate Standard (for international consolidation and reporting); and
- NGER Scheme Legislation (for compliance with the ASRS).

This will result in Australian subsidiaries being required to calculate and maintain two separate carbon emissions records, resulting in duplicative effort, and increasing the cost of Australian compliance with the ASRS.

Australian entities which are required to report in Australia and also have subsidiaries located in other jurisdictions may also be required to incur cost in these other jurisdictions to conform with the GHG Protocol Corporate Standard. Certain entities operating in certain jurisdictions other than Australia will be required to report GHG Protocol Corporate Standard-compliant information for *all* operations, including those in Australia.

Additionally, as engagement with value chains becomes more prevalent as a result of growing international jurisdictional requirements to disclose scope 3 emissions, we expect there to also be increasing emissions information requests throughout value chains. We have already observed this trend within our client base as a result of forthcoming ESRS reporting in the EU. Where Australian companies are being asked to provide this information, they are generally being asked for the information as calculated in compliance with the Greenhouse Gas Protocol.

2) Limited applicability of international guidance, tools and software

The departure from the international standard significantly limits the ability of Australian reporting entities to access guidance, tools and software to meet their reporting obligations. The majority of carbon accounting software, educational materials, online calculators and other similar resources which are available would not fully conform with the specific methodologies of NGER Scheme Legislation.

Report preparers therefore would be required to develop Australian-specific tools and/or software (which are at present, not widely available), at their own cost, increasing the cost of compliance.

3) Creating additional resource constraints of finance professionals with appropriate capability in industry

In an already limited resource environment, the inclusion of NGER Scheme Legislation would increase the resourcing constraints for both annual report preparers and professional services firms. The departure from the international standard significantly limits the pool of finance professionals with the technical capability to a relatively small subset of finance professionals, when there is already a recognised shortage of skilled accounting and finance professionals in the market globally.

Globally, there are many more professionals with in-depth knowledge of the GHG Protocol Corporate Standard, than there are individuals with in-depth knowledge of the NGER Scheme Legislation due to its niche application to date in the Australian market. This reduces the available pool of professionals to support report preparation (both as in-house preparers and consultants). It also reduces the effectiveness of international resourcing arrangements to support Australian finance professionals in meeting reporting deadlines. We expect this is also likely to increase the cost of implementation.

4) Increased cost to upskill existing finance professionals

There are significantly fewer training and educational resources available for training in NGER methodologies than there are in the GHG Protocol Corporate Standard. We expect there is a significant cost to the Australian economy from all aspects of the finance sector, and from the Government to support the creation of additional resources to upskill the majority of report preparers. By contrast, the GHG Protocol Corporate Standard is well-established and in-depth training is freely available on the GHG Protocol website, as well as other widely available free and reputable educational resources.

Overall, we strongly recommend that the requirement to utilise NGER Scheme methodologies in the measurement of greenhouse gases, including the GWP in NGER Scheme Legislation is removed, or that flexibility is incorporated permitting the use of the GHG Protocol (and therefore alignment to the hierarchy presented originally in IFRS S2).

Lack of clarity as to organisational boundary in application of NGER Scheme methodologies

In response to some of the interactions in the AASB's outreach sessions, we would additionally ask that the AASB clarify their view of the application of organisational boundaries when measuring greenhouse gas emissions in accordance with NGER Scheme methodologies.

NGER Scheme Legislation is defined in [DRAFT] ASRS 2 Appendix A as:

(a) the National Greenhouse and Energy Reporting Act 2007;

(b) the National Greenhouse and Energy Reporting Regulations 2008; and

(c) the National Greenhouse and Energy Reporting (Measurement) Determination 2008.

The National Greenhouse and Energy Reporting Act 2007 (NGER Act) establishes as a core concept, the National Greenhouse and Energy Register. Controlling corporations or responsible emitters (persons) are required to be registered if they have *operational control* over a facility above the facility threshold (NGER Act, s11). The emissions reporting requirements therefore apply to entities/persons reporting based on operational control over a facility. The measurement of Scope 1 & 2 emissions (i.e. calculation methodologies) are governed by NGER (Measurement) Determination 2008. Under the NGER Act, NGER registered entities will therefore be calculating their greenhouse gas emissions applying an operational control approach to their organisational boundary. By contrast, under IFRS S2 and the GHG Protocol there is an open policy choice to organisational boundary; equity share, operational control or financial control approaches.[1]

The inclusion of the NGER Act in the definition of NGER Scheme Legislation appears to imply the organisational boundary of operational control is required by [DRAFT] ASRS 2 paragraph Aus31.1(b). However, interactions with the AASB staff as part of the outreach has suggested that this may not have been the Board's intention. As such, should the requirement for non-NGER registered entities to apply NGER Scheme methodologies, if practicable, is maintained in the final issued [DRAFT] ASRS 2 standard, we recommend that the AASB clarifies whether this would also require the reporting entity to apply an operational control approach to the organisational boundary.

Providing relief relating to Scope 3 GHG emissions

Q18: Do you agree with the proposal in paragraph AusB39.1 of [DRAFT] ASRS 2*? Please provide reasons to support your view.*

We disagree with the proposal in paragraph AusB39.1. We note the AASB's explanation in BC80 in which the rationale for the requirement, originally from the Treasury paper is "other reporting entities' Scope 1 and Scope 2 GHG emissions may form inputs for the reporting entity's Scope 3 GHG emissions estimation. This is particularly important for financed Scope 3 emissions where banks, superannuation funds and insurers are likely to need to model or estimate a significant proportion of the economy."

While we acknowledge that the proposal in AusB39.1 is intended to enable the practical ability to report Scope 3 GHG emissions by utilising available information in the market, we raise the following concerns:

- The existing provisions in IFRS S2.B19 (which have been retained in [DRAFT] ASRS 2) allow an entity to use greenhouse gas emissions information from entities in its value chain for a reporting period different from the reporting entity as long as:
    - the entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose its greenhouse gas emissions;
    - the length of the reporting periods is the same; and
    - the entity discloses the effects of significant events and changes in circumstances (relevant to its greenhouse gas emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.
- AusB39.1 permits the use of the preceding period's data, if the current period's data is not available to the entity without undue cost or effort, and requires disclosure of this fact. However it does not:
    - require the entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose its greenhouse gas emissions (in the situation where the information does not match the current reporting period, but is not the most recent data available); or

[1] We note that this point is perhaps contentious in the view of the AASB staff. We would like to draw attention to IFRS S2.B27(a) where the ISSB specifically required disclosure of the approach used to determine its greenhouse gas emissions and includes as examples, the equity share or control approach in the Greenhouse Gas Protocol. We also note (though not authoritative), IFRS S2 Basis of Conclusions paragraph BC102, and IFRS S2 Application Guidance paragraph IE4, which also indicate that the three methods of defining an organisational boundary permissible in the GHG Protocol are also permitted under IFRS S2.

- require an entity to disclose the effects of significant events and changes in circumstances (relevant to its greenhouse gas emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.

In our view, paragraph B19 provides adequate provisioning for an entity to utilise data from the immediately preceding reporting period if the data is the most recent data available from those entities without undue cost or effort. Therefore, we propose that AusB39.1 be removed, as B19 already provides adequate relief for entities preparing Scope 3 emissions.

Scope 3 GHG emission categories

Q19: 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.*

In our view, in order to achieve consistency and comparability between entities, it would be better for there to be specific requirements of how to classify Scope 3 emissions. A lack of specified categories increases the risk that categorisation adopted by preparers of sustainability reports is not meaningful to the users of the financial statements.

Additionally, in order to apply the measurement methodologies required by the Greenhouse Gas Protocol Value Chain (Scope 3) standard, it is required that the entity classify the category of Scope 3 emission as a starting point. Although the ASRS has introduced an Australian specific hierarchy of greenhouse gas emissions measurement methodologies, there is no NGER Scheme legislation in relation to Scope 3 emissions. Therefore the categorisation of sources of Scope 3 emissions is already available to the entity in preparing their compliant Scope 3 disclosures.

As such, we recommend that the original requirement to disclose Scope 3 emissions according to the 15 categories of Scope 3 greenhouse gas emissions as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard is retained.

Financed Emissions

Q20: 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.*

In our view, changing the requirement from a required disclosure to an optional disclosure would significantly reduce the number of entities that will voluntarily make these disclosures and increase the departure of the ASRS from international sustainability reporting standards. Financed emissions have been an area of focus for investors and we are of the view it is a disclosure that is likely to be material information that is useful to users of the general purpose financial statements in making economic decisions.

Additionally we note that the Basel Committee on Banking Supervision is currently consulting on a Pillar 3 Disclosure framework for climate-related financial risks and the consultative document includes proposed disclosure requirements to include financed emissions that are disaggregated by sector (using GICS classification) and measured using the Greenhouse Gas Protocol. Should the Basel Committee's disclosure requirements as proposed be accepted, Australia's climate-related reporting framework under ASRS would not be aligned. As such we recommend that AusB59.1, AusB61.1 and AusB63.1 be removed and the original requirements of IFRS S2 be reinstated.

We note that proposed changes were made due to the AASB's concerns raised as a direct result of requiring companies to apply NGER Scheme methodologies to the measurement of greenhouse gas emissions. As noted previously we do not agree with this proposal. However, in the instance that the requirement to use NGER Scheme methodologies is retained, in our view, the concern raised by the AASB could be resolved by additional

disclosure around the inputs, methodologies and assumptions used in the financed emissions calculation, with potential disaggregation of emissions by methodology applied.

The most comprehensive and widely accepted approach to measure financed emissions is the PCAF standard for financed emissions, aligned to the Greenhouse Gas Protocol. We acknowledge that in the PCAF standard, the highest data quality rank is "verified or unverified emissions data of the [asset class] in accordance with the GHG Protocol", and therefore an investee that was reporting emissions by NGER Scheme Methodologies would technically not meet the data quality rank in PCAF. We suggest that this issue could be resolved by an Aus paragraph that "the methodology used to calculate the financed emissions may incorporate emissions data from counterparties calculated in accordance with [DRAFT] ASRS 2 paragraph Aus31.1(b)". For further disclosure, the AASB may want to desire requiring disaggregation of emissions by methodology applied.

Carbon Credits

Q22: Do you agree with the AASB's proposal to modify the definition of carbon credit in [DRAFT] ASRS 2*? Please provide reasons to support your view.*

We do not agree with the proposal to modify the definition of carbon credit in [DRAFT] ASRS 2. We propose instead that the original definition of carbon credit in IFRS S2 be retained. To address the original concern, we suggest an Aus36.1 paragraph may be added to [DRAFT] ASRS 2 to clarify that "For the purpose of this standard, carbon credits includes credits that are recognised under the Australian Carbon Credit Unit Scheme".

This would retain the international definition of a carbon credit, creating greater international alignment between the ASRS and IFRS SDS.

Questions specific to not-for-profit entities

Q23: Do you agree with paragraph Aus3.1(b) of [DRAFT] ASRS 1 and paragraph 2.2(b) of [DRAFT] ASRS 2 *that the objective of a not-for-profit entity would be to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's* *cash flows, access to finance or cost of capital, and its ability to further its objectives,* ***over the short, medium or long term? Please provide reasons to support your view.***

We understand the AASB's intentions in incorporating "and its ability to further its objectives" into the objective of [DRAFT] ASRS 1 and [DRAFT] ASRS 2 for a not-for-profit entity. We note similar wording exists in AASB 1058.1: "transactions where the consideration to acquire an asset is significantly less than fair value principally *to enable a not-for-profit entity to further its objectives*." As such the language is familiar to those in the not-for-profit space. However, the context in AASB 1058 is narrowly scoped to the economic rationale of a specific transaction, and therefore retains an economic lens.

Depending on the interpretation of the language in [DRAFT] ASRS 1.Aus3.1(b) and [DRAFT] ASRS 2.Aus2.2(b), the inclusion of the term "further its objectives" in the ASRS could be considered to have been introduced both with, or without a specific economic context.

If the AASB intended the phrase "*and* its ability to further its objectives" as the second limb of a two-limb test for NFP entities in identifying material information about its climate risks and opportunities (the first limb being "reasonably be expected to affect the entity's cash flows, access to finance or cost of capital"), then we suggest that this is clarified in the wording of [DRAFT] ASRS 1.Aus3.1(b) and [DRAFT] ASRS 2.Aus2.2(b).

Our suggested change would be:

- IFRS S1.3 and IFRS S2.2 is retained for the use of for-profit entities; and
- [DRAFT] ASRS 1.Aus3.1 and [DRAFT] ASRS 2.Aus2.2 is amended to read:
  "In respect of a not-for-profit entity, this Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect both:
  (a) the entity's cash flows, access to finance or cost of capital; and
  (b) its ability to further its objectives, over the short, medium or long term.

  For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'."

We understand from conversing with AASB staff in open forum that this interpretation aligns with the intent of the AASB when setting the standard. We strongly recommend the Board revisit the language used to ensure clarity is provided.

Q25: Do you agree with the proposal in [DRAFT] ASRS 1 paragraph Aus6.1 and [DRAFT] ASRS 2 paragraph Aus4.1? Please provide reasons to support your view.

We query why this was considered to be a necessary addition to the standards, as the same proportionality measures were already introduced by the ISSB in response to concerns about proportional effort for smaller and less-resourced entities, as explained in depth in IFRS S1 Basis of Conclusions paragraph BC9. The limitation of using reasonable and supportable information without undue cost or effort is included [DRAFT] ASRS 1 paragraphs B6-B10. In our view there is no need for an additional Aus paragraph specific to not-for-profit entities, as the content of [DRAFT] ASRS 1.Aus6.1 and [DRAFT] ASRS 2.Aus4.1 are consistent with [DRAFT] ASRS 1.B6 and [DRAFT] ASRS 1.B8.

General Matters for Comment

Q32: Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?

Q33: Would the proposals result overall in climate-related financial information that is useful to users?

Q34: Are the proposals in the best interests of the Australian economy?

Please refer our responses on the previous questions, where we have incorporated our considerations of these general matters for comment in relation to specific issues.

Other general observations

We note that [DRAFT] ASRS 101 References to Australian Sustainability Reporting Standards is an Australian specific standard. While we acknowledge the Board has adopted similar nomenclature as used in the localisation of IFRS by through the use of a “10” prefix, we note that in AAS Australia-specific standards are four digits long (e.g. AASB 1060). We suggest the AASB considered changing the nomenclature of [DRAFT] ASRS 101 to match this convention (i.e. [DRAFT] ASRS 1001), as a clear mental association for preparers that the standard is not derived from the IFRS Sustainability Disclosure Standards.

Yours sincerely

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