

Dr Keith Kendall  
Chair  
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PO Box 204  
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VIC 8007 Australia

Dear Dr Kendall

**ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (ED SR1). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories, and the Australian Government.

HoTARAC members recognise the importance of climate-related reporting in a not-for-profit (including public sector) context and are supportive of the AASB's efforts to expand the scope of the [draft] ASRS to not-for-profit entities. HoTARAC members would ultimately want to adopt the ASRS as the basis for public sector climate-related financial disclosures in their jurisdictions.

We acknowledge that the AASB has indicated that they will develop public sector specific guidance at a later stage (following the release of the ASRS). However, HoTARAC members have a number of concerns on the applicability of the [draft] ASRS to the public sector in their current form and are of the view they are not workable for the public sector as they are currently proposed.

To address these key concerns, we recommend the AASB consider the following options:

1. Issue the ASRS initially as standards applicable to the for-profit sector, deferring the application to the not-for-profit (including public) sector until appropriate guidance is more fully developed; and/or
2. Introduce differential or tiered reporting (similar to simplified disclosures for financial reporting under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*). This would allow reduced disclosures for certain individual agencies, compared to whole-of-government.

The key concerns giving rise to the above recommendations are as follows:

**1. Sector neutrality and reporting by the not-for-profit public sector**

HoTARAC members are concerned that developing sector-neutral sustainability reporting standards without specifically addressing a range of fundamental issues for the not-for-profit public sector increases the risk of a costly and sub-optimal implementation.

HoTARAC members hold divergent views around the appropriate level(s) of reporting by the public sector and whether the [draft] ASRS should be applied at an individual agency and/or whole-of-government and whole-of-state level. This reflects differing views on who are the users of public sector climate-related financial information and what their information needs are. HoTARAC observes that this question has not been formally considered and discussed between the AASB and the public sector.

The substantial difference between the public and private sectors as regards to the users of climate-related financial disclosures and their information needs is one of the underlying reasons for HoTARAC's concerns about the applicability of the [draft] ASRS to the public sector.

## **2. Proposed modifications for not-for-profit entities**

HoTARAC broadly agrees with the proposed modifications for not-for-profit entities in the [draft] ASRS. We are concerned however that the term '*exhaustive search*' could be open to interpretation. We therefore recommend the AASB provide some Application Guidance clarifying the meaning of the term '*exhaustive search*'.

Despite our in-principle support, we remain concerned that, in practice, not-for-profit entities will still bear a significant cost impost in the areas of climate scenario analysis and Scope 3 emissions reporting. The level of judgement required to apply the high-level practical expedients is significant. It is our view that the not-for-profit and public sectors will incur the burden of determining in practice how to apply these practical expedients.

Additionally, HoTARAC has a concern around cost-benefit considerations and scalability of the [draft] ASRS. The proposed practical expedients for not-for-profit entities do offer a theoretical framework for addressing these concerns. However, from a public sector perspective, it is the view of HoTARAC that the proposals as currently drafted:

- provide little practical assistance for scalability between whole-of-government and individual government agencies; and
- do not specifically consider cost-benefit considerations in reporting by government.

## **3. Disclosing scenario analysis by the public sector**

A number of HoTARAC members are of the view that scenario analysis should be undertaken at the whole-of-government level only.

Disclosures at an individual government agency level will present a significant challenge and cost to downscale climate models and to ensure they are aligned with whole-of-government scenario analysis models and governments' policy positions. Individual agencies adopting their own modelling that is inconsistent with whole-of-government positions is highly likely to be untenable from a public policy and capital market perspective.

## **4. Disclosing Scope 3 emissions by the public sector**

HoTARAC members have divergent views regarding whether disclosure of Scope 3 emissions should be exempted or deferred/phased-in for the public sector pending further consideration and analysis on its application.

Several jurisdictions are of the view that Scope 3 emissions reporting in the public sector should be deferred until that analysis is complete and the definition of 'value chain' in a public sector context is appropriately clarified.

Significant concerns exist amongst HoTARAC jurisdictions over the administrative cost and cost-benefit of reporting Scope 3 emissions by individual government agencies. Many of these Scope 3 emissions will be either Scope 1 or 2 when consolidated to higher reporting levels. To address this issue the AASB could consider including relief similar to that available in AASB 124 *Related Party Disclosures* for government related entities.

If full Scope 3 reporting is implemented, methods to eliminate the double count (or estimate what percentage of Scope 3 emissions are double counted) will need to be developed by governments.

Based on the above, we are of the view that further engagement and focus will be required by the AASB to explore the purpose of climate-related financial disclosures and what it aims to achieve in the public sector. HoTARAC would welcome the earliest opportunity to engage with the AASB on this topic.

The attachment to this letter sets out HoTARAC's response to the specific and general matters for comment and includes a number of recommendations and matters for further consideration by the AASB.

If you have any queries regarding HoTARAC's comments, please contact Sean Osborn from NSW Treasury by email to [sean.osborn@treasury.nsw.gov.au](mailto:sean.osborn@treasury.nsw.gov.au).

Yours sincerely



Andy Hobbs  
Acting Chair  
Heads of Treasuries Accounting and Reporting Advisory Committee  
28 February 2024

**ENCLOSED:**

HoTARAC Comments to the AASB on ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*

**HoTARAC Comments to the AASB on ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information**

**AASB Specific Matters for Comment**

**Presenting the core content of IFRS S1 in [draft] ASRS Standards**

**Question 1**

The AASB is proposing to develop two [draft] ASRS Standards ([draft] ASRS 1, based on IFRS S1, and [draft] ASRS 2, based on IFRS S2), and instead of having the same requirements duplicated in both [draft] Standards, decided to include in [draft] ASRS 1 the requirements relating to core content disclosures of governance, strategy and risk management, and in [draft] ASRS 2, to replace relevant IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing the corresponding paragraphs in [draft] ASRS 1.

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)?

**Response**

HoTARAC prefers Option 2. The reason for rejecting Option 1 in BC22 is also applicable to Option 3. If in future the AASB considered further sustainability-related reporting topics and amended [draft] ASRS 1, it would also need to amend cross-referencing to [draft] ASRS 1 in [draft] ASRS 2. As such, [draft] ASRS 2 should be a standalone standard.

In addition, HoTARAC does not support the replacement of 'sustainability' with 'climate' in [draft] ASRS 1. We acknowledge the complexities created by the AASB aligning with the Commonwealth's direction to address climate-related financial disclosures first, allowing additional time to consider the reporting for other sustainability related matters. The Standard would need to be amended if the AASB progressed to include topics beyond climate. A better approach would be to limit the disclosure requirements in [draft] ASRS 1 to those topics where there is a specific topic-based standard.

## Replacing duplicated content with references to the Conceptual Frameworks

### Question 2

Do you agree with the AASB's approach to make references to its *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of Statements* (in respect to not-for-profit entities) instead of duplicating definitions and contents of those Frameworks in [draft] ASRS 1 and [draft] ASRS 2? Please provide reasons to support your view.

### Response

HoTARAC agrees with the proposed approach. Even though components in those frameworks are not mandatory, they establish a point of reference.

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

### Question 3

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.

### Response

HoTARAC agrees with the AASB's proposed requirements.

However, we suggest that additional guidance may be useful to assist entities in determining whether they have material climate-related risks and opportunities that could reasonably be expected to affect their prospects. The Commonwealth Consultation Paper released on 12 January 2024 exposes proposed legislative changes which refer to the [draft] ASRS for entities to refer to when assessing whether they have material climate-related risks and opportunities. Although ED SR1 does include proposed application guidance on materiality for both for-profit and not-for profit entities, guidance may need to be expanded. We suggest that the AASB consider issuing similar guidance on materiality for climate reporting to the AASB Practice Statement 2 *Making Materiality Judgements*, which applied to financial reporting.

We are of the view that such guidance is particularly important given the large number of non-accounting professionals that will be required to apply the [draft] ASRS.

In addition, to address the proposed requirement to '*explain how it came to that conclusion*', additional guidance may be useful for entities regarding, for example, disclosure of methodologies and/or key assumptions adopted in arriving at the entity's assessment that they have no material climate-related risks and opportunities.

A lack of materiality guidance increases the potential for disagreement between preparers, auditors and regulators (in both the public and private sector) about whether a report should be prepared at all because of disagreements about what is material (refer to our response to question 32).

Finally, we request that the AASB provide clarity as to which of the following applies if an entity determines that it has no material climate-related risks and opportunities:

1. The entity discloses **only** the fact that it has no climate-related material risks and opportunities and explains how it came to this conclusion; or

2. The entity makes the disclosure in point 1 **and also** discloses information not specific to the entity's climate-related risks and opportunities (e.g., about governance, Scope 1, 2 and 3 emissions), and does not make any disclosures in relation to strategy, risk management or metrics and targets relating to risks and opportunities (eg. Cross-industry metrics).

## Modifications to the baseline of IFRS S1 for [draft] ASRS 1

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

#### Question 4

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

#### Response

HoTARAC agrees with the proposed approach. We note however, that such an approach might have future implications. In the event that SASB standards are internationalised, the AASB will need to decide whether to revert to SASB or keep its proposed approach.

We note that if an entity chooses to make voluntary disclosures of industry-based metrics aligned with SASB, then this may require them to change their disclosures in the future, if there are internationally aligned industry-based metrics and classifications released by the ISSB, which the AASB aligns with.

#### Question 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.

#### Response

HoTARAC agrees in principle with the proposal to reference an Australian based classification system rather than SASB.

Industry-based disclosures using recognised metrics improve communication between entities and their stakeholders. The appropriateness of industry-based disclosures may depend on the specific circumstances and nature of the entity's operations. Entities should carefully consider both relevance and materiality of industry-specific metrics to their business models and provide sufficient context and explanation, when necessary.

HoTARAC agrees with the AASB's view that, if an entity elects to make industry-based disclosures, it should consider the applicability of well-established and understood metrics associated with particular business models, activities, or other common features that characterize participation in the same industry, as classified in ANZSIC (Australian and New Zealand Standard Industry Classification).

Advantages of this approach include:

- Ensures entities have a starting point if they choose to make industry-based disclosures.
- ANZSIC classification provides a framework for entities to tailor and target an industry-specific approach to sustainability reporting and enabling stakeholders to gain insights into the specific environmental, social, and governance issues relevant to a particular sector.
- Already established and understood metrics often developed through research and consultation within the industry and ensures applicability and usefulness in assessing sustainability reporting and performance.
- Standardised and consistent approach to climate-related reporting within specific sectors, meaningful comparisons and benchmarking across entities in the same industry, better understanding of an entity's sustainability performance relative to its peers.

However, there are a number of issues with the proposal as follows:

1. Notwithstanding ANZSIC is a commonly understood and used industry classification in the private sector, it is not relevant to the public sector. While overall, it may provide some industry comparability, it may likely result in some level of inconsistency in the public sector.
2. Paragraphs Aus58.1 of [draft] ASRS 1 and Aus37.1 of [draft] ASRS2 refer to '*well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC*'. In practice it may not always be clear where to find the well-established and understood metrics, and there may be multiple metric frameworks to choose from. Further, where there are multiple frameworks used across different entities, comparability will be reduced where comparability is important.
3. It is also likely that there will be cases where there are no applicable well-established and understood industry metrics. Ultimately disclosures should be based on professional judgment and the application of the materiality concept as exercised by preparers.

The AASB might consider guidance on how entities can ensure they identify an appropriate industry or scenarios where entities work across more than one industry. The potential for divergent application means some coordinated national industry guidance may be worthwhile.

#### **Question 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 disclosures. Please provide reasons to support your view.

#### **Response**

HoTARAC agrees with the proposed approach, providing the voluntary disclosures do not obscure or conflict with required disclosures. HoTARAC notes that such an approach is consistent with the approach taken in AASB 101 *Presentation of Financial Statements* in relation to the disclosure of accounting policies. HoTARAC recommends including

examples of disclosures that may obscure or conflict with required disclosures, consistent with the approach taken in AASB 101.

Advantages of this approach include that it:

- Promotes flexibility and innovation in sustainability reporting and potentially provides unique perspectives and metrics and encourages the adoption of a highest and best practice and more comprehensive and informative disclosures.
- Caters to the specific needs and expectations of stakeholders and enhances transparency, greater stakeholder engagement, and more tailored and relevant information to interest groups.
- Maintains the integrity and consistency of reporting while providing an additional layer of flexibility to allow entities to go beyond the minimum requirements with supplementary information.

If mature entities wish to provide voluntary disclosures, then this should be encouraged. This is in the best interests of users. Ultimately disclosures should be based on professional judgment and the application of the materiality concept as exercised by preparers. Entities should consider the costs and benefits of efforts to align the different frameworks and standards to support the effective integration of voluntary disclosures.

In the initial years of climate/sustainability reporting such voluntary disclosures might assist some entities, particularly in the not-for-profit and public sector, with attempting to meet the disclosure objective on a “best endeavours” basis. This may be relevant in difficult areas like climate scenario analysis disclosures where there is significant judgement, difficulty or inherent uncertainty.

Voluntary disclosures under other frameworks (e.g., the Global Reporting Initiative) and pronouncements (e.g. European Sustainability Reporting Standards) should require clear identification of the source of information, and preferably clear separation from information from disclosures required under the [draft] ASRS. There is a risk that entities could pick and choose frameworks to use, in which case such disclosures could potentially reduce comparability, confuse users or risk greenwashing if not done in a clear way. The AASB may wish to consider requiring entities to clearly identify the voluntary disclosures separately from required disclosures.

## **Disclosing the location of the entity’s climate-related financial disclosures**

### **Question 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.

### **Response**

HoTARAC agrees with the proposed approach. The cost of preparing such a detailed index table in the public sector is likely to exceed its benefits.



## Interim reporting

### Question 8

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

### Response

HoTARAC has no comment on this question. Interim financial reporting is not generally required for public sector entities.

## Modifications to the baseline of IFRS S2 for [draft] ASRS 2

### Scope of [draft] ASRS 2

### Question 9

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.

### Response

HoTARAC agrees with the proposed approach.

However, due to a lack of a definition for the term “climate change” in the [draft] ASRS it would be clearer if ‘greenhouse gas emissions’ is incorporated into the first sentence of paragraph Aus3.1 of [draft] ASRS 2 as such ‘*The scope of this [draft] Standard is limited to an entity’s climate-related risks and opportunities arising from greenhouse gas emissions*’.

## Climate resilience

### Question 10

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

### Response

HoTARAC supports the requirement for entities required by the *Corporations Act 2001* to prepare climate-related financial disclosures, to disclose their climate resilience assessments against at least two possible future states. While IFRS S2 does not prescribe the number of scenarios an entity is required to assess to meet the disclosure objective, the former TCFD Framework did.

The requirement to disclose against at least two possible future states has the following advantages:

- It will likely ensure that organisations include both a lower range and higher range scenario. Organisations choosing to assess against two low range scenarios would likely be scrutinised as not providing a relevant second scenario and actively not disclosing some of the greater risks they may face under warmer scenarios.
- It will ensure that organisations will be able to make a judgement about possible maladaptation that may occur if organisations seek to reduce the risk expected with, for example 1.5°C warming, but then find that this is inappropriate and causes maladaptation for the degree of warming that actually eventuates under a higher warming scenario.

However, HoTARAC does not support the proposal to mandate that one of the two scenarios prepared by companies under the *Corporations Act 2001* should be prepared using the most ambitious global temperature goal set out in the *Climate Change Act 2022* (which is currently a goal of 1.5°C). Our reasons for this are as follows:

- The purpose of performing scenario analysis under IFRS S2 is for an entity to disclose information that enables users of general-purpose financial reports to understand the resilience of the entity’s strategy and business model to climate-related changes.
- To achieve this, entities should assess their risk against ‘expected’ and ‘worst case’ scenarios.
- On this basis setting a lower-temperature limit (of 1.5°C or something else) represents a departure from the principles of IFRS S2. BC66 to IFRS S2 notes that ‘relevant scenarios depend on the entity’s facts and circumstances, including the nature and location of its operations and the physical and transition risks to which it is exposed’. Further, BC67 notes that ‘specifying which scenarios an entity should use would not be practical, might quickly become outdated and could lead to the disclosure of information that does not reflect the entity’s specific circumstances or management’s view of what is plausible.’
- Climate Action Tracker has noted the current policies presently in place around the world are projected to result in about 2.7°C warming above pre-industrial levels by 2100. When binding long-term or net-zero targets are included warming would be limited to about 2.1°C above pre-industrial levels. Specifying that organisations use the 1.5°C scenario would likely be providing an overly optimistic scenario analysis of the climate impacts to assets or services the organisation may experience.
- Therefore, mandating 1.5°C may not be consistent with the objective of IFRS S2 and may not lead to the most useful information for users of the general-purpose financial reports.

Given the above, it is our view that entities should self-assess what lower-temperature scenarios they will use in their analysis. Allowing an entity to choose the most relevant scenarios for its circumstances will allow an entity to prepare information for users which is more relevant to users’ needs on how an entity is responding to identified material climate-related risks and opportunities, using plausible assumptions.

#### **Question 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.

#### **Response**

HoTARAC members agree with the AASB's view to not specify an upper-temperature scenario. With scientific research continually updating what is the expected rise in average global temperatures due to climate change, entities need to be able to self-assess what the most appropriate upper and lower temperature scenarios should be in their climate-related scenario analysis.

An entity should have the flexibility to determine an appropriate upper temperature scenario that is aligned with its organisational requirements and entity-specific circumstances. However, we suggest that guidance be given to direct entities to assess and report on the temperature increase threshold where their climate related risks become material for the organisation. For example, coral reef tour companies may determine that their business becomes unviable at a temperature increase of 1.8°C, whereas a mining company may have no material change in risks until global temperature increases reach 2.5°C. The focus should be on the tipping point for the entity rather than a scenario that is randomly selected.

We also suggest that an entity be required to disclose how the upper-temperature scenario has been determined.

### **Cross-industry metric disclosures (paragraphs 29(b)–29(g))**

#### **Question 12**

Do you consider the cross-industry metric disclosures set out in paragraphs 29(b)–29(f) of IFRS S2 (and [draft] ASRS 2) would provide useful information to users about an entity's performance in relation to its climate-related risks and opportunities? Please provide reasons to support your view.

#### **Response**

HoTARAC notes that the metrics in paragraphs 29(b)-29(f) are proposed for use across all industries in the private sector. While HoTARAC members are not necessarily opposed to the metrics outlined, the relevance and appropriateness of several metrics outlined in paragraph 29 is unclear in a public sector context.

Disclosing amounts and percentages of assets or business activities vulnerable to climate-related risks would require sufficiently reliable scientific modelling to base such estimates upon. Further, such disclosures need to be considered in a public sector context – governments hold assets for the delivery of public services – so climate-related risk, opportunities and capital deployment are assessed very differently to the private sector's financial return on investment focus. The relevance of internal carbon prices in the public sector is also questioned.

Furthermore, whilst some PNFC and PFC entities may operate in industries where the private sector also operates, the provision of public services and service delivery outcomes in accordance with government policy may result in partial or a complete lack of comparability to other industry participants.

For the public sector, aligning whole-of-government metrics and targets with agency targets is considered a higher priority, and potentially more beneficial for public sector climate reporting.

## Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

### Question 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.

### Response

HoTARAC considers the proposed remuneration disclosures contemplated by paragraphs 29(g) and Aus29.1 of [draft] ASRS 2 are not relevant for public sector entities, including government-owned corporations, as climate-related factors are currently not considered when determining public sector executive's remuneration.

On this basis HoTARAC does not have a view on this question.

## Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19–AusB63.1 and Australian application guidance)

### Definition of greenhouse gases

### Question 14

Do you agree with the AASB's proposal to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification? Please provide reasons to support your view.

### Response

HoTARAC agrees with the AASB's proposal to incorporate in [draft] ASRS 2 the definition of greenhouse gases (GHG) from IFRS S2 without modification.

Australia should not depart from IFRS S2 for the following reasons:

- The seven GHG listed in the Kyoto Protocol appears to be the international best practice.
- Nitrogen trifluoride (NF<sub>3</sub>) is the second most powerful GHG with a global warming potential of about 17,200 times that of CO<sub>2</sub> and production of NF<sub>3</sub> is increasing.
- Australia has a policy ambition to be a renewable energy superpower with allied downstream manufacturing industries. NF<sub>3</sub> is used in manufacture of renewable technologies and therefore the increased potential use of the gas in the future and its climate risks should be recognised in [draft] ASRS 2.
- It is possible that the *National Greenhouse and Energy Reporting Act 2007* (NGER Act) would be amended to include NF<sub>3</sub> for international alignment.
- If NF<sub>3</sub> emissions are insignificant, the inclusion of NF<sub>3</sub> in the definition would not create any additional work for reporting entities.

## Converting greenhouse gases into a CO<sub>2</sub> equivalent value

### Question 15

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.

### Response

HoTARAC agrees with the AASB's view that an Australian entity should be required to convert GHG using GWP values in line with the reporting requirements under NGER Scheme legislation.

HoTARAC acknowledges the AASB's effort of reducing regulatory burden for certain Australian entities. However, it might create regulatory burden for international entities reporting in Australia. International entities that are required by IFRS S2 to convert GHG using GWP values in the AR6 would need to compile another report of GHG emissions under the AR5 and this might disadvantage international entities doing business in Australia. There is a persuasive argument that the data used to convert GHG to CO<sub>2</sub> should align with contemporary science and thus the use of most up to date GWP values. While there will be a lag between publication of the science and adoption in the NGER Act, the lag should be minimised.

Furthermore, the issue of NF<sub>3</sub> (as raised in question 14) will need to be addressed if the AASB decides to align with the NGER Act rather than IFRS S2.

## Market-based Scope 2 GHG emissions

### Question 16

Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2? Please provide reasons to support your view.

### Response

HoTARAC agrees with the proposals of requiring certain Australian entities to disclose their market-based Scope 2 GHG emissions in addition to their location-based Scope 2 GHG emissions.

Only requiring the disclosure of location-based scope 2 emissions also does not recognise emission reductions that entities have been able to achieve by procuring less emissions-intensive energy.

As location-based Scope 2 GHG emissions do not recognise contractual instruments, such as the surrender of Large-Scale Generation Certificates (LGCs), as evidence of renewable electricity use, the disclosure of market-based Scope 2 GHG emissions will fill the information gap.

Requiring entities to also disclose their market-based scope 2 emissions would incentivise entities to consider the carbon footprint of their energy procurement decisions, supporting demand for less emission-intensive energy options in Australia.

HoTARAC also agrees with the phased approach for the reporting of market-based Scope 2 GHG emissions. For those who have not reported the market-based emissions, this will give them sufficient time to develop relevant data collection processes. However, this would not prevent those who have been reporting the market-based emissions from continuing to do so.

We suggest that the reference to '*contractual instruments*' in paragraph AusB31.2 in [draft] ASRS 2 be clarified to require that they meet the Scope 2 Quality Criteria as outlined in the GHG Protocol.

## GHG emission measurement methodologies

### Question 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.

### Response

Subject to our responses to questions 26, 27, 28 and 33 in relation to the reporting of Scope 3 GHG emissions, HoTARAC agrees with the proposals relating to emission scopes and hierarchy of methods, and that the GHG Protocol standards provide a reference of last resort. This will reduce regulatory burden for those who have already reported under the NGER Act.

However, as outlined in our response to question 15, the issue of  $\text{NF}_3$  will need to be addressed as it is not currently included in the NGER Act.

## Providing relief relating to Scope 3 GHG emissions

### Question 18

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

### Response

As noted in our response to questions 27 and 33, it is HoTARAC's view that Scope 3 emissions reporting in a public sector context requires further consideration and analysis on its application. A number of jurisdictions are of the view that Scope 3 emissions reporting in the public sector should be deferred until that analysis is complete and the definition of 'value chain' in a public sector context is appropriately clarified.

Subject to the above, HoTARAC agrees with the proposal to allow entities to use data for the immediately preceding reporting period when reporting Scope 3 emissions if reasonable and supportable data related to the current reporting period is unavailable.

### Phasing in of Scope 3 emissions reporting

We note that paragraph AusC4.1(b) of [draft] ASRS 2 proposes relief for an entity from disclosing Scope 3 emissions in the first annual reporting period in which an entity applies the draft Standard. The majority of HoTARAC members support a phased-in or deferral approach to reporting of Scope 3 emissions.

Given the likely difficulty in capturing consistent data initially for Scope 1 and 2 emissions, the majority of HoTARAC members feel that a one-year relief is not enough. We recommend that the AASB consider extending this relief to a period of 3-4 years. Please also refer to our response to question 28.

This is an important consideration for public sector entities because Scope 3 emissions are difficult to quantify and are highly dependent on boundary setting per NGERs and GHG Protocol reporting standards and systems. Within government, many entities are at varying degrees of maturity and capacity in relation to emissions reporting. The expectation is that many entities, whether in the public or private sector, will have challenges in identifying, measuring, and reporting their scope 3 emissions.

A further reason to extend relief from reporting Scope 3 emissions for 3-4 years is that preparing information to a standard of reliability that can be audited to a level of reasonable assurance will require significant investment if the period of relief is limited to one year. We note that the Commonwealth's draft legislation proposes that assurance over emissions will initially be limited to a review opinion on Scope 1 and 2 from 1 July 2024 for Corporations Act entities.

Equivalent challenges may also apply to reporting of Scope 2 emissions in the public sector. On this basis, HoTARAC members may also support relief being available for disclosure of Scope 2 emissions, i.e., where data for the current year is not available at the reporting date (for example, where Scope 2 emissions data was not available from energy utilities at the reporting date for the approval of the general purpose financial report).

### **Broader considerations**

HoTARAC members have divergent views in regard to whether disclosure of Scope 3 emissions should be exempt OR deferred/phased-in for not-for-profit entities (including those in the public sector).

A number of HoTARAC jurisdictions are of the view that Scope 3 emissions may be best managed and reported at a State whole of government level in the public sector to ensure consistency in reporting. Unless clear guidance, parameters and exclusions are issued around Scope 3 it has potential for over-reporting i.e. every agency will be reporting all their Scope 3 (in their value chain which will likely overlap with another agency's value chain) e.g. if a public sector Health department is constructing a new hospital they will likely work with other agencies to deliver the building and each agency that participates in the project will record its Scope 3 for the same project.

To address this issue for reporting entities within the public sector (e.g., at the General Government Sector level), the AASB could consider including relief similar to that available in paragraphs 25 and 26 of AASB 124 *Related Party Disclosures* for government related entities.

Specific challenges regarding disclosure of Scope 3 emissions identified by HoTARAC members include:

- Availability and quality of data for Scope 3 emissions which is held by third parties, such as suppliers. Allowing some flexibility in relation to Scope 3 emissions would support more accurate and complete reporting in this space over time.
- Ensuring completeness and accuracy of Scope 3 emissions disclosures - where Scope 3 emissions can represent the majority of an entity's total greenhouse gas emissions, and involve multiple sources and stakeholders across the entity's value chain.
- Calculation methods and boundaries (i.e. which may lead to measurement uncertainty)
- Assessment of relevance and materiality of Scope 3 emissions disclosures
- Identification of Scope 3 emissions for entities with shared service arrangements

### Scope 3 GHG emission categories

#### Question 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.

#### Response

As noted in our response to questions 27 and 33, it is HoTARAC's view that Scope 3 emissions reporting in a public sector context requires further consideration and analysis on its application. A number of jurisdictions are of the view that Scope 3 emissions reporting in the public sector should be deferred until that analysis is complete and the definition of 'value chain' in a public sector context is appropriately clarified.

Subject to the above, HoTARAC agrees with the proposal to include the Scope 3 GHG emission categories in IFRS S2 as examples of categories that an entity could consider, as opposed to requiring an entity to report against all 15 of these categories, at least for the initial years of implementation. Our reasons for this are as follows:

- The reporting of Scope 3 emissions is primarily intended to enable comparisons of an entity's GHG emissions over time and to provide transparent disclosure of where material GHG emission risks exist within an entity's supply chain. Due to the current range of differences in inventory methodology and/or entity size/structure, meaningful comparison between entities is difficult to achieve.
- Referencing of the 15 categories will provide a prompt to entities to avoid some emissions potentially being overlooked.
- The GHG Protocol categories are derived from the Corporate Value Chain Standard, which requires translation for implementation to the public sector.
- Providing the categories as a guide will allow entities (especially those in the public sector) to report on other categories, if deemed more relevant.
- Applying the GHG Protocol does not mean that all 15 categories are compulsory for every entity, where a category does not apply, and is not material in that entity's value chain.

It will be important to recognise that entities (including public sector entities) may require time (multiple years) to develop and mature approaches to reporting of Scope 3



emissions. This could include requiring reporting entities to transparently identify disclosure content that they are not yet able to provide, including explaining why and the proposed path to disclosure.

On the basis that the AASB proposal is enacted as currently proposed we recommend the following:

- An entity should be required to disclose its approach (and the source for its approach) and its intent on consistently applying this practice over a reasonable period of time (to ensure consistency in longer term reporting).
- Entities should disclose the reasons / justification for selecting emission categories.
- There should be a progression toward complete reporting of Scope 3 emissions mapped to the 15 GHG categories as data quality improves.
- The AASB consider allowing entities to disclose a range of upper or lower emissions in the initial years of disclosure.

In addition, we recommend that the AASB consider providing guidance and support for Scope 3 emissions calculations – for example, tools/databases categorised by industry may be helpful. Such resources can help entities to understand the Scope 3 emissions reporting requirements, select the appropriate calculation methods and boundaries, and improve the data availability and quality.

## Financed emissions

### Question 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.

### Response

HoTARAC members support the proposal for an entity to consider the applicability of disclosures related to its financed emissions, as opposed to explicitly requiring such disclosures, as is the case in IFRS 2.

However, we are unsure of the basis on which an entity would determine whether the disclosures are applicable to them. We note that paragraph B86(a) of the Basis of Conclusions recognises that entities that report under the NGER Scheme Legislation may not have the information necessary for the disclosures related to financed emissions as required by IFRS S2, as these disclosures are based on GHG Protocol Standards requirements. We have inferred from reading this paragraph that this is the primary condition which may result in the disclosures relating to financed emissions not being applicable. It is unclear whether the AASB anticipates whether there will be any other conditions which may result in the disclosure not being applicable, and if so, what these circumstances are. We request that the AASB provide clarity on this issue.

We note that Treasury Corporations in State jurisdictions are non-NGER reporting entities. Based on the discussion above it is our understanding that they would be required to make the disclosures in relation to financed emissions in paragraphs AusB61.1 and AusB63.1 of [draft] ASRS 2.

If this is the case:

- We agree that reporting financed emissions under paragraph AusB61.1 in relation to asset management activities for State Treasury Corporations is appropriate due to the significant institutional investment activities undertaken by these entities. Such emissions could be measured using methodologies set out by the Partnership for Carbon Accounting Financials (PCAF).
- We note that most loans made by State Treasury Corporations are made to other Total State Sector agencies in the relevant State jurisdiction. We do not believe that the reporting of financed emissions in relation to such loans is appropriate because the State Treasury Corporations act as a quasi-agent for the government in such transactions and have no discretion as to where the funding goes and/or how it is used. On this basis it is our view that the requirements of paragraph AusB63.1 should only apply to loans made by State Treasury Corporations to parties sitting outside of the Total State Sector (e.g. local councils and universities).

## Superannuation entities

### Question 21

In your opinion, are there circumstances specific to superannuation entities that would cause challenges for superannuation entities to comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2? If so, please provide details of those circumstances and why they would lead to superannuation entities being unable to comply with the proposed requirements or else able to comply only with undue cost or effort.

### Response

HoTARAC has no particular view on this issue.

However, we do understand that there will be significant data aggregation and measurement challenges for superannuation funds in measuring scope 1, 2 and 3 financed emissions.

We note that [draft] paragraph AusB59.1(a) of ASRS 2 has relaxed the requirement for asset managers to disclose their financed emissions (as will be required under IFRS S2), and instead, proposes that those entities “consider the applicability of those disclosures related to its financed emissions”. Refer to our response to question 20 for a request to clarify the scope of this requirement.

Subject to clarifying the proposal in AusB59.1(a), in the event that does not only apply to NGER reporting entities, we are of the view that the AASB should consider specifically referring to superannuation funds in the reference to “asset managers” in AusB59.1(a).

## Carbon credits

### Question 22

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.

### Response

HoTARAC supports this proposal.

Australian carbon credit units (ACCU) are widely used and preventing the use of a sub-class of these units for the purposes of climate-related financial disclosures would potentially cause confusion and disruption to local carbon markets.

There is general acceptance that ACCUs provide credible emission reduction offsets relative to some other types of offsets available on the market.

Requiring ACCUs to be consistent with international crediting programs will allow more opportunities for Australian carbon credit programs to participate in international markets.

## Questions specific to not-for-profit entities

### Question 23

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.

### Response

HoTARAC agrees that the inclusion of paragraphs Aus3.1(b) of [draft] ASRS 1 and Aus2.2(b) of [draft] ASRS 2 are helpful for not-for-profit entities but suggest that the AASB provide further context or clarification around the definition of '*ability to further its objectives*' in a public sector context, especially for entities within the General Government sector, as those entities generally receive direct appropriations from the State. The terminology has already been employed in accounting standards, such as AASB 1058 *Income of Not-For-Profit Entities* and we note the consistency with other standards.

It is important to be cognisant that the role and objectives of the public sector are broader than the private sector. For example, financial considerations are not the only objective or goal for the public sector. However, it is a reasonable requirement to reflect not-for-profit objectives alongside financial criteria as climate change will impact the financial sustainability of all entities (for-profit and not-for profits).

The phrase '*and its ability to further its objectives over the short, medium or long term*' is considered key to the not-for-profit and public sector application. We note the word 'and' connotes that this is mandatory for not-for-profit entities to consider, alongside the financial considerations. To further emphasise the importance of this criteria for not-for-profit entities (including public sector not-for-profit entities), the AASB may wish to consider reversing the order of the criteria with the following wording:

*'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 ability to further its objectives over the short, medium or long term and its cash flows, access to finance or cost of capital.'*

Finally, we are of the view that further engagement and focus will be required by the AASB to explore the purpose of this reporting and what it aims to achieve in the public

sector. This work will help to maximise the value of reporting of climate-related financial disclosures for the public sector.

#### Question 24

Is there additional guidance that you consider would be helpful in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures? If so, please provide details of that guidance and explain why you think it would be helpful.

#### Response

HoTARAC considers there should be more guidance provided around the objective. Firstly, the overarching purpose, public benefit and objectives of preparing and disclosing climate risk for public sector entities needs to be clarified.

In addition, we consider that there should also be practical guidance for not-for-profit entities relating to implementing the specific disclosures. For example, specific objectives relevant to different aspects of the disclosure may also help the public sector and the community understand the intent and benefit.

Although not directly related to this question we wish to raise a concern regarding the application of paragraphs Aus3.1(a) of [draft] ASRS 1 and Aus2.2(a) of [draft] ASRS 2, which are intended to apply to all for-profit entities, regardless of whether they are private or public sector entities. Where jurisdictions have government owned corporations (either incorporated under the *Corporations Act 2001* or other legislation), these entities often have a combination of financial and other objectives. The distinction between for-profit and not-for-profit in paragraphs Aus3.1 (a) and (b) does not provide complete guidance for state-owned corporations who are required to consider both financial and non-finance objectives. However, we do note the proposed Australian specific definitions of climate-related physical risks and climate-related transition risks in Appendix A of [draft] ASRS 2 make clear that there can be financial impacts of these risks which would impact cash flows.

#### Question 25

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.

#### Response

HoTARAC broadly agrees with the proposed modifications for not-for-profit entities.

We have addressed the two concepts contained within paragraph Aus6.1 of [draft] ASRS 1 and paragraph Aus4.1 of [draft] ASRS 2 separately below:

1. That a not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

The term '*exhaustive search*' appropriately differentiates between the requirements for not-for-profit and for-profit entities. HoTARAC supports the intention of this proposal but have some concerns with the imprecise terminology used. The term '*exhaustive search*' could be open to interpretation, which could result in divergent approaches

being adopted by preparers of climate information for not-for-profit entities and also, divergent approaches to parties performing assurance services over information prepared (refer to our response to question 32).

We recommend that the AASB provide some Application Guidance clarifying the meaning of the term '*exhaustive search*'.

2. That a not-for-profit entity shall use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information.

We note that this proposed insertion covers all disclosures prepared under [draft] ASRS 2 and is a general practical expedient for not-for-profit entities in addition to the other specific practical expedients that apply to for-profit entities throughout the standard.

We support this insertion and are satisfied that the terms '*reasonable and supportable information*' and '*undue cost or effort*' are clearly explained in [draft] ASRS 1 and/or [draft] ASRS 2.

Despite our support, we remain concerned that, in practice, not-for-profit entities will still bear a significant cost impost and be forced to incur additional consulting costs in the areas of climate scenario analysis and Scope 3 emissions reporting. The quantum of judgement required to apply the high-level practical expedients is significant.

It is our view that the not-for-profit and public sector will incur the burden of actually determining in practice how to apply these practical expedients, including the audit and assurance difficulties that will inevitably arise (refer to our response to question 32).

For the public sector, each jurisdiction will be required to issue reporting guidelines for whole of government and individual agencies around data collection and reporting to ensure compliance and consistency across government agencies.

### **Question 26**

Do you agree with the AASB's view noted in paragraphs BC31–BC33 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view.

### **Response**

While the clarification and practical expedients proposed by the AASB offers a theoretical framework for addressing cost-benefit and scalability concerns, from a public sector perspective, it is the view of HoTARAC that the proposals as currently drafted provide little practical assistance for scalability between whole-of-government and individual government agencies, nor do they specifically consider cost-benefit considerations in reporting by government.

The [draft] ASRS are not drafted in a manner that easily lends themselves to pragmatic scalability without a significant level of judgement being exercised and the need for specialist expertise in the subject area of climate and sustainability matters. Consequently, HoTARAC considers it premature to conclude that these steps alone will be sufficient to address cost-benefit and scalability concerns for the public sector.

In order to minimise undue cost and achieve scalability within the public sector, the first step will be to determine the appropriate level of reporting for climate disclosures. HoTARAC members question the value of applying the proposed current climate reporting disclosures to many small public sector entities. While the materiality provisions may be argued to provide relief in this area, additional work from each public sector jurisdiction to develop consistent materiality policies and an application framework for their government agencies will still be necessary.

Significant concerns also exist amongst HoTARAC jurisdictions over:

- the administrative cost and cost-benefit of reporting by individual government agencies of Scope 3 emissions (when many of these will be either Scope 1 or 2 when consolidated to higher reporting levels); and
- disclosures (including qualitative disclosures) around climate scenario analysis. Such disclosures will present a significant challenge and cost to downscale climate models for most not-for-profit entities. In addition, they will require suitably qualified persons to undertake the work to ensure it is aligned with whole-of-government scenario analysis models.

Overall, HoTARAC is concerned that, in practice, the not-for-profit sector will still bear a significant cost impost, including the cost of engaging external subject matter experts/consultants, to apply the requirements of the [draft] ASRS to satisfy directors, management, auditors and users that climate-related risks have been materially addressed, notwithstanding the framework proposed by the AASB.

Practical guidance or disclosure relief should be further considered by the AASB for the not-for-profit sector.

### **Question 27**

If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related financial disclosure requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful.

### **Response**

Consistent with our response to question 26, this is a difficult question to answer without first having a definitive and clear position on the levels at which climate and sustainability reporting should apply (i.e. whole-of-government versus individual agencies) and how climate (and broader sustainability) related disclosures should be considered when dealing with Machinery of Government changes.

Disclosure of climate scenario analysis and Scope 3 emissions are two areas where further analysis is required regarding public sector disclosure (refer our response to questions 10, 27 and 33). It needs to be determined whether such disclosure should be undertaken by the public sector, and if so, whether disclosures should be at the General Government/Total State sector or individual government agency level. Consideration of this is in the interests of conveying meaningful and reliable information without undue cost or effort.

In terms of Scope 3 emissions reporting at an agency level, the costs of applying the concept of value chain to every operational stream are likely to outweigh the benefits. The concept of materiality should be applied to report Scope 3 emissions to key business processes of government entities only, as users of individual government agency disclosures are likely focused on the core operations.

For the public sector, the possibility of further modifications cannot be ruled out at this stage and HoTARAC would welcome the earliest opportunity to engage with the AASB on this topic.

For the not-for-profit sector more generally, climate-related risks are expected to be much lower than the for-profit private sector. Furthermore, the results of decarbonising for-profit entities and the energy sector will flow through to the not-for-profit sector. Climate and sustainability disclosures for the not-for-profit sector should therefore focus on very large not-for-profit entities who are likely to have material climate risks. A tiered approach to applying the [draft] ASRS to the not-for-profit sector would be a logical and measured approach commensurate with the climate-related risks of these entities relative to their size and role in the broader economy. Please refer further our comments in question 28 on differential reporting.

Requirements in [draft] ASRS 1 and [draft] ASRS 2 that could be considered by the AASB for possible exclusion or modification for the not-for-profit sector to offer further practical application relief might include:

- exempting small to medium not-for-profit entities from preparing climate-related scenario analysis disclosures (i.e. require only very large not-for-profits to prepare these disclosures);
- limiting mandatory emissions disclosures for all not-for-profit entities to Scope 1 and Scope 2 only, with Scope 3 emissions reporting at the discretion of the entity (i.e. voluntary); or
- limiting mandatory emissions disclosures for all not-for-profit entities to Scope 1 and Scope 2 categories only, with a reduced number of targeted or material Scope 3 emissions categories only applicable to large not-for-profit entities. Disclosing other scope 3 emissions categories could remain voluntary.

## Questions specific to not-for-profit public sector entities

### Question 28

Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to:

- a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and

- b) better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030?

In your response, please specify:

- a) which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful; and
- b) which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view.
- (i) Whole of Government;
  - (ii) General Government Sector;
  - (iii) Government departments;
  - (iv) Government entities; and
  - (v) Local governments.

## **Response**

### **Differential reporting**

Differential or tiered reporting (similar to simplified disclosures for financial reporting under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*) could be considered for the public sector, for instance between whole-of- government (and General Government Sector) and agencies (departments and statutory authorities). While there is an increasing demand in the capital markets for sustainability and climate-related disclosures at a whole-of- government level, the users of climate-related financial disclosures proposed by the [draft] ASRS at the agency level is less clear. Analysis of other potential users and their particular needs (which may be different to the requirements of the [draft] ASRS) is required to ensure agency reporting in the public sector is appropriate and fit for purpose.

As agencies are generally wholly owned and subject to Government control, they must comply with the government overarching policies and directions on climate change and emissions reductions. Agencies would therefore not be able to make decisions in isolation from cabinet when managing climate risks. Any risk management strategy would need to be approved and funded by government. As such, disclosures in relation to governance and strategy might allow for cross-referencing to relevant whole-of- government policies.

Similar to performance reporting, the intertwined relationships and connectivity among public sector agencies' operations make it difficult to attribute metrics and targets singularly at an agency level. Consideration is required as to whether certain metrics and targets disclosures should be mandatory or discretionary, or simply reported at higher aggregated levels (e.g. portfolio levels or whole-of-government).

### **Scope 3 emission reporting**

As noted in our response to questions 27 and 33, Scope 3 emissions reporting in a public sector context requires further consideration and analysis on its application. A number of



jurisdictions are of the view that Scope 3 emissions reporting in the public sector should be deferred until that analysis is complete and the definition of 'value chain' in a public sector context is appropriately clarified.

### **Restructure of administrative arrangements**

Machinery of Government changes that result in a restructuring of administrative arrangements present a potentially significant administrative challenge for climate and sustainability reporting in the public sector. HoTARAC notes that this issue has not yet been analysed with the AASB by the Commonwealth, State and Territory jurisdictions.

Hypothetically, should the disclosure requirements in the [draft] ASRS apply to individual agencies, additional guidance (and practical expedients) should be provided for agencies reporting under a restructure of administrative arrangements. As with performance reporting, it would take time for agencies under a Machinery of Government change to restructure their metrics and targets disclosures and associated data collection processes, including what to report if such a restructure happens during a reporting period. The question of what role temporary disclosure relief might play would also need to be considered in a transitional period or more permanently.

Ultimately, the significant impact of Machinery of Government changes must be addressed as part of considering the level at which government and government agencies report climate-related disclosures as previously identified.

### **Question 29**

Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view.

### **Response**

HoTARAC agrees with the AASB's proposed approach. It is desirable that Australian climate-related impact reporting requirements be consistent with the IPSASB's.

However, the [draft] ASRS should expressly permit an entity to provide those disclosures on a voluntary basis (as long as they do not obscure or conflict with the required disclosures). Those disclosures are likely to be of interest to users, and entities should not be hesitant to do so if they wish (refer to our response to question 6).

## **General matters for comment**

### **Question 30**

Has the [AASB Sustainability Reporting Standard-Setting Framework](#) (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?

### **Response**

HoTARAC members are concerned that the pressure to develop sector-neutral sustainability standards without specifically addressing a range of fundamental issues for

the not-for-profit public sector increases the risk of a costly and sub-optimal implementation.

Several jurisdictions hold major reservations that due process may be unintentionally neglected in the desire to achieve sector neutrality without providing sufficiently clear practical guidance or developing a cost-effective implementation path for the not-for-profit and public sector.

HoTARAC observe that the question around the appropriate level(s) at which Commonwealth and State public sector sustainability reporting should occur (i.e. whole-of-state, whole-of-government, individual agencies) has not been formally considered and discussed between the AASB and the public sector, or within the public sector for that matter. The outcomes of the IPSASB and GRI projects (and their relevance to public sector reporting in Australia) are also unknown at present.

Consistent with our responses in questions 26 and 27, the strategies proposed by the AASB aim to achieve sector neutrality in theory. Whilst acknowledging the efforts made by the AASB, there remains a significant concern that not-for-profit and public sector entities will bear a significant time and monetary cost impost to achieve this outcome in practice. There is also concern that sufficient practical guidance does not exist as yet to facilitate the not-for-profit sector's transition to sustainability reporting generally.

Collectively, HoTARAC members believe it is too early to conclude whether the AASB's sustainability reporting standard setting framework has been appropriately applied when considering the potential application of these standards in the public sector context.

### **Question 31**

Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any issues relating to:

- a) not-for-profit entities; and
- b) public sector entities?

### **Response**

HoTARAC members are concerned that the pressure to develop sector-neutral sustainability standards without specifically addressing a range of fundamental issues for the not-for-profit public sector increases the risk of a costly and sub-optimal implementation.

Several jurisdictions hold major reservations that due process may be unintentionally neglected in the desire to achieve sector neutrality without providing sufficiently clear practical guidance or developing a cost-effective implementation path for the not-for-profit and public sector.

HoTARAC observe that the question around the appropriate level(s) at which Commonwealth and State public sector sustainability reporting should occur (i.e. whole-of-state, whole-of-government, individual agencies) has not been formally considered and discussed between the AASB and the public sector, or within the public sector for that matter. The outcomes of the IPSASB and GRI projects (and their relevance to public sector reporting in Australia) are also unknown at present.

Consistent with our responses in questions 26 and 27, the strategies proposed by the AASB aim to achieve sector neutrality in theory. Whilst acknowledging the efforts made by the AASB, there remains a significant concern that not-for-profit and public sector entities will bear a significant time and monetary cost impost to achieve this outcome in

practice. There is also concern that sufficient practical guidance does not exist as yet to facilitate the not-for-profit sector's transition to sustainability reporting generally.

Collectively, HoTARAC members believe it is too early to conclude whether the AASB's sustainability reporting standard setting framework has been appropriately applied when considering the potential application of these standards in the public sector context.

### Question 32

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

### Response

HoTARAC members consider that the proposals in the [draft] ASRS do create significant auditing and assurance challenges, particularly, in the short to medium term.

#### **General comments regarding auditing and assurance challenges:**

The International Auditing and Assurance Standards Board (IAASB) has only just released for commentary the proposed standard ISSA 5000 *General Requirements for Sustainability Assurance Engagements*. Ideally, an Australian Equivalent to ISSA 5000 (or other mandatory guidance) should be in place at the same time as the release of the final ASRS.

Auditing will take time to mature for such new proposals. Accordingly, a staged approach from limited to reasonable assurance is considered appropriate, and we note the approach proposed by the Commonwealth on 12 January 2024 in their recent Consultation Paper, which aligns audit requirements with either size of entity or size of emissions.

We refer to HoTARAC's submission on IFRS S1 and S2 exposed by the AASB in ED321 which identifies audit challenges. Having the standard ISSA 5000 will be progress, but we question whether there is sufficient capability amongst assurance providers to be able to apply it effectively and exercise any necessary judgements on a consistent basis.

The [draft] ASRS are likely to bring significant challenges as the skill set and experience required to apply them will extend beyond financial reporting. This is likely to highlight the scarcity of this expertise, knowledge and skill set in the market. In addition, the nature of the information to be audited in the interim may be of a qualitative nature and may include judgement, making it challenging to provide reasonable assurance. We believe the public sector audit offices will face significant auditing and assurance challenges.

We would like to highlight that there is currently no established framework to audit sustainability information in the public sector. This includes considerations such as assessing faithful representation and relevance of information, as well as established auditable trails on information obtained by entities.

#### **Specific challenges regarding auditing disclosures prepared under the [draft] ASRS**

Paragraphs Aus4.2 in [draft] ASRS 2 and Aus6.2 in [draft] ASRS 1 require entities to determine whether they have material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects – the current lack of materiality guidance increases the potential for disagreement between preparers, auditors and regulators (in both the public and private sector) about whether a report should be

prepared at all because of disagreements about what is material (refer to our response in question 3).

In addition, HoTARAC considers that the following Aus specific requirements in the [draft] ASRS may propose challenges to auditors and assurance practitioners in the Australian environment, in the context of attaining reasonable assurance:

- Paragraphs Aus4.1 in [draft] ASRS 2 and Aus6.1 in [draft] ASRS 1 with proposed not-for-profit sector modifications – there may be challenges for auditors to conclude on whether the reporting entity has conducted an exhaustive search and determining what constitutes an ‘*exhaustive search*’ (refer to our response in question 25).
- Paragraphs Aus4.1 in [draft] ASRS 2 and Aus6.1 in [draft] ASRS 1 with proposed not-for-profit sector modifications – there may be challenges for auditors in concluding on what constitutes ‘*reasonable and supportable information*’ on which entities have based their decisions regarding disclosures – although we note that the proposed paragraphs in the [draft] ASRS on connected information will require that the entity base their judgements and estimates on consistent data and assumptions used in the preparation of the financial statements. Where the quality and magnitude of disclosures by entities develops from qualitative to quantitative over time, there will be more reliance placed by auditors on information produced by the entity and data sources, as well as key inputs and assumptions (refer to our response in question 25).
- In the application of materiality related to not-for-profit entities, auditors may need to consider qualitative versus quantitative materiality. We note there is application guidance on assessing materiality included in [draft] ASRS1.
- The Commonwealth’s recent Consultation Paper makes clear that the intention is for the financial statements auditor to also provide assurance over the climate-related financial disclosures. As a result, the proposed Aus paragraphs on climate resilience and metrics and targets will necessarily require the financial statements auditor to rely on non-accounting experts.

### Question 33

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

### Response

HoTARAC members hold divergent views around the appropriate level(s) of reporting by the public sector and whether the [draft] ASRS should be applied at an individual agency and/or whole-of-government and whole-of-state level, with the level of reporting to be determined by each jurisdiction.

This reflects differing views on who are the users of public sector climate-related financial information and what their information needs are.

At least one jurisdiction views entity-level reporting to be appropriate if the reporting objective for the public sector is to assess agency management of climate risks or to achieve alignment with the private sector.

However, a majority of jurisdictions hold the view that individual agency policies on climate is normally dictated by, and thus interlinked with, central government policy. Therefore, individual agency disclosures should only be made as directed by the

Government in each jurisdiction. This ensures alignment of individual agency disclosures with government policy and consistent application across the public sector within that jurisdiction.

Furthermore, entities in the General Government Sector do not source debt financing for their operations. Such borrowings are ordinarily undertaken by that jurisdiction's Treasury corporation who access debt capital markets on behalf of whole-of-government and then on-lend to individual agencies as directed by government. Depending on the jurisdiction, some public sector entities in the PNFC or PFC sectors may access wholesale debt markets directly and solely for their own financing needs, but some jurisdictions mandate that even PNFC and PFC entities raise their finance via that jurisdiction's Treasury corporation.

Observations by jurisdictions already providing voluntary sustainability information to debt market participants has noted a greater focus on whole-of-government metrics (General Government and Total State Sector) and typically less focus on individual agencies, given that credit and sustainability ratings are assessed at a whole-of-government level for issued bonds.

We have identified a number of requirements within [draft] ASRS 2 where inconsistent disclosures may arise between individual agencies and whole-of-government, which will reduce the usefulness of the information. Significant areas identified include:

#### **Climate scenario analysis/modelling**

- Theoretically, the assumptions underpinning such modelling would be consistent (and aligned where applicable) between whole-of-state, whole-of-government, and individual agencies, in line with government policy positions. Individual agencies adopting their own modelling that is inconsistent with whole-of-government positions is highly likely to be untenable from a public policy and capital market perspective. Individual agencies preparing separate climate modelling would be a significant, if not prohibitive, cost to government for questionable benefit, and problematic where differences arise. This will be more pertinent where debt market participants continue to assess government sustainability metrics at a whole-of-government level.
- The exception might be where a government has an agency operating outside the jurisdiction's geographical boundaries that warrants a specific scenario analysis – which supports jurisdictions making their own determination around what climate scenario modelling is appropriate.
- There is a further unresolved question as to whether the scientific basis behind climate scenario modelling as adopted by the Commonwealth needs to agree with the modelling adopted by States and Territories (or at least be reconciled) to be truly useful/meaningful to public sector users.

#### **Scope 3 emissions reporting**

- As noted above, capital markets are predominantly focusing on early-stage sustainability reporting at the General Government/Total State sector level. In the context of the Commonwealth, States and Territories, many Scope 3 emissions reported by individual agencies will be either Scope 1 (generated/produced by the Government) or Scope 2 (purchased emissions) when consolidated to the General Government and Total State sector levels.
- For this reason, most jurisdictions are extremely concerned about the cost that will be incurred if full Scope 3 emissions reporting by individual agencies and whole-of-government is mandated for the public sector.

- The level at which climate reporting is prepared in the public sector becomes highly relevant to the cost and pathway to implementing Scope 3 emissions reporting. Methods to eliminate the double count (or estimate what percentage of Scope 3 emissions are double counted) will need to be developed by governments if full Scope 3 reporting is implemented. This has the potential to be a significant administrative task in terms of resources.
- Consequently, a number of jurisdictions consider that Scope 3 reporting in the public sector requires further consideration as to the most effective way it is addressed within a government context to effectively meet user needs, whilst avoiding confusion and erroneous conclusions being drawn regarding government emissions (refer to our response to question 18).

Reflecting the wide range of financial statement ‘users’ in the public sector context, and the divergent views on the levels of reporting in the public sector, our response demonstrates why HoTARAC considers that further work is required before any conclusion can be drawn regarding the usefulness of this reporting to public sector users.

#### **Question 34**

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

#### **Response**

HoTARAC members offer no formal comments in response to question 34, other than to acknowledge that access to domestic and international capital markets (including by the three tiers of Government in Australia) increasingly requires climate and sustainability factors to be addressed by bond issuers in response to investor demands.

Consistent with earlier responses, HoTARAC would welcome further engagement with the AASB to progress developing an effective sustainability reporting framework for the public sector.

#### **Question 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.

#### **Response**

We have no further comments to add.