ENERGETICS

4 March 2024

By email: standard@aasb.gov.au

Dear Sir/Madam,

Thank you for your thorough consultation on ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*. I apologise for the late provision of our submission.

I'm sure the process has been as informative for stakeholders as for yourselves – it has certainly helped refine our thinking. The two points that Energetics wants to emphasise are:

1. **The importance of aligning to the greatest extent possible with *IFRS S2 Climate-related Disclosures*.** International alignment is valuable not just because it reduces reporting frictions for organisations reporting under both ASRS and IFRS S2 (or its other jurisdictional counterparts), although that is a significant benefit. It is valuable also because it helps investors compare companies reporting under the different standards. IFRS S2 is explicitly a global baseline standard, and so implementing a version that effectively undercuts IFRS S2 by requiring less thorough or up-to-date reporting goes against the purpose of the ISSB's effort to create an internationally consistent foundation for sustainability reporting, and sets a concerning precedent for other jurisdictions considering domestic implementation of IFRS S2. We hold considerable concerns about potential barriers to accessing capital that might result from reporting in a jurisdiction that is essentially a global outlier. The focus of this reporting is on the investors, after all.

   We understand that the AASB considers further work is needed on industry-based metrics, and for this area we recommend that the standard at least signals encouragement to align with the industry-based metrics specified in IFRS S2, and the intention to require alignment in future. This will be aided by using GICs to describe industry sectors. Companies are already accustomed to mapping to these codes.

   Two other key areas where ASRS 2 differs from IFRS S2 are in its preference for NGERS emissions reporting methods and its approach to Scope 3 emissions. With regard to NGERS methods, we consider that NGERS should eventually follow the ASRS 2, rather than the other way round, and ASRS 2 should lay the groundwork for this. For example, ASRS 2 should require emissions factors based on AR6 as a first preference, although NGERS reporters may elect to maintain consistency with NGERS factors. With regard to Scope 3 emissions, again we recommend that ASRS 2 follow the IFRS S2 requirement to report against GHG Protocol categories.

Sydney
Melbourne
Brisbane
Perth

Cammeraygal Country
Level 7, 5 Blue St
North Sydney | NSW | 2060

PO Box 294
North Sydney NSW 2060

+61 2 9929 3911
info@energetics.com.au
energetics.com.au

ABN 67 001 204 039
ACN 001 204 039
AFSL 329935

2. **The importance of making scenario analysis useful both to entities undertaking and disclosing it, and to users of climate-related financial disclosures**. Successive TCFD Status Reports show that reporting on how scenario analysis informs businesses' assessments of their climate resilience continues to be a struggle for companies and an area of ongoing dissatisfaction for investors.[1]

   Many stakeholders recognise that companies may be ignorant of the full scale of their climate-related risks, and so want to mandate scenarios based on tail risks to ensure these are considered and disclosed. Others argue that because businesses typically do not orient their strategies or business models to futures that appear to have a low likelihood of eventuating, it is important to understand what the reporting entity thinks is its most likely climate-related future. We agree with both these points. We want to further emphasise that physical climate risk is as immediate as and potentially much more significant than transition risk for certain businesses, in the short term as well as the long term. But physical climate risk is far less well-understood than transition risk among investors as well as among businesses, and will remain a blind spot in climate risk management unless widespread efforts are undertaken to rapidly improve capabilities in this area.

   The UNEP's 2023 Emissions Gap Report notes continuation of current policies would result in about 3°C warming. Delivery of national targets could lower this to 2.5°C, or even, if all net zero pledges are fully implemented, to around 2°C.[2] On the other hand, research into climatic tipping points – thresholds beyond which changes in the climate system become self-perpetuating – notes that not only may multiple tipping points be triggered by climate change of less than 2°C, these tipping points are not considered in climate models or national projections, suggesting that they systematically underestimate the potential climate change associated with a given anthropogenic emissions pathway.[3] A recent report from CSIRO into the effects of tipping points on Australia finds that Australia could experience greater and more rapid warming and sea level rise, abrupt changes in the El Nino Southern Oscillation (ENSO) cycle and greater rainfall variability.[4]

   For these reasons we recommend the AASB include in ASRS 2 requirements for companies to undertake analysis of their resilience under:
   - a 1.5°C scenario, to reflect the Paris Agreement and the *Climate Change Act 2022*, and to provide a basis for comparison among companies
   - a scenario reflecting whatever future the entity is using as a base case
   - a scenario reflecting global average temperature rise of 3°C or higher, representing a highly plausible degree of physical risk that all reporting entities should consider.

   We believe that it is not unduly onerous for companies to report on three scenarios, as climate-related scenario analysis must examine at least three scenarios to be decision-useful: fewer would exclude either significant tail risk or more probable outcomes. We recommend also that the AASB produce or support the production of guidance on effective disclosure of scenario analysis.

---

[1] This is neatly summarised in the infographic on this page: ***2023 TCFD Status Report: Task Force on Climate-related Financial Disclosures - Financial Stability Board (fsb.org)***

[2] UNEP, 2023. *Emissions Gap Report 2023: Broken Record – Temperatures hit new highs, yet world fails to cut emissions (again).* ***https://wedocs.unep.org/bitstream/handle/20.500.11822/43922/EGR2023.pdf?sequence=3&isAllowed=y***

[3] David I. Armstrong McKay et al., 2022. "Exceeding 1.5°C global warming could trigger multiple climate tipping points." *Science* 377, ***https://www.science.org/doi/10.1126/science.abn7950***

[4] CSIRO, 2024. *Understanding the risks to Australia from global climate tipping points*. CSIRO Workshop Report. Available via: ***https://www.csiro.au/en/news/all/articles/2024/february/climate-tipping-points-australia***

Thank you again for this opportunity to make input to this seminal work of the AASB, which is critically important to the ongoing sustainability of the Australian economy. We welcome any additional, clarifying questions you might have.

Yours sincerely,

Dr Mary Stewart
CEO
Energetics Pty Ltd
mary.stewart@energetics.com.au

Olivia Kember
Principal Consultant
Energetics Pty Ltd
olivia.kember@energetics.com.au