MSCI

March 1, 2024

Australian Government
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007
Australia

Submitted online: www.aasb.gov.au

Dear Sir/Madam,

Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (the "Consultation")

Environmental, Social and Governance (ESG) factors impact risks and opportunities in Australia with climate change being the clearest and most pressing illustration. However, without access to consistent, comparable and timely information on climate risks facing companies, capital market participants cannot respond to the challenges presented by climate change.

As a leading provider of climate risk data and analytics to the global investment community, MSCI has collected climate and ESG-related disclosures from thousands of companies globally for over two decades and developed tools to assist investors in their analysis of climate and ESG risk to their portfolios.

MSCI supports the publication by the Australian Accounting Standards Board (the "AASB") of Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information.

We have the following general comments set out below for your kind consideration.

Align the disclosure requirements with IFRS' S1 and S2 standards and explicitly include other sustainability-related impacts. Aligning the disclosure requirements with IFRS' S1 and S2 standards[1] shall result in a more consistent and comparable disclosure of non-financial information across companies. Introducing standardised, internationally aligned climate-related disclosure requirements will also provide users, investors and policy makers with detailed and comparable information by which to assess the exposure of a company to climate risks. Companies can be compared against each other to assess their relative exposure and performance (via quantitative metrics). Further, IFRS-S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long

1 ISSB issues inaugural global sustainability disclosure standards (IFRS | June 2023)

term (collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects').[2] Australian companies could be an outlier if disclosures under ASRS-1 is restricted to climate-related information only and not extending it to other sustainability-related information viz., social impacts, nature etc.

Mandatory disclosure of Scope 1-3 emissions irrespective of materiality determination. Scope 3 disclosures should be made mandatory even if the company believes that climate-related risk is not material for the company. As per MSCI research, of the 241 Australian companies in the MSCI ACWI IMI,[3] currently fewer than 70% of the constituents disclose Scope 1 and 2 emissions, and only 43% disclose some categories of Scope 3. For investors and users of data, it is important that Scope 3 emissions disclosure is consistent and comparable, which will not be achieved where an entity applies its own definition of materiality. Making the disclosures of Scope 3 emissions mandatory would provide a more comprehensive picture of an entity's exposure to transition-related risks. For more details, please refer to Exhibit 1 in the Annex.

Breaking-up Scope 3 emission disclosures into upstream and downstream emissions categories. To understand the emissions disclosure rates in the Australian markets further, we researched emissions disclosure rates per scope and category among the constituents of the MSCI Australian IMI. We found that only in a handful of Scope 3 categories (1,3,5,6 and 7) we saw more than 20% of companies report their emissions data. For more details, please refer to Exhibit 2 in the Annex. Corporate disclosures of Scope 1, Scope 2 and Scope 3 emissions per category in consistent and standardized patterns can allow investors to conduct comparative analysis of individual companies' emissions profiles across peers and help provide them with decision useful information.

Mandatory disclosure of cross-industry metrics. MSCI research shows that at present, many jurisdictions do not yet require companies to disclose information across all the TCFD cross-industry metrics (see Exhibit 3 in Annex), thereby limiting the quantity and quality of decision-useful information for investors and other users of climate data. Disclosure of cross-industry metrics helps investors understand their portfolio exposure to physical risks, transition risks and climate-related opportunities and enables them to predict the future impact of such exposure. Investors need information on how issuers are financing their transition plans and the amount allocated to predict future financial performance, financial position and cash flows. Investors need information on internal carbon prices to assess a company's internal management of climate-related risks and opportunities. This core set of cross-industry metrics shall provide a common set of consistent and comparable climate-related disclosures applicable across sectors and industries. In 2021, the TCFD recommended all organisations disclose data across seven cross-industry metrics categories.[4] Therefore, we recommend that AASB mandates disclosure of the TCFD cross-industry metrics.

Include industry-specific metrics and other industry classifications also to be taken into consideration. The inclusion of the core set of industry specific metrics by companies that are in different sectors will enhance the information set for the investors for a better comparability of industry-specific risks. In Australia and New Zealand, the Australian and New Zealand Standard Industrial Classification (ANZSIC) may be a widely accepted industry classification

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[2] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS | June 2023)
[3] MSCI All Country World Investable Market Index
[4] TCFD, Guidance on Metrics, Targets and Transition Plans, October 2021.

standard, but to ensure comparability of industry specific metrics across companies globally, widely accepted industry classification standards such as GICS[5] and NACE[6] may also be taken into consideration.

Use of high-temperature scenarios to be encouraged in addition to net zero scenarios. MSCI provides a wide range of scenarios in line with the Network for Greening the Financial System (NGFS), and we endorse the adoption of a net-zero scenario. To help financial institutions understand the evolving nature of climate risks, we suggest that entities making disclosures also consider a high-temperature scenario. This would help in evaluating the most severe impacts from physical climate-related risks such as chronic and acute hazards arising from wildfires, floods, and extreme heat (non-exhaustive) using the NGFS's 3°C scenario or equivalent.

Ensure that the disclosure of GHG emissions is aligned with the standards of the GHG Protocol[7] over time. Considering the critical role of data comparability for investors, the AASB is encouraged to align as closely as possible with the GHG Protocol. This alignment may necessitate cross-government collaboration to update the NGER Scheme legislation to reflect the GHG Protocol's standards.

Disclosure of financed emissions to be made using PCAF standard. As highlighted in our earlier paragraphs, aligning the disclosures with the IFRS' S1 and S2 would result in comparable non-financial disclosures for better decision making by investors. This would equally be applicable for companies that participate in asset management, commercial banking or financial activities associated with insurance to provide additional disclosures relating to their financed emissions. The proposed changes under ASRS 2 risk omitting comparable information on material emissions categories for financial institutions. We therefore recommend that the Australian government take necessary steps to align the NGER Scheme legislation with the PCAF standards[8] that are based on the GHG Protocol. This would enable the ASRS 2 to align with the IFRS S2 on financed emission disclosures. The comparability of financed emissions reporting could be further enhanced with a detailed sector-level breakdown wherever possible, and an emphasis on reporting both the gross absolute emissions disaggregated by Scopes 1, 2, and 3. To facilitate comparisons between financial institutions of varying sizes, disclosure of the gross financed emissions intensity could also be recommended.

Distinguish scenario testing requirements between financial and non-financial firms. A concern observed from the market through client discussions is the need for clearer guidelines and a better differentiation in expectations for climate scenario analysis between non-financial corporates and financial services companies.

Climate-related disclosures for asset owners viz., superannuation fund. An additional guidance will be helpful for asset owners such as superannuation funds / pension funds for their climate-related disclosures, given that these entities were not originally captured in the scope of reporting entities for the ISSB Standards. Potential areas that require additional guidance may

[5] Global Industry Classification System (GICS) adopted by the ISSB.
[6] Nomenclature of Economic Activities, adopted by the ESRS standards of the EU.
[7] Greenhouse Gas Protocol
[8] Partnership for Carbon Accounting Financials

include the calculation of financed emissions, as outlined in the earlier paragraph on the PCAF standard.

While the Consultation covers a range of issues, we comment only on those matters where MSCI's experience is most relevant.

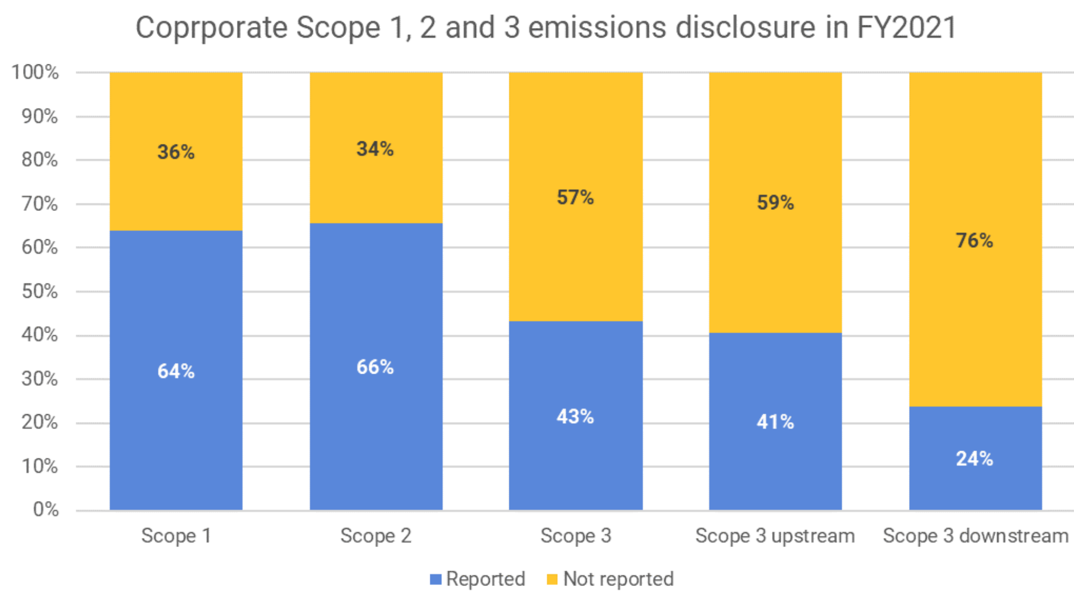
Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s
Meggin Thwing Eastman
Managing Director, ESG Research
MSCI ESG Research LLC

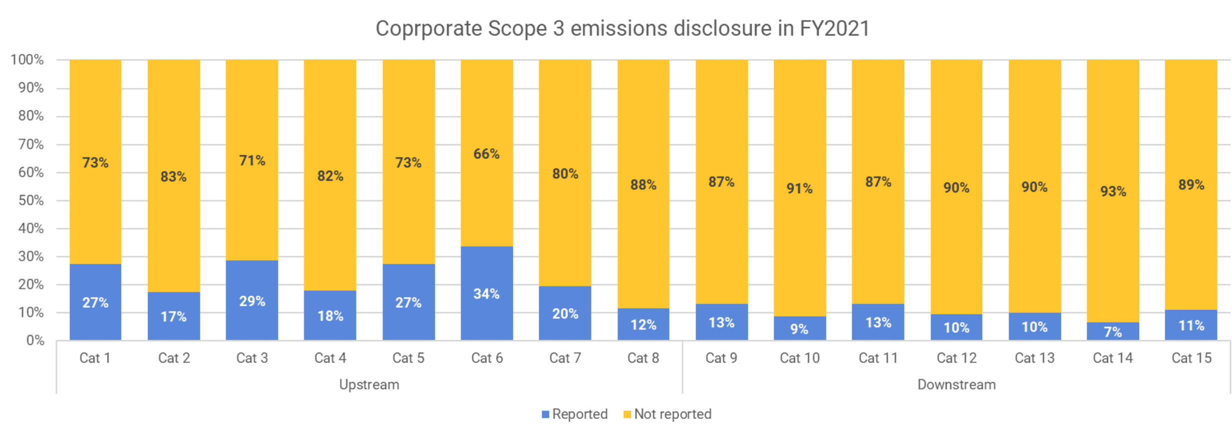
Annex

Exhibit 1: Emissions disclosure rates in the MSCI Australian IMI



Source: *CDP. Company Disclosures. MSCI ESG Research as of February 15th, 2024. Notes: When companies did not define the categories of Scope 3 emissions they disclosed, we assumed companies have reported all categories of Scope 3 emissions. We are currently in the process of collecting FY 2022 corporate emissions data.*

Exhibit 2 Emissions disclosure rates per scope and category in the MSCI Australian IMI



Source: *CDP. Company Disclosures. MSCI ESG Research as of February 15th, 2024. Notes: When companies did not define the categories of Scope 3 emissions they disclosed, we assumed companies have reported all categories of Scope 3 emissions. We are currently in the process of collecting FY 2022 corporate emissions data.*

Exhibit 3: Adoption of TCFD core cross-industry metrics by jurisdictions

Source: TCFD