



Australian Banking
Association

Exposure Draft – ED SR1 Australian Sustainability Reporting Standards

ABA Submission to the Australian Accounting Standards Board

1 March 2024



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Key Recommendations

The Australian Banking Association (**ABA**) welcomes the opportunity to provide a submission to the Australian Accounting Standards Board (**AASB**) consultation on [Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information \(ED SR1\)](#). Among other matters, our submission makes the following Key Recommendations:

- 1. Develop mapping documentation to provide authoritative guidance on aligning global and domestic reporting (Questions 1, 5).**
 - Many of our responses to the consultation questions below go to the appropriate balance between global and domestic reporting requirements. For example, whether to report against Australia and New Zealand Standard Industrial Classification (ANSZIC) or Global Industry Classification Standard (GICS) classification codes.
 - We suggest that these challenges could be partly addressed by an appropriate Government authority providing guidance for domestic/international interpretation and make suggestions below.
- 2. The AASB should present the core content disclosure requirements across two ASRS standards (Question 1).**
 - This reflects the selection of Option 2 for Question 1. This would provide two key benefits:
 - i. Provide the greatest level of alignment with international standards and allow easy comparison.
 - ii. Offers the greatest degree of futureproofing as it offers a clear path to incorporate any subsequent sustainability standards.
 - While Option 2 would have a drawback of creating a small level of duplication, this would likely be short-term. In comparison, we view that Options 1 and 3 would create serious challenges for international comparability.
- 3. Do not exclude superannuation funds from the operation of ASRS (Question 21).**
 - The ABA does not view that a case has been made out to justify the exclusion of large active superannuation funds from the operation of the Australian Sustainability Reporting Standards (**ASRS**).
 - The reasoning offered in ED SR1 – principally relating to Scope 3 complexity and cost – is not unique to the superannuation sector but is generic challenges faced by all reporting entities in the financial sector (and other sectors).
 - Further, exempting superannuation funds will likely undermine the legislative intent of the scheme (the recent Treasury [Climate-related financial disclosure: exposure draft legislation \(Treasury ED\)](#) explicitly includes large superannuation entities), and will undermine public confidence in the scheme.

Policy Director contact: Merric Foley, Policy Director, merric.foley@ausbanking.org.au



Australian Banking
Association

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

Specific matters for comment

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

Question 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)?

The ABA and member banks support an approach that closely aligns with IFRS S1 and S2, which would enable global comparability. On that basis, we prefer **Option 2** as it appears to provide the greatest level of alignment. We make the following comments on the options under consideration by the AASB:

- **Option 2** would provide two key benefits. First, it would provide the greatest level of alignment with international standards and allow easy comparison. Second, it offers the greatest degree of futureproofing as it offers a clear path to incorporate any subsequent sustainability standards. While Option 2 would have a drawback of creating a small level of duplication, this would likely be short-term. We view this drawback as immaterial compared to the serious challenges created by Options 1 and 3.
- **Option 1** has the nominal benefit of combining both IFRS S1 and S2 into a single standard. However, this would come at the cost of substantially compromising international comparability. As standards evolve (both domestically and globally), it could become difficult for readers and preparers to understand areas of alignment and divergence between Australian and global standards. Option 1 would therefore appear to conflict with one of the Australian Government's intended outcomes in introducing a mandatory regime for climate-related financial disclosure – namely, to attract global capital.¹ Finally, it may be difficult to incorporate additional sustainability standards at a point in future (noting that the Australian Government has indicated interest in expanding the suite of sustainability standards over time).
- **Option 3** would significantly impair readability compared to the other options, as it would require readers and preparers to refer to multiple standards for a single disclosure. Further, it has the same challenges with international comparability and expansion as Option 1.

Notwithstanding our above comments, should the AASB adopt Option 1 or 3, the ABA strongly recommends that it develop and maintain an accompanying “mapping” document that indicates areas of alignment and divergence with IFRS S1 and S2. This would assist in ameliorating some of our concerns with international comparability.

¹ Treasurer the Hon Dr Jim Chalmers (Dec 2022) [Address to the Australian Sustainable Finance Institute](#)
Australian Banking Association, PO Box H218, Australia Square NSW 1215 | +61 2 8298 0417 | ausbanking.org.au

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 Financial 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.

The ABA agrees with the AASB's proposed approach. This approach is consistent with the Australian Accounting Standards in that the Standards are legislative instruments while the Conceptual Framework is not. Further, we note that use of the conceptual frameworks would also encourage international alignment, and that many organisations may apply them in any event.

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.

The ABA agrees with the AASB's proposed approach, noting the reasoning set out in BC34-BC36.

The ABA wishes to draw to the AASB's attention an issue that we have separately raised with the Treasury during their consultation on the Treasury ED. With respect to Group 3 entities, there appears to be a divergence between ED SR1 and the Treasury ED. As drafted, the Treasury ED would require that a Group 3 entity, should it determine that it does not have any material climate-related risks or opportunities, would merely need to publish a statement to that effect.² However, ED SR1 would additionally require it to publish the basis for that conclusion.

We view that this creates scope for confusion and have recommended that Treasury align that section of the legislation with the AASB approach.

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.

The ABA makes the following comments for AASB consideration:

- Many major investors into the Australian market actively monitor SASB standards and compare Australian companies who actively report in line with them. Likewise, many global corporations already adopt SASB standards and including them as a requirement would encourage alignment and comparability.
- Conversely, the SASB standards remain US-centric. SASB is refreshing their standards to support international applicability, with the most recent commercial banks standard updated in December 2023. Notwithstanding these developments, SASB standards still lack an Australian review and not all metrics are relevant.
- Irrespective of whether references to the SASB standards are formally included, many Australian companies will continue to report against them on a voluntary basis.
- There is a role for the AASB to actively advocate on behalf of Australian entities to ensure that an Australian or Oceanic perspective is included in future iterations of the SASB standards.

² Treasury (Jan 2024) [Treasury ED](#) 298B(1)



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.

ANZSIC codes are not aligned with international codes. Challenges will arise whether AASB chooses to align with global or domestic classification metrics, and each approach will entail some level of duplication:

- Adoption of ANZSIC codes will create duplication for Australian subsidiaries of global groups and Australian companies that operate in multiple jurisdictions. It will also complicate international comparisons – making it more difficult for global investors to compare Australian companies with their global peers.
- The systems of domestic Australian banks are already set up to use ANZSICs for a variety of purposes, relating both to internal use and domestic reporting. Adoption of international codes would be problematic and duplicative.

One solution would be for an appropriate public authority to create a “mapping” document that provides an authoritative view on how global classifications are to be translated into ANZSICs. There are a range of bodies that could undertake this function – Treasury, the Australian Bureau of Statistics, the AASB itself, and so on. This would have the following advantages:

- It would eliminate a large portion of the duplicated effort required in making reports under multiple coding systems.
- It would ensure that Australian codes are mapped to international codes in a consistent way, which would support comparability of Australian entities by global investors.

Additionally, there may be merit in considering other options:

- Updating ANZSIC coding to a more granular level. Industry sub-classifications can be critical for climate-related disclosures. The next ANZSIC review should include a strong climate “lens” and consider global comparability.
- In the interim, whether reporting entities could align with the domestic or global industry classification best suited to their needs.

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.

The ABA is unclear as to the precise purpose and implication of a mandatory standard “permitting” voluntary disclosures. BC42 does not elaborate on this point, although the wording of Question 6 implies the AASB views that express permission may help ensure that additional disclosures “do not obscure or conflict with required disclosures”.

If this is the case, the ABA makes the following comments:

- We do not view that additional disclosures will obscure or conflict with mandatory disclosures. As noted in our response to Question 4, Australian banks (and many other reporting entities) already report under a range of voluntary frameworks. They will continue to do so to meet the requirements of initiatives to which they are signatories, as well as requests from global clients and investors. In turn, the needs of global investors will be driven by a range of requirements – including regulatory requirements of peer jurisdictions, evolution of global best practice, developments in global standards and methodologies, and so on.

- Notwithstanding the above, there may be merit in providing explicit guidance within the standards so that a non-expert reader of the standard will clearly understand that the mandatory standards may not constitute the entire suite of disclosures made by an institution.
- There may be unintended consequences or confusion. For example, a non-expert reader of the standard may come to the view that voluntary reporting requires express permission, or that voluntary reporting is limited to any standards that are offered as examples.

Should the AASB incorporate this type of statement into the standards, we suggest the AASB provide further clarity on the following matters:

- What would constitute “other relevant frameworks or pronouncements” (if such language is incorporated).
- What is meant by “permitting” a voluntary standard (noting that voluntary disclosures do not require express permission) – as opposed to merely providing information to the reader of ASRS that a reporting entity may choose to make voluntary disclosures for a range of purposes.

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.

ABA members strongly view that further clarity is required on the intended location of climate-related financial disclosures. The Treasury policy position and AASB offer differing views on the expected location, and use of other matters such as an index table. We have made similar comments in our response to the consultation on the Treasury ED.

The ABA makes the following additional comments:

- While explicit requirements would provide users and preparers clarity on what to expect from the presentation of this information, a flexible approach would allow reporting entities more scope to tailor disclosures to their own circumstances and may reduce reporting burden.
- We do not view that creating an Index Table is likely to be a time-consuming exercise. We support further clarity on how the Index Table should be prepared and where it should be located.

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.

The amendments proposed to the *Corporations Act* in the Treasury ED would require a sustainability report to be provided on a financial year basis. The ABA therefore views that the AASB proposal will not provide clarity over interim reporting, as it does not explicitly state that interim disclosures are not required.

Further, the ABA views that it would be useful for the AASB to provide direction regarding the extent of disclosures to those entities who elect or are otherwise required to provide climate-related financial disclosure as part of their reporting requirement (similar to IFRS S1 B48).

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.

As a broad comment, the ABA reiterates the need to maintain consistency with international standards for those reporting for other jurisdictions. It would be beneficial if this clarity could be provided by both the ISSB and AASB, to ensure the greatest level of international alignment.

Climate resilience

Question 10: Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view.

The ABA agrees with the AASB's proposed approach (noting that our further comments on the upper-temperature scenario are given under Question 11), and we make the following comments:

- Analysis of at least one consistent future state temperature will enhance comparability across reporting entities.
- There are strong arguments in favour of alignment with an international goal – as climate-related risks and opportunities are driven by global targets as much as local ones. As the 1.5c temperature goal in the *Climate Change Act (CCA)* is consistent with the Paris Agreement, this is not presently a practical concern – but may become a concern should the CCA diverge from future climate agreements.
- There are some areas in which further guidance would be useful – for example:
 - Choice of 1.5c-aligned scenario (noting that multiple such scenarios exist).
 - Frequency of scenario analysis.

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.

The ABA makes the following comments for AASB consideration:

- A clearly specified upper-bound temperature would enable greater comparability of climate resilience outcomes across the economy. This would encourage best practice by permitting direct comparison of outcomes and strategies within and across sectors.
- However, no specification of second scenario would allow greater flexibility and would allow organisations to select scenarios that they feel are appropriate to their business.
- Many reporting entities already have commenced, or are commencing, their internal process of scenario selection (in advance of the mandatory requirements). Requiring a specific upper-bound temperature scenario may create duplication of effort and re-work with no commensurate benefit.
- Consideration should be given as to how to encourage or require reporting entities to disclose the basis of the scenario selection.

Should the AASB decide not to specify a specified second scenario, it may wish to provide further guidance on how businesses could select an upper-bound temperature scenario. For example:

- Examining against either physical risks, or a combination of high physical risks and elevated transition risks.

- The intent of scenario selection – that is, enabling comparison against extreme scenarios, or likely scenarios.

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(g) 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.

The ABA supports the AASB proposal, subject to the following comments:

- We recommend clarifying the reporting period, noting that that NGER is aligned with 30 June whereas the AASB requires the reporting period to be aligned with financials statements, which are not always 30 June.
- While cross-industry metrics would provide useful information to users (including standardising disclosures across organisations), there will be challenges with data quality and availability, a need for reporting systems and processes to develop. Flexibility is required to build capability and reporting systems.

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.

The ABA supports the AASB proposal, suggesting that further clarity on 29(g) as to the component of remuneration to which this requirement relates.

Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19-B63.1 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.

The ABA supports the AASB proposal.

Converting greenhouse gases into a CO2 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.

The ABA makes the following comments for AASB consideration:

- The AASB position will create some challenges for global comparability, as NGER methodology for GWP conversions are consistent with IPCC AR5 rather than AR6. Therefore, there is the risk that Australia would diverge from international standards (assuming no change in NGER methodology to align with AR6).
- Conversely, there is an issue of duplication if NGER reporters (which include several banks) are required to re-calculate against global standards.

The AASB may wish to consider the following options for resolving this concern:

- Allowing use of internationally aligned conversion factors for Australian subsidiaries of global groups.
- Allowing calculation of greenhouse emissions relevant to each jurisdiction for which emissions are calculated. For example, this would mean that an Australian entity with offshore operations will apply different GWP conversion factors to calculating emissions from different jurisdictions. Where this is the case, the calculation basis would be clearly disclosed.
- Encouraging the use of the latest international values published as at the reporting date and aligned with accounting concepts applied when calculating estimates.

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.

The ABA supports the AASB proposal.

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.

The ABA makes the following comments for AASB consideration:

- We request further clarification on the meaning of “to the extent practicable” for the purposes of using NGER scheme legislation and Australian-specific data sources.
- We suggest that NGER methodology should apply to Australian-based entities, and other methodologies required by other jurisdictions should apply to international operations.
- We support reporting of both location and market based GHG emissions. We note that many entities will have certifications issued by Climate Active, which currently considers both location



and market-based emissions. Climate Active is currently reviewing its certifications and this position may change. Given that many reporters will be in this position, the AASB may wish to consider aligning its position on location and market reporting with the eventual outcome of that review.

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.

The ABA supports the AASB proposal, subject to the following comments:

- We suggest clarification of the following:
 - The meaning of “reasonable and supportable information”.
 - The expected application across entities that have different reporting years.³
 - Whether there is an expectation of restating historical positions if and when data quality or availability improves.
 - Whether the intention of the proposal is:
 - The reported emissions are for the current reporting period, but the methodology used to calculate them uses older data.
 - The reported emissions are for the immediately preceding period.
 - Or something else.
- We note that, due to lags in data availability, even data from the previous reporting period may not be available. Frequently, the most relevant or appropriate data used to for Scope 3 emissions disclosures is older than the previous reporting period. We recommend that the standards make greater allowance and flexibility on the age of input data.
- We question whether “estimation” (rather than “measurement”) would be more appropriate terminology to describe Scope 3 disclosures. The terminology “measurement” implies a bottom-up process in which Scope 3 emissions sources are aggregated. Until data availability improves, many Scope 3 emissions disclosures will be based on top-down estimations that use averages or proxies as the basis for calculations.
- We view that such relief would ideally be provided at the ISSB level (and then adopted by the AASB) to encourage international alignment.

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.

The ABA makes the following comments for AASB consideration:

- IFRS S2 requires that a company must consider the fifteen categories of Scope 3 GHG emissions set out in the GHG Protocol Corporate Value Chain Standard. Diluting this requirement would not promote consistent and comparable reporting.

³ The NGER reporting period is from 1 July to 30 June whereas several Australian banks have a reporting period of 1 October to 30 September and have therefore been reporting their emissions in line with the NGER reporting period. Australian Banking Association, PO Box H218, Australia Square NSW 1215 | +61 2 8298 0417 | ausbanking.org.au

- Conversely, AASB's proposed approach would allow entities to maintain flexibility in selecting and adapting the most suitable guidelines. It would also mean that reporting entities could determine which categories are relevant and not report against irrelevant categories.

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.

As indicated throughout this submission, the ABA supports alignment with international standards. Notwithstanding those comments, we wish to draw the AASB's attention to several matters in this section (both in the original IFRS S2 and draft ED SR1). We recommend further exploration of whether these could be resolved by additional guidance:

- Disclosure by detailed asset class would dramatically expand the amount of overall information presented in the report without adding commensurate value for a user. The overall increase in the volume of information presented could be confusing and result in overwhelming a reader with information. For smaller entities, the requirement to disclose may pose further challenges especially when loan volumes may not enable access to statistically significant sample sizes.
- It is difficult to conclusively define project finance. It is not mutually independent from other asset classes (project finance is essentially a loan) or industries (project finance may be to a utility or commercial real estate). Additionally, it may include drawn and undrawn components and therefore would require additional tables and explanation if separated from the other asset classes and industries.
- Disclosing emissions by scope and then by asset class would dramatically expand the amount of information in a sustainability report, without adding commensurate value for users and would potentially cause confusion. For example:
 - Disclosing Scope 1, 2 and 3 and then separately disclosing these scopes by drawn and undrawn would likely double the amount of data produced and presented.⁴
 - If additional splits by detailed asset class, and further by project finance, are required, the data produced and presented would likely double again.
- We request clarification of the treatment of risk mitigants. These are included in IFRS S2 (B62 (c)(ii)) but have been removed from ED SR1. This is significant information to understand the correct financial measure to use as an input into financed emissions. It helps to ensure comparability between banks and prevents banks from using risk mitigants to achieve zero effective financed emissions.

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.

The ABA strongly opposes the exclusion of large active superannuation entities from the operation of ASRS. Superannuation funds are a significant component of the Australian economy, and their exclusion would need to be justified on extraordinary grounds. Australian banks rely on the disclosures of their

⁴ We further note that, depending on which global standard GHG accounting models are built to align with, there may be limited scope to consider drawn vs undrawn components. For example, PCAF guidance on financed emissions (which aligns with the GHG Protocol) is clear on the use of drawn/undrawn amounts in calculating emissions.

customers, including superannuation entities, being of a particular standard to accurately report on their own risks, Scope 3 emissions, and so on. Further, the legislative intent of the scheme is to cover superannuation funds and investors, as evidenced by the inclusion of asset owners with funds of more than \$5billion under management in the Treasury ED.⁵

Paragraph BC87 states that the principal reason for their potential exclusion would be the “cost and effort” required to comply – particularly “with the requirement to prepare Scope 3 GHG emissions”. Paragraph B88(a) further notes that superannuation funds would “need to model or estimate a significant proportion of the economy in order to estimate their financed Scope 3 GHG emissions”.

These concerns are not unique to the superannuation sector, but rather are generic features of Scope 3 financed emissions that are common to all financial sector entities. Australian banks and insurers face similar challenges, and global standards such as PCAF provide options for measuring Scope 3 emissions.

Notwithstanding the above, we do note that some smaller funds do not have direct relationships with the entities in which they invest. The AASB may wish to consider options for these funds.

⁵ Treasury (Jan 2024) [Treasury ED](#) 292A(7)
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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.

The ABA does not offer any specific views on how best to apply disclosure standards would be best applied to a not-for-profit (**NFP**) entity.

As a general comment, financial institutions rely on the disclosures of their customers being of a particular standard to ensure that they can accurately report their own Scope 3 emissions, risks, opportunities, and other matters. Should the AASB determine that the full suite of standards will not apply to NFP entities, it may wish to consider whether NFP entities could report under appropriate standards, focussing on key metrics, that allow some degree of comparability.

General matters for comment

Question 32: Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?

We reiterate the comments made in our February 2024 submission to the Treasury consultation on [Climate-related financial disclosure: exposure draft legislation](#), namely:

The ABA and members emphasise the complexities of obtaining assurance for many of the statements contained in climate-related financial disclosures. At present, global standards for sustainability assurance remain under development by the International Audit and Assurance Standards Board (IAASB), with finalisation not anticipated until late 2024. Importantly, the IAASB consultation anticipates challenges in several areas, including:

- *Evaluating whether the sustainability matters within the scope of engagement are appropriate – whether they are identifiable and capable of consistent measurement or evaluation.*
- *Rational purpose – to obtain a meaningful level of assurance with the evidence to support the conclusion.*
- *Designing and performing procedures to obtain sufficient and appropriate evidence.*
- *Doubts about the relevance and reliability of information used as evidence.*
- *Sampling, analytical procedures, materiality, and documentation.*
- *Understanding entity and its environment, legal and regulatory framework, risk, and control environment.*

Further, as a practical matter, the availability of reasonable assurance for climate related statements will depend on factors outside the control of reporting entities. This is particularly so for statements that are subject to inherent uncertainties, such as forward-looking statements and statements about scope 3 emissions.

Further to the above, it is not clear that reasonable assurance will be appropriate to apply to all disclosures contained in a sustainability report. In many cases, limited assurance would be acceptable and not place undue cost on reporting entities.

Question 33: Would the proposals result overall in climate-related financial information that is useful to users?

While the ABA agrees that ISSB-aligned disclosure standards will result in an increased in climate-related information that is useful to users, we reiterate our longstanding view that complementary work across Government and the private sector is required to ensure that disclosure standards reach their full potential. We further view that alignment with international standards and practices would result in useful and useable information to all users.

In particular, the ABA and member banks have consistently highlighted the need to address data and analytical challenges in Australian climate data. There is global recognition that accurate, public, and easily accessible data will be foundational to the net zero transition. Further, several of our responses to questions above have highlighted specific data challenges.

The Australian Government's November 2023 [Sustainable Finance Strategy](#) announced that the Council of Financial Regulators (CFR) will conduct a detailed assessment of options to address key sustainability-related data challenges faced by financial system participants, with published recommendations to Government by the end of 2024. We look forward to working with the CFR on this consultation.



Question 34: Are the proposals in the best interests of the Australian economy?

As outlined in our February 2023 submission to the Treasury consultation on [Climate-related financial disclosure](#), we view that clear and comparable disclosure of climate-related information will assist in avoiding large-scale financial risks from a disorderly transition to net-zero emissions. At that time, we noted that economic benefits would include:

- *Attracting capital and potentially a more diverse investor base, should the disclosure meet good practice standards.*
- *Allowing an entity to meet demands for information from investors, regulators, and broader stakeholders.*
- *Facilitating strategy development and decision making.*

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.

As outlined in our February 2023 submission to the Treasury consultation on [Climate-related financial disclosure](#), we view that key benefits include:

- *Reducing overhead costs of international trade finance arrangements.*
- *Assisting regulators to identify and combat greenwashing.*
- *Assisting businesses to identify and manage sustainability related risks and opportunities.*
- *Reducing the risk of regulatory arbitrage.*
- *Clearer and more transparent information for investors and stakeholders to support their decision making.*
- *Reducing time and effort spent to explain and/or reconcile reporting that is misaligned to global baseline standards – or preparing, settling and publishing multiple sets of reporting.*
- *Decreasing overall complexity and reporting costs by consolidating methodologies, particularly for banks with international reach.*
- *Minimising complexity in any extra-territoriality application and conflict of laws.*
- *Improving the availability and cross-compatibility of experts in the field and allowing Australian companies to tap into global talent pools, thereby ameliorating the impact of ESG disclosure and reporting skills shortages in the Australian market.*
- *Encouraging competitive improvement within the industry through consistency of performance measurement and reporting across peers.*
- *Alleviating exposure to claims of greenwashing arising from multiple reporting requirements over different areas of global portfolios.*

Our February 2023 submission also highlighted implementation costs, including:

- *Systems enhancement and the combining of financial and nonfinancial data sets to create new data.*
- *System, process, and customer engagement changes may be required to collect any new climate data from customers where it is required (for example, production/activity data to feed into emissions calculations).*
- *Sourcing staff with appropriate skillsets, given the current market shortages.*
- *Other costs of data access or developing new data sources/proxies where none exist.*

- ENDS -