Australian **Sustainable Finance Institute**

Submission to AASB Consultation on Exposure Draft ED SR1 Australian Sustainability Reporting Standards – 1 March 2024

The Australian Sustainable Finance Institute (ASFI) welcomes the opportunity to comment on the Australian Accounting Standards Board's exposure draft climate disclosure standards.

ASFI supports the introduction of mandatory climate disclosures for the Australian market. A robust, useable and internationally aligned climate disclosures framework will help financial institutions to make better decisions, firms to understand and manage climate risk and opportunity, and regulators to combat greenwashing. A key pillar of the sustainable finance policy architecture, climate disclosures will ultimately enhance management of climate risk across the financial system. It will also support greater capital allocation consistent with Australia's national emissions reduction and adaptation goals. Our specific comments are set out below.

About ASFI

ASFI is a not-for-profit organisation committed to realign the Australian financial system to be sustainable, resilient and inclusive. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that support ASFI's mission. ASFI members collectively hold over AU$23 trillion in assets under management and are committed to allocating capital in a way that creates positive social and environmental outcomes.

Comments on specific matters

Consultation question	*ASFI response*
Presenting the core content of IFRS S1 in [draft] ASRS Standards 1 Do you prefer Option 1, 2, 3 or a different approach in respect of presenting the core content disclosure requirements of IFRS S1?	ASFI considers that the limited adoption of IFRS S1 in the [draft] ASRS Standards is inconsistent with two important principles that relate to the introduction of climate-related disclosures: 1. It reduces alignment with international standards, specifically the ISSB baseline standards. This creates unnecessary complexity for organisations with reporting obligations in multiple jurisdictions and impedes comparability of Australian disclosures.

	2. It undermines the Australian Government's commitment (which ASFI supports) to implement sustainable finance reforms in a way that provides "a platform to incorporate other critical sustainability-related issues over time". ASFI suggests that the AASB should introduce ASRS 1 as a general sustainability standard that adopts IFRS S1, and separately ASRS 2 as a climate-specific standard that adopts IFRS S2. ASRS 1 would be a voluntary standard until such time as the Government decided to make it mandatory (for example, to coincide with the introduction of further sustainability-related standards once they are developed by the ISSB). This would allow for the easier introduction of new sustainability-related standards, would be less confusing for reporters trying to understand their disclosure obligations and would maximise international comparability. Parts of S1 that are necessary in order for S2 to function as a standalone climate standard would need to be duplicated (for example in a schedule to S2) so that they have mandatory application during the time that S1 remains voluntary.
Replacing duplicated content with references to the Conceptual Framework *2 Do you support the AASB's approach?*	No comment
Entities that do not have material climate risks and opportunities. *3 Do you agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2?*	Yes. ASFI supports the proposal that if an entity determines it has no material climate risks and opportunities, it should be required to disclose that fact and explain why it came to that conclusion. ASFI considers this to be a useful addition to the ISSB baseline standard.
Modifications to the baseline of IFRS S1 for [draft] ASRS 1	
Sources of guidance and references to Sustainability Accounting Standards Board (SASB) 4 Do you agree with the AASB's views noted in paragraph BC39-BC41?	Disclosure of industry-based metrics is a useful way to assess and communicate an entity's climate-related risk and performance. ASFI's interpretation of IFRS S1 is that it does not require reporting entities to apply SASB Standards, but merely to 'refer to and consider the applicability of' those standards. As such, users have flexibility to use other standards should they choose. To support international alignment, our preference is for the AASB to retain the approach in the ISSB standards.

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	We support the view that entities should consider the applicability of well-established and understood metrics as proposed. We note that ANZSIC is commonly used by Australian corporates and banks, but that global investors may use other classification systems for reporting. Therefore, we suggest it may be preferable to provide flexibility by removing the reference to ANZSIC.
6. Do you consider the ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards)?	Yes, ASFI supports the ability for disclosing entities to elect to disclose using other relevant reporting frameworks and we are comfortable with the ASRS Standards expressly permitting this.
Disclosing the location of the entity's financial disclosures 7 Instead of requiring a detailed index table to be included in the general purpose financial reports, 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 located its climate-related financial disclosures.	No comment
Interim reporting 8 Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48?	No comment
Modifications to the baseline of IFRS S2 for [draft] ASRS 2	
Scope of [draft] ASRS 2 9 Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard?	No comment
Climate resilience 10 Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view. 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?	ASFI supports the AASB's proposal to specify the most ambitious temperature goal as 1.5 degrees. This removes ambiguity and supports comparability of disclosures. ASFI considers that entities should conduct resilience analysis against a second scenario that will support consideration and disclosure, in particular, of physical risks. Providing some specificity in the Standard would aid in clarity while still allowing entities flexibility to select a scenario appropriate to their circumstances. For example, the standard could require the second scenario to be aligned with current warming trajectories.
Cross-industry metric disclosures 12 Do you consider the cross-industry metric disclosures set out in paragraphs 29(b)–29(g)	Yes, the cross-industry metrics contemplated provide useful guidance to reporting entities and useful information to users.

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?	
Cross-industry remuneration disclosures 13 Do you agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1?	Yes. We note that executive remuneration is a key driver of corporate behaviour. Disclosure of an entity's approach to incorporation of climate considerations into remuneration frameworks is relevant and useful to users who are considering a firm's management of climate related risks and opportunities. We support efforts by the AASB to avoid conflicts with existing requirements to disclose executive remuneration.
Definition of greenhouse gases 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?	Yes, ASFI supports the approach to adopt the IFRS S2 definition of greenhouse gases as those gases listed in the Kyoto Protocol. This will support international alignment.
Converting gas into CO2 equivalent 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?	NGER Scheme legislation is designed to support the Australian Government to meet its reporting requirements under UNFCCC reporting rules. There is likely to be a substantial lag in the UNFCCC mandating the use of the latest GWP values (i.e. the IPCC 6th Assessment Report, AR6) for national greenhouse gas reporting, and therefore a lag in the adoption of AR6 GWPs under the NGER Scheme. Reporting entities may prefer to use the latest available science (i.e. AR6) to guide reporting, rather than wait for international and national (governmental) requirements to catch up.
Market-based scope 2 GHG emissions 16 Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2?	No comment
Greenhouse gas emissions measurement methodologies 17 Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1?	No comment
Providing relief relating to Scope 3 GHG emissions 18 Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2?	Yes, ASFI supports the proposal to allow entities to disclose data for the immediately preceding period if current data is not available. Entities should explain why the current data is not available.
Scope 3 GHG emission categories 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	ASFI suggests retaining the requirement to report against Scope 3 GHG categories as identified in IFRS S2, as the GHG Protocol is a generally accepted global standard and supports

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?	the comparability and comprehensibility of disclosures.
Financed emissions 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?	ASFI is concerned about the AASB's proposal to modify the baseline standard in relation to financed emissions disclosures. We note that the disclosure of financed emissions is central to the purpose and value of the mandatory disclosure framework and should not be diluted. It is our understanding that the AASB does not intend to dilute the requirement for an entity to disclose its financed emissions where they are material. However, the approach proposed in the AASB's exposure draft is unclear and requires clarification. To support international alignment and comparability, ASFI's preference is to retain the ISSB baseline provisions unless there is a compelling reason to deviate and we are not convinced there is a compelling reason here.
Superannuation entities 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?	ASFI considers that guidance should be developed to support superannuation entities to apply the requirements of [draft] ASRS 1 and [draft] ASRS 2.
Carbon credits 22 Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2?	No comment
Not-for-profit entities and not-for-profit public sector entities 23-29	No comment
30 Has the AASB Sustainability Reporting Standard-Setting Framework (September 2023) been applied appropriately?	No comment
31 Are there any regulatory/other issues that may affect the implementation of the proposals including any issues relating to NFP entities and public sector entities?	No comment
32 Do these proposals create any auditing or assurance challenges?	No comment
33 Would the proposals result overall in climate-related financial information that is useful to users?	ASFI supports the introduction of climate reporting standards for Australia and considers that this will result in financial information that is useful to users and supports Australia's climate

	goals. However we consider that in some areas the exposure draft standards deviate unnecessarily from the ISSB baseline, as noted above in this submission.[1] This is undesirable as it adds complexity to the disclosure regime especially for firms operating across multiple jurisdictions and impedes comparability and consistency of reporting across different jurisdictions.
34 Are the proposals in the best interest of the Australian economy?	ASFI considers that the introduction of climate reporting standards and mandatory reporting will benefit the Australian economy by supporting better management of climate related risk and opportunity in entities and across the financial system, ensuring Australia maintains alignment with key jurisdictions overseas and remains an attractive destination for international capital.
35 What are the costs and benefits of these proposals.	ASFI has outlined the benefits in response to question 34, above, as well as in our submissions to the Treasury climate reporting framework consultations in 2023.[2]
Further comments	ASFI considers that the development of guidance in particular areas, as well as the provision of training and capability building for disclosing entities, are essential to support the introduction of mandatory climate disclosures. The AASB should be appropriately resourced by Government to play a key role in these tasks. For more detail, please see our submissions to Treasury's consultations on the climate disclosure framework.[3]

[1] i.e., limited adoption of S1, references to standards and inclusion of guidance for industry-based metrics, approach to GWPs, use of the GHG Protocol, financed emissions requirements.

[2] Submission to Treasury Disclosures consultation 1
Submission to Treasury Disclosures consultation 2

[3] Ibid and Submission to Treasury Exposure Draft legislation.