PO Box 1411
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1 March 2024

Dr Keith Kendall
Chair
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PO Box 204
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Dear Keith

Exposure Draft SR1 - Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

I am pleased to make this submission on the Exposure Draft SR1 - Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (EDSR1).

I have over 30 years' experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

I attach my comments on specific questions:

Question 1
Question 10
Question 11
Question 17
Question 18
Question 20
Question 23
Question 25
Question 30
Question 33
Question 34
Question 35

Yours sincerely

David Hardidge
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General Matters for Comment

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)? Please provide reasons to support your view.

I prefer Option 2, for less effort in future updating (when moving from 'climate first' to sustainability reporting) and for digital reporting reasons.

Less effort in future updating

As part of the AASB's 'climate-first' approach, ASRS 1 has been drafted so that it covers only climate-related risks and opportunities.

IFRS S1 *General Requirements for Disclosure of Sustainability related Financial Information*
Converting to:
ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*

And

IFRS S2 *Climate-related Disclosures*
Converting to:
ASRS 2 *Climate-related Financial Disclosures*

The outcome of the drafting is that the requirements of IFRS S1 on governance, strategy, and risk management for sustainability-related risks and opportunities has been drafted in the Australian equivalent ASRS 1 as climate-related risks and opportunities.

Therefore, the text in ASRS 1 and ASRS 2 for governance, strategy and risk management both relate to climate-related risks and opportunities, and essentially duplicate each other.

Option 3

The AASB has chosen to keep the ‘climate-related’ text in ASRS 1, and remove the text in ASRS 2.

For example, under Option 3 the following IFRS S1 text (sustainability-related) is converted to ASRS 1 (climate-related):

26 The objective of ~~sustainability-related~~ <u>climate-related</u> financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee ~~sustainability-related~~ <u>climate-related</u> risks and opportunities.

27 To achieve this objective, an entity shall disclose information about:

- (a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of ~~sustainability-related~~ <u>climate-related</u> risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:
  - (i) how responsibilities for ~~sustainability-related~~ <u>climate-related</u> risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);
  - (ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to ~~sustainability-related~~ <u>climate-related</u> risks and opportunities;
  - (iii) how and how often the body(s) or individual(s) is informed about ~~sustainability-related~~ <u>climate-related</u> risks and opportunities;
  - (iv) how the body(s) or individual(s) takes into account ~~sustainability-related~~ <u>climate-related</u> risks and opportunities when overseeing the entity’s strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and
  - (v) how the body(s) or individual(s) oversees the setting of targets related to ~~sustainability-related~~ <u>climate-related</u> risks and opportunities, and monitors progress towards those targets (see paragraph 51), including whether and how related performance metrics are included in remuneration policies.
- (b) management’s role in the governance processes, controls and procedures used to monitor, manage and oversee ~~sustainability-related~~ <u>climate-related</u> risks and opportunities, including information about:
  - (i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and
  - (ii) whether management uses controls and procedures to support the oversight of ~~sustainability-related~~ <u>climate-related</u> risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

Also under Option 3, the equivalent paragraphs in IFRS S2 (climate-related) is converted to ASRS S2 (duplication removed):

Governance

5 The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes,

controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.

~~6 To achieve this objective, an entity shall disclose information about:~~

~~(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:~~

~~(i) how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);~~

~~(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities;~~

~~(iii) how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;~~

~~(iv) how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and~~

~~(v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraphs 33–36), including whether and how related performance metrics are included in remuneration policies (see paragraph 29(g)).~~

~~(b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:~~

~~(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and~~

~~(ii) whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.~~

~~7. In preparing disclosures to fulfil the requirements in paragraph 6, an entity shall avoid unnecessary duplication in accordance with IFRS S1~~ ~~*General Requirements for*~~ Disclosure of Sustainability-related Financial Information (IFRS S1) (see paragraph ~~B42(b) of IFRS S1). For example, although an entity shall provide the information required by paragraph 6, if oversight of sustainability-related risks and opportunities is managed on an integrated basis, the entity would avoid duplication by providing integrated governance disclosures instead of separate disclosures for each sustainability-related risk and opportunity.~~

6–7 [Deleted by the AASB]

Aus7.1 To achieve the objective in paragraph 5, an entity shall disclose in its general purpose financial reports information set out in paragraph 27 of [draft] ASRS 1.

Implications for the future

When, and I believe it is a case of when, the ‘climate-first’ is changed to sustainability, then ASRS 1 will need to reverse the climate-related changes back to sustainability-related, and reinstate the IFRS S2 deleted paragraphs.

I believe it would be easier if ASRS S2 duplicated (i.e. retain the IFRS S2) text – and include a note reference to ASRS S1 that the disclosures are the same. When the change is made, that means that there will be no changes to ASRS S2 (apart the removal of the cross-reference notes).

This is Option 2.

Following the AASB’s Option 3 approach will involve more confusion to readers of ASRS S2.

Also, every reference that was to ASRS 1, that was originally an ASRS 2 reference except that it was deleted by the AASB, will now have to be changed to ASRS 2. For example ASRS S1 paragraph 27 to ASRS S2 paragraph 6. References include those in audit programs, example sustainability reports, guidance, etc. etc.

Digital financial reporting

Other benefits of Option 2, are that any tagging (in digital reporting), and any tagging in model financial statements will remain with ASRS S2 references – i.e. ASRS 2 paragraphs 5 and 6.

Using Option 3, that means the tags will have to change, for example, from ASRS S1 paragraph 27 to ASRS S2 paragraph 6.

There are many similar changes throughout ASRS S1 and ASRS S2.

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

EDSR1 includes disclosures for scenario analysis. For entities reporting under the Corporation Act, it mandates a scenario analysis linked to the Climate Change Act, i.e. 1.5oC.

I do not agree, as the 1.5oC scenario is unlikely to provide useful information.

Relevant and useful scenarios

While having specific scenarios assists analysis, there is increasing consensus that 1.5oC will not be achieved. Consequently, what is the point of undertaking scenario analysis for a scenario that is not considered likely?

The scenarios chosen should be relevant. Having a consistent, but unrealistic scenario, is not going to provide useful information. Therefore, it is crucial that any scenarios mandated by the standard setter, (and also those chosen by reporters) should take into account the feasibility of those scenarios.

In particular, the 1.5°C target is in relation to the temperature increase since before the industrial revolution, there has already been at least a 1.1°C increase. Given the existing emissions, and expected continued increasing emissions from the largest emitters in the world, limiting a temperature increase to only 1.5°C is expected to only be achievable with massive deindustrialisation of developed economies, and lack of industrialisation in developing countries. Something the general population is likely to (and are starting to) object to.

Scenario analysis – most ambitious temperature goal – transition risks

Also, a 1.5oC scenario appears to be focused on physical risks. It is not clear how transition risks, which include government policy decisions fit in. It is also important to consider that the commonwealth government's legislated emissions target, is simply and literally, just that – a price of legislation that states what the target it. I could not identify any penalties or consequences for not meeting the targets (for example, the government being fined, or the Prime Minister – now or at that point in time - going to gaol). I could not identify what the transition plans are. While the safeguard mechanism helps to some extent, it does not cover all Australian emissions.

The standard should also provide guidance as to whether you factor in possible changes to legislated emission targets – for example a change in government policy (like the commonwealth government did with the L-A-W tax cuts), and the objections in European countries by the general population (particularly farmers) to Net Zero impositions.

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.

I do not agree. Scenarios presented should be relevant. Preparing scenario analysis for unrealistic scenarios is not going to provide useful information,

A common scenario analysis used has been RCP8.5 (which has also been described as the 'fry and die' scenario). This scenario now appears to have far less focus in the IPCC report ("IPCC has essentially abandoned the scam RCP8.5 warming scenario").

> Source:
> Chris Mitchell, The Australian, Journalists blind to facts as climate pantomime rolls on, 13 Nov 2022
> https://www.theaustralian.com.au/business/media/journalists-blind-to-facts-as-climate-pantomime-rolls-on/news-story/914b4dbf2e27720848fa9ac824991a14
> Viewed 12 Dec 2022

While it is appropriate for the AASB not to decide which particular higher temperature scenario should be used, it should provide guidance that using the RCP8.5 scenario is not going to provide relevant or material information.

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.

Scope 3 emissions should not be required in Australia.

However, if the AASB decides to proceeds with mandating the disclosure, no requirement should be imposed until there is a full analysis of the costs and benefits of imposing these disclosures on entities, including the costs imposed on entities in the “value chain” (customers, suppliers, small businesses and the general economy) to provide data to reporting entities.

Recently, the AASB has decided not to proceed with amendments relating to disclosure projects (dividend imputation and executive remuneration), even though there had been requests by users. This was after the AASB applied its standard setting framework and evidence-informed approach.

While users may be asking for this information, an analysis should be made as to whether the scope 3 disclosures are material (i.e. actually affect decision making by users), when it is generally known what industries those entities are in – for example, are scope 3 emissions of a car manufacturer material, when it is already known that the car manufacturer is producing cars that will directly emit CO2 (petrol), or indirectly emit CO2 (purchases of electric vehicles using the grid at night to recharge their vehicles).

The proposals also fail to adequately explain what to “use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort” really means for Scope 3 disclosures. The standard should clarify that this means that any Scope 3 disclosures (if mandated against my views) only needs to be based on the information available in the reporting entity, and specifically it does not require the reporting entity to gather information from the ‘value chain’ (i.e. suppliers and customers and affecting small business and the general economy).

There are also some practical issues with Scope 3 in relation to upfront emissions and their allocation. For example, the construction of EVs requires considerably more emissions that traditional vehicles. Also, building roads, hospitals and schools involves emissions in their upfront construction.

Question 18 - Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2. Please provide reasons to support your view.

As I stated in my response to Question 17, Scope 3 emissions should not be required.

If companies are mandated to disclose those amounts, they should be able to use the preceding period. It is going to be almost impossible for companies to prepare Scope 3 emissions, using data from their value chain if that is required (despite the undue cost or effort relief), within the statutory financial reporting limit (often 2 months in Queensland). It needs to be remembered that the intent is that climate-related reporting is published the same time as the financial reports.

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 I stated in my response to Question 17, Scope 3 emissions should not be required.

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.

There needs to be more research undertaken on the relevance and usefulness of climate-related disclosures for not-for-profit and public sector entities.

For example, public sector entities are involved in providing services to the public such as roads, hospitals and schools. Constructing more, or better roads, hospitals and schools will mean higher emissions.

Having public sector entities reduce services so as to enable the reporting of reduced emissions is contrary to the public benefit.

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

I do not agree with the proposal.

The proposals should be available to all reporting entities and not just restricted to not-for-profit entities.

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?

No, the framework has not been applied appropriately.

Scope 3

As I noted under Question 17, the AASB has not established that the disclosure of Scope 3 amounts is material – i.e. do the disclosures actually affect decision making by users, when it is already known what industries those entities are in.

As an analogy, the AASB has recently decided not to proceed with amendments relating to disclosure projects (dividend imputation and executive remuneration), even though there have been requests by users – after the AASB had applied its evidence-informed approach.

Not-for-profit and public sector entities

As I noted under Question 23, additional research is also needed to determine the relevance of climate-related disclosures for not-for-profit and public sector entities.

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

No, the proposals would not result in useful information.

As I noted under Question 17, I do not believe that Scope 3 disclosures should be mandated.

Under Question 10, I raised issues about lack of usefulness of scenario analysis for scenarios that are not realistic.

I have also raised issues in Question 35 about what to "use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort" really means.

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

No, the proposals re not in the bets interest of the Australian economy.

These include:

- issues I have raised on the costs / benefits of Scope 3 disclosures (Question 17) (including potential costs on the economy by companies requesting formation from their 'value chain' (customers and suppliers)
- the costs of preparing scenario analyses for scenarios that are not realistic, and
- potential costs of having to analyse hundreds of pages of IPCC reports (Question 35)

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.

Under Question 17, I stated that the proposals also fail to adequately explain what to "use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort" really means for Scope 3 disclosures.

The proposals also fail to explain what to "use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort" really means for other requirements of the standards, including identifying climate-related risks and opportunities, and scenario analysis.

Does it mean going through hundreds of pages of IPCC reports because these are publicly available?

Given the lack of clarity, I cannot determine what the expected costs of determining the expected knowledge is. It is also not clear whether there will be comparable information, if the underlying body of knowledge (use of IPCC reports or not, other information) is not defined.