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

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Australian Accounting Standards Board
Australian Government
[via online submission] www.aasb.gov.au

1 March 2024

Dear AASB,

RE: Submission for consultation on the exposure draft of the Australian Sustainability Reporting Standards

Please find below Anthesis (Australia) Pty Ltd.'s (Anthesis) response to the AASB's exposure draft standards for the disclosure of climate-related financial risks and opportunities in Australia. Our comments follow the specific matters for comment in the Consultation Paper.

Who We Are

Anthesis guides clients to sustainable performance. As the world's leading purpose-driven, digitally enabled, science-based activator, we're committed to making a significant contribution to a world that's more resilient and productive. Our mission is clear: working with cities, companies, and organisations to drive sustainable performance through financially driven strategies, technical expertise, and innovative collaboration.

Formerly known as Ndevr Environmental, a leading climate change and sustainability consultancy founded in 2010, we have a demonstrated track record of excellence. Our expert team has helped some of Australia's most well-known organisations strategically reduce emissions, navigate sustainability frameworks and regulation, address human rights issues, and plan for climate-related risks and opportunities.

Anthesis is one of only a few specialist environmental consultancies that has accredited auditors under the NSW Independent Pricing and Regulatory Tribunal (IPART) Energy Savings Scheme, the Victorian Government's Essential Services Commission VEU Scheme and the Clean Energy Regulator's Auditor Panel.

Anthesis is led by Matthew Drum who is one of Australia's most experienced and highly accredited Registered Greenhouse and Energy Auditors (RGEAs) and holds the highest level of greenhouse and energy audit accreditation in Australia, Category 2 RGEA. The wider team has completed many climate-related compliance audits, managed complex projects, and provided specialist consulting services and strategic advice for some of Australia's largest and most well-respected corporations, including expert advisory on climate risk and transition planning.

General Position

Anthesis welcomes the development of the Australian Sustainability Reporting Standards (ASRS), based on the standards released by the International Sustainability Standards Board (ISSB), as an important step in aligning Australia's approach to climate-related assessments and disclosure with global best practice and most recent developments. This transformative step will have a profound impact on how businesses approach the reporting, target setting, and disclosure of climate-related information. Companies and investors stand to benefit immensely from adopting these standards, as they will facilitate more effective measurement and management of both transition and physical climate risks. Moreover, they will contribute to the efficient allocation of capital as the global economy undergoes a transformative shift towards a 1.5 degree aligned future.

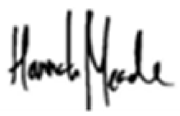
Our key recommendations are to ensure the premise of the ASRS is globally aligned reporting and providing clarity and certainty to reporting entities on their requirements.

We have provided responses to the specific questions on the subsequent pages and in addition recommend that AASB release accompanying guidance to the standards to assist in the preparation and assurance of sustainability reports; and ensure that a mechanism is in place to regularly review and update the ASRS in line with best global practice.

Closing

Anthesis appreciates the opportunity to submit a response to the Treasury's Consultation Paper and welcomes the development of a climate-related disclosure regime in Australia.

Yours sincerely,



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

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)?

Our recommendation is to align with the option that enables future adoption of the ISSB IFRS S1 and S2, while limiting the amount of cross-referencing between two standards to improve the ease of readability and interpretation.

The draft standards as they are laid out currently do not lend themselves to easy interpretation and understanding. Our experience supporting potential reporters has found that the draft standards are challenging even for those that are currently voluntarily reporting and standards that are clear to follow and clear on requirements will impose the least burden on entities. The provision of supplementary guidelines will assist in the user comprehension of the standards.

Entities that do not have material climate-related risks and opportunities

2. 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.

We agree that if an entity determines that there are no material climate related risks or opportunities that could reasonably affect them, that it be required to transparently disclose how that was determined.

As the standards stand currently, there is no prescriptive methodology for determining material climate-related risks and opportunities. While this allows sufficient flexibility for organisations publishing climate disclosures to assess risks and opportunities specific to their industry and circumstances, it is not adequate as a means of concluding that the entity faces no material climate risks and opportunities, and hence as a means of applying any exemption and avoiding disclosures altogether.

Australia’s mandatory climate disclosure standards are being developed at a time when there are increasing calls for both public and private sectors to recognise the pivotal role they play in preventing the worst impacts of climate change. If an entity has determined that climate change does not in fact present any material risks or opportunities, this is essentially a licence to continue business as usual. In this case, it is important for the entity’s investors and broader stakeholders to have sufficient assurance over the process informing this determination and be aware of the resilience of the entity's business, strategy and financial position/performance.

We recommend that entities which conclude that they face no material climate risks or opportunities should be required to demonstrate that they have conducted a robust materiality assessment in line with global best practice, e.g., in line with the Global Reporting Initiative’s standards (GRI 3: Material Topics 2021). This will provide users of general-purpose financial reports to have sufficient confidence over the determination and provide clarity to reporters on expectations on them to come to this conclusion.

Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards

3. Do you agree with the AASB’s views noted in paragraphs BC39–BC41? Please provide reasons to support your view.

We agree that the requirement to apply the SASB Standards should be removed given Australian entities more commonly use the ANZSIC system to classify industries. However, please note our further comments below regarding entities who may choose to continue referring to the SASB Standards.

4. 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.

5. 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.

We agree that the ANZSIC system is most relevant for Australian entities and recommend that referring to other peers within their ANZSIC categories be one of the available options for organisations conducting a peer review of climate-related risks, opportunities, metrics and general climate-related performance. However, we recommend that the ASRS Standards should continue to permit an entity to also refer to and disclose in line with other standards such as the SASB Standards.

Australian entities are not solely isolated to the Australian market, they are participants in the global economy, many of whom are also required to comply to an extent with reporting and disclosure expectations of their other markets. Given the aim of this standard is to align with international best practice standards, it is necessary to consider that numerous Australian entities, particularly larger listed entities to whom the ASRS will apply, already report under international frameworks for sustainability reporting (GRI, SASB).

In our experience, organisations often voluntarily elect to refer to the SASB industry-specific metrics to guide the selection of their own material topics in their broader sustainability strategy and disclosures. The ISSB has also updated the SASB Standards, making them more applicable across jurisdictions. This allows organisations' disclosures to be internationally comparable, which is crucial for investors in the global market. To remove this would signal a step backwards and would in fact increase reporting burden if an entity was required to publish multiple climate and sustainability disclosures without the ability to integrate them to provide a consolidated report of its climate-related activities.

To the extent that the SASB Standards are not compatible with the ANZSIC classification, we recommend allowing entities the option of choosing to incorporate the SASB's industry-specific metrics, which are globally recognised as the benchmark for guiding the identification of material topics for companies in specific industries. This will also provide a pathway for the AASB and Australian regulators to introduce wider sustainability-related disclosure requirements aligned to the international markets going forward.

Disclosing the location of the entity's climate-related financial disclosures

6. 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.

We recommend that an index table should be required. While it is reasonable to expect that entities would be able to apply judgment and provide easily identifiable information, the ability to include information through cross-referencing with other reports may have the potential to hinder readability of these disclosures. An index table would enable reporting entities to ensure they have captured all reporting requirements consistently between reporters, as well as provide easier readability to users of GPFR.

Interim reporting

7. Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.

We support AASB's approach to omit IFRS S1 paragraphs 69 and B48. However, we do encourage the AASB to follow any Commonwealth related legislative or other international developments and adapt the [draft] ASRS standards if required in future. We also propose to include notes in any accompanying guidance for entities that might want to keep internal interim reports to track progress throughout the reporting period.

Scope of [draft] ASRS 2

8. 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.

We agree with the proposal to clarify the scope. This will enable reporting entities to clearly identify how these requirements interact with and/or add to their other annual environmental/ESG requirements. It will also minimise confusion and the possibility of climate disclosures being inconsistent between entities.

Climate resilience

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

See response to Q.11.

10. 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.

We agree that specifying that entities are required to consider at least two scenarios, one of which must be consistent with the most ambitious global temperature goal, is a reasonable approach. Ensuring the use of multiple scenarios allows an entity to analyse the impacts of diverse sets of assumptions that result in different outcomes. This allows the organisation to assess a range of outcomes, thereby developing a better understanding of its potential risk exposures and opportunities.

However, given the current trajectory of emissions, as reflected in the latest climate science such as the AR6 reports from the IPCC, we believe that it would be beneficial to specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis. We believe that this is important as scenario analysis should assess a broad range of risks, from the transition risks of a disruptive, rapid decarbonisation to the extreme physical consequences of continued delay in reducing emissions.

As entities increase their understanding of scenarios, and assessment of climate-related risks and opportunities through the use of scenario analysis, the use of more scenarios is beneficial to allow an entity to explore how different set of assumptions results in different outcomes. We believe that specifying the consideration of more scenarios, would also allow entities to consider the extreme cases (i.e. most ambitious and worst-case scenarios) in addition to a scenario that could be considered more likely.

We believe that this part of the standard should be considered a priority when a review of the standards is complete. Any updates should consult the latest science available as well as the latest commitments to climate policies. Any future adjustments to these specifications on the use of particular scenarios should ensure that it is representative of the latest information and current state of emissions.

Cross-industry metric disclosures

11. 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.

We consider that the cross-industry metric disclosures will provide useful information about an entity's assessment of, and response to, its climate-related risks and opportunities. We note that these metrics align with the cross-industry metrics recommended by the TCFD, and as such, companies with experience disclosing in line with the recommendations of the TCFD will have familiarity with them. In addition, a number of the metrics (for example, paragraphs 29(b)-(d)) will arise from analysis required for disclosure in relation to the entity's Strategy (for example, the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows under paragraph 35). Accordingly, they will not substantially increase the compliance/disclosure burden on entities.

However, we believe that cross-industry metrics should be supplemented by industry-based metrics, as required by IFRS S2. Industry-based metrics better allow users and reporters, to understand and differentiate between the performance of entities within the same industry, in relation to climate-related risks and opportunities. Accordingly, we consider that ASRS 2 should align with IFRS S2 by requiring the disclosure of industry-based metrics under paragraph 32. As for the identification of which industry-based metrics against which to report, we suggest that the AASB review the applicability of newly developed international SASB industry-specific metrics to the Australian context. As noted above under our response to question 6, where SASB Standards are not compatible with the ANZSIC classification, we recommend allowing entities the option of choosing to incorporate the SASB's industry-specific metrics, which are globally recognised as the benchmark for guiding the identification of material topics for companies in specific industries.

Cross-industry remuneration disclosure

12. 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.

Yes, we agree with the proposed requirements. This metric has proven to be one of the less reported ones in companies' voluntary disclosures in line with the TCFD Recommendations. However, with the critical need for urgent climate action, it is an important metric for users of GPFR to understand whether reporting entities are considering climate change to be a key responsibility for executive members, and an existential consideration for businesses.

Definition of greenhouse gases

13. 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.

We agree with the AASB's proposal to use the definition of greenhouse gases from IFRS S2 without any modification. NF3 emissions are immaterial in Australia due to industries emitting these greenhouse gasses being non-existent. We also support AASB's general goal to prioritise international alignment which is reflected in this response.

Converting greenhouse gases into a CO2 equivalent value

14. 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.

We do agree with the AASB's proposal to require Australian entities to convert Greenhouse gases using GWP in line with reporting requirements under NGER scheme. Enabling entities to use the National Greenhouse Account (NGA) Factors, a reputable, government published data source published and updated on a regular basis by the Department of Climate Change, Energy, the Environment and Water (DCCEEW), is ideal. NGA Factors are published using CO2e as the reporting measure which makes it easy for reporters to use.

However, it is noted that this may place a burden on non-NGERs reporting entities who might be reporting in line with current global best practice.

Market-based Scope 2 GHG emissions

15. 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.

We note that best practice going forward is dual reporting of scope 2 emissions using market and location-based methods. We do agree with the AASB's proposal to stage this, however, would recommend dual reporting be mandatory immediately. This will require ongoing accurate publishing of a residual mix factor for Australian grids. An added complexity is determining if state based residual mix factors should be determined to enable more accurate reporting.

GHG emission measurement methodologies

16. Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view.

We agree with the proposed hierarchy of methodologies. Methodologies outlined in the NGER Methodology Determination should be applied to ensure consistency across reporting across companies. However, for those entities who currently do not report under NGERs, there may be situations in which the data to report in compliance with NGERs is not feasible to collect and alignment alignment with the GHG protocol and global reporting will be more appropriate.

Providing relief relating to Scope 3 GHG emissions

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

We appreciate that Scope 3 data collation and emissions estimates can be onerous, and complex, and we understand the desire to provide relief to reporters. Our view is that this is best provided through the proposed delayed onset of Scope 3 reporting and assurance, and recommend that entities report with the most recent years data for clarity and consistency, as best feasible.

This aligns with draft ASRS 1, paragraphs 45 to 53, and ASRS 2, paragraphs 35, whereby an entity shall disclose information about its performance against each climate-related target and an analysis of trend or changes in the entity's performance. Scope 3 GHG emissions can make up a large portion of an entity's total emissions and science-based target frameworks often require an entity to set targets for those emissions. Tracking performance on an annual basis is vital for users of sustainability reports to understand an entity's performance against those targets and provide early intervention in case an entity is not aligned with their targets.

We recommend that if this proposal is included then additional guidance on the definition of *reasonable and supportable data* be provided in supplementary guidelines to provide more clarity to reporting entities and the assurance process.

Scope 3 GHG emission categories

18. 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.

To keep with the AASB's policy intent of international alignment, we recommend categorising the source of Scope 3 GHG emissions in line with the GHG Protocol Standards. We do understand that the terminology and categorisation is currently under review by the GHG Protocol, but international alignment and consistency would potentially outweigh the effects of a change in categories, should that be the outcome of that review. An alternative approach is to include the requirement to align an entity's disclosure with the latest version of the relevant and applicable GHG Protocol standard.

As practitioners, we understand that the GHG Protocol is the most well-known and used GHG emissions standard and alignment would support industry best practice. It would also ensure consistency of boundary, and make sure all necessary emissions sources are identified and captured which, in turn, helps entities understand most material emissions sources that they then set emission reduction targets for.

Without referencing a standard such as the GHG Protocol, this will further complicate audit requirements. Auditors require a standard to audit against.

Another factor to consider are Group 3 entities where an estimated 90% of those entities have not started calculating GHG emissions. To make it easier for these entities to apply the ASRS standard, consistency in the categorisation of Scope 3 emissions will provide greater clarity.

Financed emissions

19. 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.

We do not agree with AASB's proposal to require an organisation that is either an asset manager, commercial bank or insurance company to consider the applicability of the disclosure related to their financed emissions and propose to require such disclosure and propose to align closer with paragraph B59 of IFRS S2 which requires those organisations to disclose financed emissions.

Analysis shows that Financed emissions can make up more than 90% of such an organisation's total Scope 1, 2 and 3 emissions. Omitting such a material emissions source would be against the very nature of sustainability reporting.

Another reason is that sustainability reporting is in place for users of such reports, which in turn are investors and banks. By making the disclosure of emissions relating to an organisation's investment and lending activities optional, would be against the very nature of sustainability reporting.

The concern is also that by making the disclosure of financed emissions optional, many major investors and banks could potentially choose to not disclose which could lead to a false interpretation of those investors' and banks' impact on climate.

We understand that some stakeholders, including institutional investors, have raised concern that calculating financed emissions is a challenging task where lack of data is an issue. They have also raised concerns that the users of their sustainability reports do not understand the nature of the reports and how to interpret those. We have, however, seen the draft legislation, as proposed by Treasury, which proposes for those institutions to prepare a short version of a sustainability report that can be easily interpreted by the users of those reports. We propose the AASB to consider this in their approach when updating the draft ASRS standards.

Further guidance would help organisations determine how to respond to this requirement and we recommend for the AASB to develop such guidance in collaboration with effected organisations and make reference to guidelines such as the Partnership for Carbon Accounting Financials (PCAF).

Superannuation entities

20. 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.

Similar to our response to Question 20 "Financed emissions", we do see it critical that Superannuation entities comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2. Superannuation entities have a vital role to play in providing capital for the transition to a sustainable economy and an economy that capitalises on the opportunities this transition brings. Superannuation entities also have fiduciary duties in guiding their investees to comply with sustainability reporting. For these reasons, a Superannuation entity will need to follow all proposed requirements to determine how climate-risks effect its economic sustainability and that of its members, regardless of whether that is mandated. We have seen some large Superannuation entities already being well prepared and taken necessary steps in addressing many of the requirements set forth in the draft standards.

General matters for comment

There are two additional comments not covered in the questionnaire that we would like to bring to the AASB's attention as we believe they will add greatly to the adoption of the [draft] ASRS and their adequacy.

Firstly, we advise the AASB to release accompanying guidance to both standards [draft] ASRS 1 and [draft] ASRS 2 to assist all stakeholders, including but not limited to reporters, practitioners or auditors, in preparing sustainability reports. Treasury's policy impact analysis in relation to its [draft] legislation for climate-related financial disclosures has shown that only 67.5% of the ASX200 companies voluntarily report against, at least, parts of the Taskforce for Climate-related Financial Disclosure (TCFD) framework where the portion of ASX companies outside the ASX200 and any other proprietary companies would potentially be far lower. That means that there is a lack of understanding amongst reporters of how to adequately respond to all requirements set forth in the [draft] ASRS standards, let alone finding ways to incorporate these responses into their other annual reporting regime.

The Accompanying Guidance on Climate-related Disclosures to the IFRS S2 standard (IFRS guidance) from June 2023 provides an example of how such guidance can look and we encourage the AASB to use the IFRS guidance as a basis for the development of its own guidance. One concern we are hearing from clients is the lack of understanding on scenario analysis when it comes to sustainability or climate-related topics; a concern that is not covered in the IFRS guidance and we suggest that there shall be better guidance available on how to conduct a qualitative and quantitative scenario analysis that would be in accordance with the [draft] ASRS standards. Another topic that might lack adequate understanding is Materiality and how that differs between financial statements and sustainability. We encourage the AASB to further enhance guidance on the topic of Materiality.

The second aspect not covered in the questionnaire is how the AASB foresees updating the [draft] ASRS standards in future. As noted during the engagement process with the AASB, the speed in which information on sustainability-related topics and disclosure standards are developing is great and we encourage the AASB to review the standards on an ongoing basis from early on after releasing the final version of the [draft] ASRS standards. We understand the need for consistency, especially when thinking about the phased rollout of climate-related disclosure mandates amongst different groups as set out in the [draft] legislation by Treasury, but it is also critical to keep standards aligned with international standards and best practices to ensure adequacy.