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INVEST WITH CONFIDENCE

February 27, 2024

Re: Consultation on the Australian Sustainability Reporting Standards, Exposure Draft SR1

T. Rowe Price[1] welcomes the opportunity to submit our firm's comments on the ***Sustainability Reporting Exposure Draft SR1, Disclosure of Climate-related Financial Information*** published by the Australian Accounting Standards Board (AASB). We support the Australian's government intent to introduce climate-related financial reporting for companies and financial institutions, but we encourage closer alignment with the International Sustainability Standards Board (ISSB) standards, subject to adjustments in timing and further assistance with Scope 3 greenhouse gas (GHG) emissions reporting.

Our support for ISSB is based on its emphasis on providing environmental and social disclosures centered on financial materiality, which also includes applying an industry-specific lens to disclosures. We believe that our clients benefit from the provision of sustainability disclosures, as they help us quantify environmental and social risks and opportunities. Additionally, qualitative disclosures aid our analysis of the management team's management of risks and strategic approach in these areas.

Relevance of GHG reporting to our investment process. As a global investment management organization , we generally support regulation that facilitates disclosure of scope 1, 2 & 3 GHG emissions, as we believe climate change is a financially material factor impacting many of the sectors in which we invest. For several years, T. Rowe Price has advocated that our investee companies adopt Sustainability Accounting Standards Board (SASB) and Taskforce on Climate-related Financial Disclosures (TCFD) reporting standards. Given the ISSB's incorporation of these two standards in its framework, we are now recommending that our investee companies look to adopting the ISSB standards, IFRS S1 and IFRS S2, in the future.

Sufficient time for adoption. We encourage the Australian government to provide a sufficient transition period for the standards' adoption. The IFRS S1 and S2 standards have just become effective in January 2024. We anticipate that the most ambitious companies will use these ISSB standards for year-end 2024 reports, issued in 2025, but that most of our investee companies will require a longer period of time to transition. During this period of transition, we expect that many of our investee companies will continue to report using SASB and TCFD standards. Many companies have invested in the infrastructure to prepare SASB and/or TCFD reporting, and we believe that forcing them to change reporting standards in a short period of time may be an undue burden. We also recognize that some multinational companies may become subject to new sustainability reporting requirements in a number of jurisdictions, thereby increasing compliance burdens over the same period of time.

In our view, large capitalization companies should not be required to make ISSB-type disclosures any earlier than 2026 (capturing year-end 2025 disclosures); allowing a longer transition period for companies already using SASB and TCFD disclosures could be reasonable. Additionally, smaller capitalization companies should be given a longer transition period than their larger peers.

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[1] T. Rowe Price is a global investment management organization, serving a broad array of clients, from individual savers to large institutions and funds. Headquartered in the United States, T. Rowe Price has offices in 17 jurisdictions around the world, including in Australia, with global assets under management of $1.45 trillion as of January 31, 2024.

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Greenhouse gas emissions – timing of scope 1-2 GHG reporting. We recommend that publicly listed corporate issuers should disclose scope 1-2 GHG emissions at the same time as, or relatively close to, their financial results. In our experience, publicly listed company disclosure of scope 1-2 GHG emissions data is fairly good; however, it is not ideal that reporting of GHG emissions often occurs much later than financial reporting. We believe that our assessment of environmental and social factors affecting our investments would strongly benefit from publicly listed corporate issuers disclosing this data either at the same time or relatively close to their financial results.

Our current position on scope 3 GHG emissions reporting. We strongly encourage all issuers to report their scope 3 GHG emissions that are most material to their business. We recognize that reporting scope 3 GHG emissions adds much more complication than reporting scope 1 and 2 GHG emissions, with dependencies on third-party data. For some industries, estimating methodologies are still evolving. Given these issues, we do not think it is appropriate for us to unilaterally expect all issuers to report a full suite of scope 3 emissions; however, we do expect that the landscape and our expectations will evolve over the next 12–36 months. In the interim, we strongly encourage issuers to report the scope 3 GHG emissions categories most material to their business.

Phased regulatory approach – focusing on material Scope 3 GHG emissions. We look to regulators to facilitate the disclosure of material scope 3 GHG emissions (the approach adopted by the ISSB) in their respective jurisdictions, which would significantly close the "information gap" on measuring scope 3 emissions at the portfolio level. (See Appendix) At a company level, scope 3 GHG emissions tend to be concentrated within one to five categories. Therefore, if a company provides disclosure on its largest scope 3 GHG emissions categories, the remaining portion of estimated scope 3 GHG emissions will not be that significant, meaning investors can have a much higher confidence level in the data set.

Need for regulatory guidance for corporate issuers on estimating methodologies for Scope 3 GHG emissions. Based on our engagement with corporate issuers on the topic of GHG emissions disclosure, we believe that regulatory support (coordinated globally) is needed for any meaningful change in reporting to occur. In our view, the key problem sits with scope 3 GHG emissions where only a minority of the investment universe reports the scope 3 GHG emissions categories that are financially material to their business, as discussed above.

Based on both our discussions with our investee companies and experience as an issuer ourselves, we know that many companies are struggling with the estimation methodologies and data sourcing for the various categories of scope 3 GHG emissions. This is in part due to the nascency of estimating methodologies and systems used to track sources of scope 3 GHG emissions, and, often, the issuer's chief concern is one of legal liability. We believe that regulators could ease this concern by providing safe harbor or guidance to publicly listed corporate issuers on the use of estimating methodologies for scope 3 GHG emissions.

In the absence of company reported data, investors have become reliant on estimated scope 3 GHG emissions provided by third-party vendors such as MSCI, Sustainalytics, Bloomberg, and ISS, among others. These estimates are done on a best-efforts basis, but the vendors in almost all instances do not have access to key inputs from the companies which can be meaningful determinants of a company's emissions profile. This means we have less confidence in this estimated data.

Need for closer alignment of the Australian standards with the ISSB standards. We encourage the AASB to consider a closer alignment to the ISSB standards to enable asset managers, like T. Rowe Price, to compare the data on the Australian companies with companies from other jurisdictions. More specifically, we look for a closer alignment on the following elements:

- The proposed standards are limited to climate, while the ISSB standards also cover sustainability-related matters. While we understand the government's rationale for focusing on climate-first, we encourage the Australian government to also facilitate sustainability-related reporting.

- The proposed standards do not reference the SASB standards or the industry-based guidance accompanying IFRS S2, explaining that the content has not been comprehensively internationalized by the ISSB and has not undergone the AASB's own due diligence process. In December 2023, the ISSB published amendments to the SASB standards to enhance their international applicability. We encourage the AASB to conduct due diligence on this recent internationalization of the SASB standards as part of the current consultation.

- Proposed ASRS 2 does not require an entity to categorize the sources of Scope 3 GHG emissions in accordance with the categories of the GHG Protocol Standards (which IFRS S2 does); rather the AASB proposes to add the Scope 3 GHG emission categories as examples of categories that an entity could consider when disclosing the sources of its Scope 3 GHG emissions. This approach can result in lack of comparability and interoperability with requirements in other jurisdictions that base their measurement and disclosure framework on the GHG Protocol.

- Proposed ASRS S2 does not require financed emissions disclosure for entities in the asset management, commercial banking and/or insurance industries (which IFRS S2 does), instead simply requiring entities to consider financed emissions disclosure. This approach may reduce the usefulness and comparability of disclosures relating to climate-related transition risk in financial institutions.

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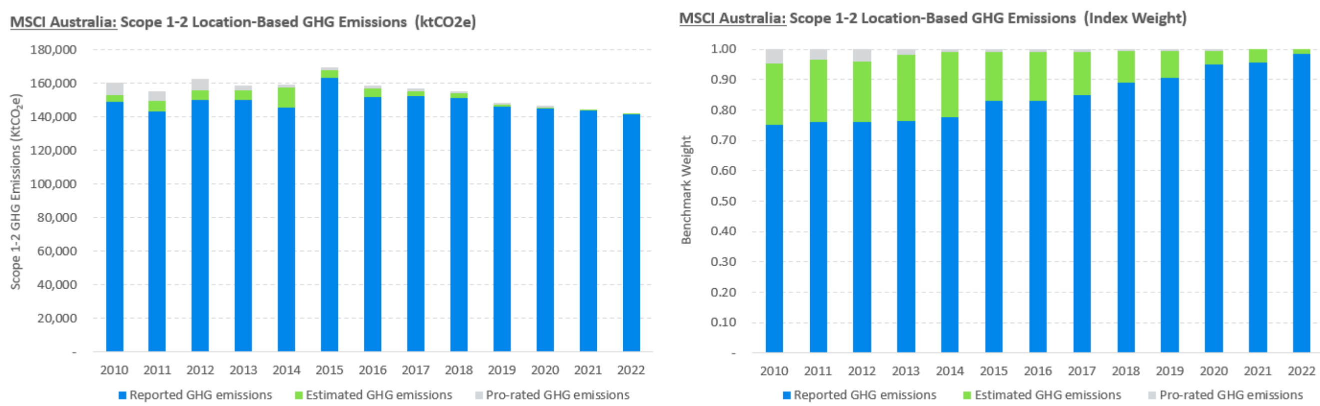
Appendix: The Current State of GHG Emissions Reporting

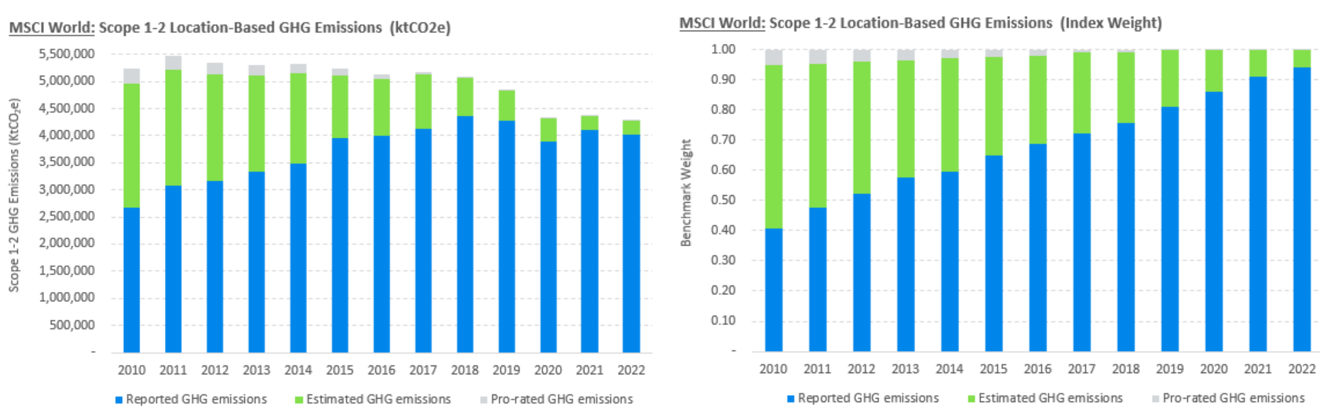
As we look at our global investment universe, we see that disclosure of scope 1-2 GHG emissions has become more ubiquitous (at least with large cap issuers), but disclosure of scope 3 GHG emissions remains patchy with only a minimal number of issuers choosing to report across all 15 categories of scope 3 GHG emissions. As figures 1 and 2 illustrate, the vast majority of scope 1-2 GHG emissions across the MSCI Australia Index and MSCI World Index are company-reported making the data set viable for investment purposes.

Figure 1: Scope 1-2 Greenhouse Gas Emissions for the MSCI Australia Index (2010-2022)



Note: Data reflect historical scope 1-2 GHG emissions for benchmark constituents as of 31 December 2023.
Source: Bloomberg, T. Rowe Price

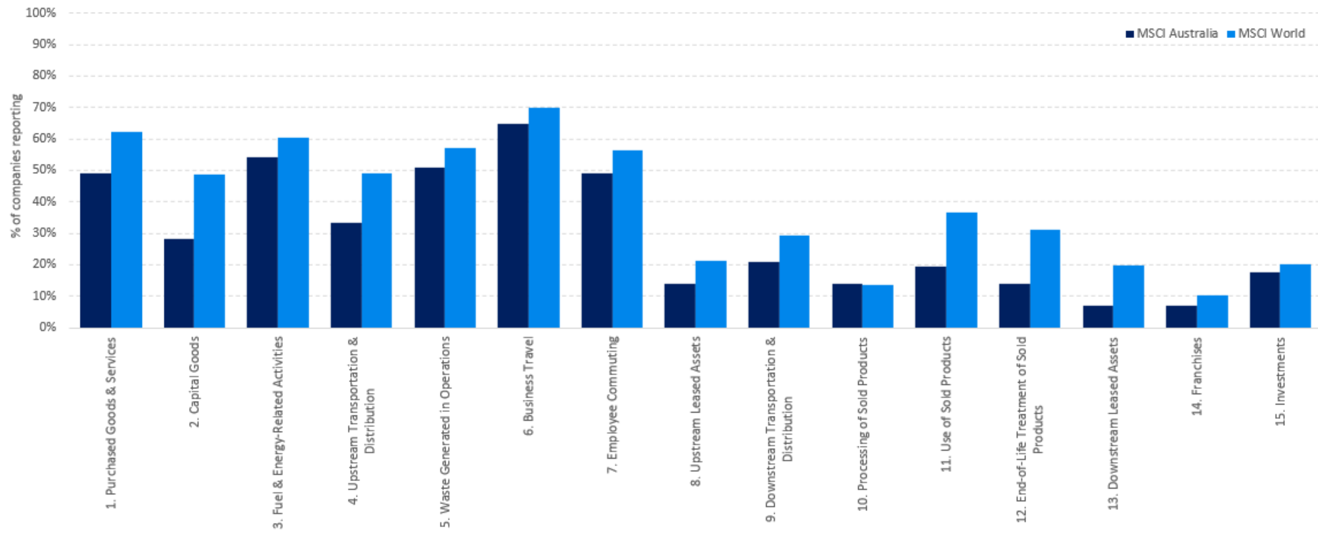
Figure 2: Scope 1-2 Greenhouse Gas Emissions for the MSCI World Index (2010-2022)



Note: Data reflect historical scope 1-2 GHG emissions for benchmark constituents as of 31 December 2023.
Source: Bloomberg, T. Rowe Price

Unfortunately, the dataset for scope 3 GHG emissions is so underdeveloped that we do not have sufficient information to demonstrate the same emissions disclosure profile as we do in figures 1 and 2 for scope 1-2 GHG emissions. Instead, figure 3 indicates the percent of companies reporting in each of the 15 scope 3 GHG emissions categories.

<u>Figure 3:</u> Percent of Companies Reporting Scope 3 Greenhouse Gas Emissions by Category



Note: Data reflect 2022 GHG emissions for benchmark constituents as of 31 December 2023.
Source: Bloomberg, T. Rowe Price