

BCA

Business Council of Australia

# Australian Sustainability Reporting Standards: Disclosure of Climate- related Financial Information

BCA Submission

March 2024

# Overview

The Business Council of Australia (BCA) welcomes the opportunity to provide views on the Australian Accounting Standards Board's (AASB) Exposure Draft — Australian Sustainability Reporting Standards, Disclosure of Climate-related Financial Information.

BCA members support continuous improvement in the quality of climate related financial disclosures to facilitate investment decision making that has due regard for climate related risks and opportunities.

It is the BCA's strong contention that the primary purpose of these new requirements should be to help investors form the most rigorous view possible of climate risks and opportunities as they pertain to investments in corporations.

We also believe that an appropriately calibrated 'training wheels' approach is critical to ensuring a successful implementation of the new requirements that serves both users and preparers of disclosures. There is nothing to be gained for users or preparers of disclosures if the new requirements are poorly implemented in Australia.

Imposing obligations and creating legal exposures under the Corporations Act requires certainty about the detailed standards that will apply, sufficient time for investment in systems and auditing capabilities to develop appropriate liability safe harbours and transition periods.

We refer the AASB to three submissions BCA made to the Treasury in the course of developing the policy framework for mandatory disclosure of climate-related financial information in Australia.

1. Submission to the Climate-related Financial Disclosure Consultation Paper — 22 February 2023  
[https://www.bca.com.au/submission\\_to\\_the\\_climate\\_related\\_financial\\_disclosure\\_consultation\\_paper](https://www.bca.com.au/submission_to_the_climate_related_financial_disclosure_consultation_paper)
2. BCA Submission on Climate-related Financial Disclosure Consultation paper — 27 July 2023  
[https://www.bca.com.au/bca\\_submission\\_on\\_climate\\_related\\_financial\\_disclosure\\_consultation\\_paper](https://www.bca.com.au/bca_submission_on_climate_related_financial_disclosure_consultation_paper)
3. Submission to the Climate-related financial disclosure: exposure draft legislation — 26 February 2024  
[https://www.bca.com.au/submission\\_to\\_the\\_climate\\_related\\_financial\\_disclosure\\_exposure\\_draft\\_legislation](https://www.bca.com.au/submission_to_the_climate_related_financial_disclosure_exposure_draft_legislation)

BCA's comments on the AASB's specific consultation questions regarding Australian Standards are provided in the table below.

	PRESENTING THE CORE CONTENT OF IFRS S1 IN [DRAFT] ASRS STANDARDS	BCA COMMENTS AND POSITIONS
1	<p>In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:</p> <p>(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;</p> <p>(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;</p> <p>(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</p> <p>(d) another presentation approach (please provide details of that presentation method)? Please provide reasons to support your view.</p>	<p>BCA members had mixed views regarding the relative merits of Option 1, Option 2 and Option 3.</p>
	<p><b>REPLACING DUPLICATED CONTENT WITH REFERENCES TO THE CONCEPTUAL FRAMEWORKS</b></p>	
2	<p>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 ED SR1 8 INTRODUCTION 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.</p>	<p>BCA agrees with this approach and suggests providing links to where these ‘frameworks’ are published for ease of reference by entities.</p>
	<p><b>ENTITIES THAT DO NOT HAVE MATERIAL CLIMATE-RELATED RISKS AND OPPORTUNITIES</b></p>	
3	<p>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</p>	<p>Some BCA members agreed with the proposed requirements (arguing that users needed access to this information to understand how conclusions about materiality were reached by entities).</p> <p>Some BCA members disagreed with the proposed requirements (arguing that this information is superfluous and not required to be provided by entities in financial reporting more generally).</p>
	<p><b>MODIFICATIONS TO THE BASELINE OF IFRS S1 FOR [DRAFT] ASRS 1</b></p>	
	<p><b>Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards</b></p>	
4	<p>Do you agree with the AASB’s views noted in paragraphs BC39–BC41? Please provide reasons to support your view.</p>	<p>BCA agrees that the requirement in the International Standards (IFRS S1 and IFRS S2) for an entity to consider SASB Standards for industry-based guidance <u>should not</u> be included in the Australian Standards (ASR1 and ASR2).</p>
5	<p>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</p>	<p>BCA agrees that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics</p>

	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.	associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC.  Guidance should also be provided by the AASB to assist entities with the above.
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.	BCA agrees that the Australian Standards should expressly permit entities to also provide voluntary disclosures based on other relevant frameworks or pronouncements, provided they do not obscure or conflict with required disclosures.  To the extent that Australian Standards refer to any specific “relevant frameworks or pronouncements” these should be indicative examples (without explicitly implicitly giving weight to any particular frameworks or pronouncements).
<b>Disclosing the location of the entity’s climate-related financial disclosures</b>		
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.	BCA agrees with proposed requirement that entities apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures.  This affords entities a degree of flexibility when integrating climate disclosures within their wider annual report which is in the best interests of users of this information.
<b>Interim reporting</b>		
8	Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.	BCA agrees with the deletion of the requirement for interim reporting in the Australian Standards to avoid an unnecessary, additional reporting burden on entities.
<b>MODIFICATIONS TO THE BASELINE OF IFRS S2 FOR [DRAFT] ASRS 2</b>		
<b>Scope of [draft] ASRS 2</b>		
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.	BCA agrees with the proposal to limit the scope of the Australian Standards to entities’ risks and opportunities in relation to <u>climate change</u> (as distinct from other climate related risks and opportunities).
<b>Climate resilience</b>		
10	Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view.	BCA agrees with the proposal for entities to disclose their climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the Climate Change Act 2022.
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.	BCA agrees 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.  Entities need to be able to select the upper scenario which they consider best reflects the risks and opportunities facing their industry, their value chain and their specific assets.

		This would also facilitate interoperability and comparability with other jurisdictions which generally approach this in the same way.
	<b>Cross-industry metric disclosures (paragraphs 29(b)–29(g))</b>	
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.	BCA members have mixed views on the use of cross-industry metric disclosures as drafted in the proposed Australian Standards.
	<b>Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)</b>	
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.	BCA members have mixed views on the use of cross-industry remuneration disclosures as drafted in the proposed Australian Standards.
	<b>GREENHOUSE GAS (GHG) EMISSIONS (PARAGRAPHS AUS31.1 AND B19AUSB63.1 AND AUSTRALIAN APPLICATION GUIDANCE)</b>	
	<b>Definition of greenhouse gases</b>	
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.	BCA members have mixed views on the AASB’s proposal to incorporate in the Australian Standards (ASRS 2) the definition of greenhouse gases from the International Standards (IFRS S2) without any modification.
	<b>Converting greenhouse gases into a CO2 equivalent value</b>	
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.	BCA members have mixed views on the AASB’s view that Australian entities should be required to convert greenhouse gases using GWP values in line with the reporting requirements under NGER Scheme legislation.
	<b>Market-based Scope 2 GHG emissions</b>	
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.	BCA agrees with the proposal to require disclosure of location-based scope 2 GHG emissions <u>and</u> to phase in the requirement to disclose market-based scope 2 GHG emissions.
	<b>GHG emission measurement methodologies</b>	
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.	BCA considers that entities <u>should be</u> able to choose whether they disclose their GHG emissions by applying relevant methodologies set out in the NGER Scheme <u>or</u> a methodology consistent with the GHG Protocol Standard (both of which are of an acceptably high standard).
18	<b>Providing relief relating to Scope 3 GHG emissions</b>	
	Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2? Please provide reasons to support your view.	BCA agrees with the proposal to align its scope 3 GHG emissions disclosures with the period of its related financial statements unless reasonable and supportable data related to that period is not available without undue cost or effort.  In the event that reasonable and supportable data is not available without undue cost or effort, entities should be allowed to use scope 3 GHG data for the immediately preceding reporting period.
19	<b>Scope 3 GHG emission categories</b>	

	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.	Some BCA members agreed with AASB's proposed approach, arguing that it provides more flexibility and takes account of the fact that other internationally accepted methodologies are available (such as GHG accounting methodology of ISO 14064- 1 permitted under the European Union's European Sustainability Reporting Standard).  Some BCA members disagreed with AASB's proposed approach, arguing that the Australian Standards should <u>require</u> adoption of the GHG Protocol 15 categories (only) to promote consistency and comparability of data across entities.
20	<b>Financed emissions</b> 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, AusB611 and AusB63.1, instead of explicitly requiring an entity to disclose that information? Please provide reasons to support your view.	No comment.
	<b>Superannuation entities</b>	
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.	No comment.
22	<b>Carbon credits</b> Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2? Please provide reasons to support your view.	BCA agrees with the AASB's proposal to modify the definition of 'carbon credit' in the Australian Standards.  The attributes of carbon credits such as third-party verification, nature-based versus technological, reduction versus removal, and permanence go to the environmental and transitional quality of different sources of credits which means users of this information can make proper assessments regarding entities' opportunities and risks (when using credits for achieving their emissions targets).
	<b>QUESTIONS SPECIFIC TO NOT-FOR-PROFIT ENTITIES</b>	
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.	BCA agrees that the objective of a not-for-profit entity should be to disclose information about climate-related risks and opportunities that could reasonably be expected to affect its cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.
24	Is there additional guidance that you consider would be helpful in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures? If so, please provide details of that guidance and explain why you think it would be helpful.	No comment.

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.	BCA agrees with the proposal that a not-for-profit entity need <u>not</u> undertake an exhaustive search for information to identify climate-related risk and opportunities that could reasonably be expected to affect its prospects. The use of reasonable and supportable information available without undue cost or effort should be sufficient for compliance.
26	Do you agree with the AASB's view noted in paragraphs BC31–BC33 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view.	BCA agrees with the proposal that a not-for-profit entity use all reasonable and supportable information available at the reporting date without undue cost or effort in preparing material climate-related financial information required by the Australian Standards.
27	If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related financial disclosure requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful.	No comment.
<b>QUESTIONS SPECIFIC TO NOT-FOR-PROFIT PUBLIC SECTOR ENTITIES</b>		
28	Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to: (a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and (b) better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030? In your response, please specify: (a) which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful; and (b) which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view. (i) Whole of Government; (ii) General Government Sector; (iii) Government departments; (iv) Government entities; and (v) Local governments.	No comment.
29	Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view.	No comment.
<b>GENERAL MATTERS FOR COMMENT</b>		

30	Has the AASB Sustainability Reporting Standard-Setting Framework (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?	No comment.
31	Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any issues relating to: (a) not-for-profit entities; and (b) public sector entities?	No comment.
32	Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?	<p>The implementation of the Australian Standards will create significant auditing and assurance challenges which need to be anticipated and ultimately addressed.</p> <ul style="list-style-type: none"> <li>• General lack of resources (both within the assurance firms and broader industry) and depth of knowledge of the NGER Scheme framework.</li> <li>• Compression of timelines (where companies may have had up to 31 October to undertake assurance of their GHG emissions data) will place further strain on the limited pool of experts.</li> <li>• The apparent requirement to dual report emissions based on operational control and equity-share could result in wasteful duplication of reporting.</li> <li>• Timing and access to data outside the operational control of the reporting entity will be challenging and require longer lead times.</li> <li>• Providing assurance/ limited assurance over forward looking, highly uncertain financial information.</li> <li>• Providing assurance/ limited assurance over scope 3 emissions is generally difficult due to a lack of information.</li> </ul>
33	Would the proposals result overall in climate-related financial information that is useful to users?	<p>At COP 28 400 organisations from 64 jurisdictions committed to advancing the adoption of International Sustainability Standards Board (ISSB) standards.</p> <p>Close alignment of the Australian Standards with ISSB standards is critical so that i) users can make valid comparisons across different corporations in different jurisdictions, and ii) compliance costs are minimised for covered entities.</p>
34	Are the proposals in the best interests of the Australian economy?	<p>An appropriately calibrated ‘training wheels’ approach is critical to ensuring a successful implementation of the new requirements that serves both users and preparers of disclosures (and the Australian economy more generally).</p> <p>There is nothing to be gained for users or preparers of disclosures (and the Australian economy more generally) if the new requirements are poorly implemented in Australia.</p>
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.	No comment.



The image features a black background with a white grid consisting of a vertical line on the right and a horizontal line near the top. A white curved line starts from the bottom left and curves towards the top right. Two bright yellow rectangular blocks are present: one in the bottom left corner and another on the right side, containing the BCA logo and text.

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