

Accountants and Actuaries Liaison Committee

27 February 2024

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204, Collins Street West
Melbourne, Victoria 8007

Lodged online via the "Current Projects – Open for Comment" page of the AASB website

Dear Dr Kendall

AASB ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*

Thank you for the opportunity to comment on the proposals outlined in AASB ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (ED SR1).

The objective of the Accountants and Actuaries Liaison Committee (AALC) is to provide a forum for communication between the professions on areas that are of joint interest.

The comments in this submission reflect the personal professional views of AALC members and not all members necessarily share each of the views expressed. The views expressed do not necessarily reflect the views of the organisations for which AALC members work.

Overall comments and recommendations

- The AALC considers the Australian requirements should, in principle, adhere as closely as feasible to the ISSB Standards to help facilitate global convergence and the potential need to state compliance with global standards.
- We acknowledge the practical implementation challenges posed by some of the ISSB Standards and that, in many instances, the AASB's proposed divergence from those Standards might facilitate a less onerous reporting burden on captured entities. Notwithstanding our support of those benefits in the near term, we posit that a more practicable longer-term solution could be for a phased implementation of some of the more challenging disclosures.
- We recommend the AASB explicitly exclude insurance-associated emissions from the scope of the Standards on climate-related disclosures to remove uncertainty and align with the current position of the ISSB. We note that application to insurance-associated emissions could be voluntary until the relevant models are more fully developed, when further consideration could be given to whether application should become mandatory.

The Attachment to this letter outlines the AALC's responses to the specific questions in ED SR1. Should the AASB have any questions or would like to meet to discuss the AALC's comments further, please contact me at james.p.richardson@au.pwc.com.

Yours sincerely



James Richardson
Chair

**Attachment feedback on AASB ED SR1 Australian Sustainability Reporting Standards –
Disclosure of Climate-related Financial Information**

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

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.

We generally support Option 3, which is the basis for the Exposure Draft. However, we also note that either Option 2 or Option 3 would facilitate any future amendments to core content.

Replacing duplicated content with references to the Conceptual Frameworks

Question 2: 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 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:

We agree with the AASB's approach to make references to its *Conceptual Framework for Financial Reporting*.

We support the Conceptual Framework being non-mandatory, consistent with 'conventional' financial reporting.

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

Question 3: 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, where an entity assesses climate-related risks and opportunities as not material, it should be required to disclose that fact and provide an explanation. We consider this requirement relevant to a climate-related disclosure Standard because:

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- it would help ensure entities have given the issue full consideration; and
- ensure those entities document their rationale.

We note that the proposal is not consistent with the approach taken with 'conventional' financial reporting – for example, Accounting Standards do not require entities that have no leases to explain why they don't apply IFRS 16 *Leases*. Accordingly, we consider it would be useful for the AASB to note in its Basis for Conclusions to the finalised Standard that this is not a precedent for financial reporting requirements more generally.

Modifications to the baseline of IFRS S1 for [draft] ASRS 1

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

Question 4: Do you agree with the AASB's views noted in paragraphs BC39–BC41? Please provide reasons to support your view.

We support industry-based metrics initially not being mandatory and note the AASB proposals reduce the burden that entities would otherwise face, which we consider appropriate in the early stages of application.

In the medium term, we support the adoption of industry metrics aligned to ISSB, for global consistency.

We would not support the development of an Australian version of industry metrics as we consider that global convergence needs to be achieved.

We understand the SASB Standards may not currently be fit for purpose and note that the ISSB has committed to having them 'internationalised'. Once that process is advanced, the SASB Standards may be suitable for use in Australia. Accordingly, we favour a deferral of the use of SASB Standards until such time as they are satisfactorily revised (rather than an outright rejection of the SASB Standards).

As a medium-term approach, when classifications other than Australian and New Zealand Standards Industrial Classifications (ANZSIC) are applied, we suggest permitting the mapping of those classifications to ANZSIC.

Question 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? Please provide reasons to support your view.

We consider there needs to be flexibility around the industry classifications applied to avoid additional costs being incurred that yield no benefits for users.

We consider that an entity should be permitted to apply different classification systems provided the classification systems are well-established, widely understood and robust. We note that many Australian insurers are part of global groups that might use classification systems that differ from ANZSIC. The existing proposal would disadvantage Australian-based entities with foreign operations and the subsidiaries of overseas parent entities (which are a feature of the Australian insurance industry).

Question 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.

We agree that an entity should be permitted to also provide voluntary disclosures based on other relevant frameworks or pronouncements, subject to meeting the following principles, which are used in IFRS Accounting Standards:

- the additional information contributes to an understanding of the entity's position and performance related to risks and opportunities associated with climate-related matters; and
- an understanding of the entity's risks and opportunities associated with climate-related matters is not reduced as a result of material information being hidden by immaterial information to the extent that a user is unable to determine what information is material.

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

Question 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.

We agree with the proposal since the relevance of an index to facilitate users' accessing the information useful to them would depend on the specific circumstances of each entity.

Interim reporting

Question 8: Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.

We consider that applying the requirements to annual reporting is sufficient and appropriate at this stage, and support the requirements not being mandatory for interim reporting. However, we do not consider the paragraphs that are proposed to be deleted to be confusing and, for the sake of remaining as close to the ISSB Standard as feasible, recommend they be retained.

Modifications to the baseline of IFRS S2 for [draft] ASRS 2

Scope of [draft] ASRS 2

Question 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.

As a matter of principle, we consider the proposed clarifications are an unnecessary departure from the ISSB Standards.

Given that the focus imposed by Treasury is currently on climate-related disclosures, we consider that entities will be capable of appropriately interpreting the requirements in that context. There is also a broad understanding among many entities around identifying 'climate-related' matters from experience of applying the framework and recommendations of the Task Force on Climate-Related Financial Disclosures. This concept will develop further as other nations move to adopt ISSB.

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We note 'climate-change' is not defined and that the proposed amendment could potentially narrow the scope of matters that might be identified as requiring disclosure, creating a further divergence from the international approach of ISSB.

General understanding of climate-change may evolve rapidly, which could potentially change the scope of matters that need to be included over a short period of time, and the proposed amendment may add unnecessary complexity to reporting processes.

Finally, the differentiated scope relative to ISSB could add a layer of effort and cost to assurance engagements where entities choose to dispute whether certain factors that are being disclosed by global peers are merely climate-related as opposed to related specifically to 'climate-change'.

In the aggregate, we believe the proposed scope clarifications to be counterproductive and would add unnecessary complexity.

Climate resilience

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

We support the inclusion of assessments against at least two possible future states to reflect how different climate futures might impact the entity.

We also support one future state being consistent with the *Climate Change Act 2022* global temperature goal in order to provide for useful comparisons across entities.

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.

We support not specifying the upper-temperature scenario that an entity must use in its climate-related scenario analysis on the basis that the entity is best-placed to determine the relevant upper-temperature scenario for illustrating its exposure to climate-related risks and opportunities.

Cross-industry metric disclosures (paragraphs 29(b)–29(g))

Question 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.

We support the cross-industry metric disclosures set out in paragraphs 29(b)–29(g) on the basis that they would provide useful information to users about an entity's performance in relation to its climate-related risks and opportunities. We support the maintenance of consistency with the ISSB Standards.

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

Question 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.

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We support the proposal.

However, we consider there will need to be guidance clarifying how the requirements will be operationalised. In particular, we note the level of detail currently needed to operationalise the Key Management Personnel (KMP) remuneration disclosures under existing Australian legislation. Because a range of factors are often intertwined in the determination of remuneration, there are potential issues around how to determine the percentage of remuneration attributable to climate-linked factors, particularly in view of the long-term nature of much KMP remuneration.

Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19– AusB63.1 and Australian application guidance)

Definition of greenhouse gases

Question 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.

We support the proposal and consider it will help achieve comparability.

Converting greenhouse gases into a CO2 equivalent value

Question 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.

We disagree with the proposal. Instead, we support updating of National Greenhouse and Energy Reporting (NGER) legislation to use the most current Intergovernmental Panel on Climate Change report to achieve alignment with ISSB Standards.

We appreciate that the power to update the NGER legislation is not within the AASB's authority; however, we consider that the legislation should be updated to remove barriers to international alignment to ensure Australian reporting entities remain globally competitive and are not burdened by multiple calculation methodologies when they are part of multinational groups.

Market-based Scope 2 GHG emissions

Question 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.

We support the proposed Australian phasing-in approach and the proposed modifications to align with that phasing-in approach for disclosing market-based Scope 2 GHG emissions. Phasing is important to alleviate the effort required when first adopting the requirements that many entities would otherwise face.

GHG emission measurement methodologies

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.

We support the Scope 1, 2 and 3 disclosures in principle.

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We disagree with mandating the NGER Scheme legislation for Australian entities on the basis that it could restrict and disadvantage entities seeking to use globally-developed software and the potential need to perform two sets of calculations for entities that are a part of a group with global operations.

We note the proposed ability to apply methodologies other than those set out in NGER Scheme legislation to the extent applying the NGER methodologies is not practicable. We assume 'not practicable' has the same or similar meaning to 'impracticable', about which AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* states: "Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so".

Our strong preference is to provide entities with a policy choice to apply an appropriate methodology as outlined in [draft] ASRS 2 paragraph Aus31.1(b)(i) and (ii), **with no need to justify its choice**. However, if a justification were needed, we consider it should be no more onerous than a general cost-benefit justification. In any case, we consider 'not practicable' to be far too a high hurdle to meet to enable entities to apply other methodologies.

Providing relief relating to Scope 3 GHG emissions

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

We support the proposal to allow the use of data for the immediately preceding reporting period.

We regard this proposal as being consistent with a phased approach to introducing mandatory disclosure of climate-related financial information and providing time to develop systems that produce information on a timely basis.

Scope 3 GHG emission categories

Question 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 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.

We understand that the flexibility enabled by the standard, as currently drafted, may relieve the reporting burden in initial years of adoption. However, we consider that disclosure in accordance with the categories of the GHG Protocol Standards ultimately should be mandated to allow for global consistency and comparability.

We would support a phasing-in approach on the basis of providing flexibility in early years, particularly considering the proposed implementation timeframe.

We note that the Partnership for Carbon Accounting Financials (PCAF) has created a global methodology for insurers for their category 15 financed emissions. Such emissions will be material to insurers. We therefore propose that this category should be disclosed separately from other Scope 3 emissions to provide relevant information for users.

Financed emissions

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

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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.

Insurance-associated emissions

We note that 'financed emissions' would include emissions associated with entities and activities in which insurers invest.

In relation to emissions associated with an insurer's underwriting, including insurance contracts issued and reinsurance contracts held, we note:

- The ISSB's Basis for Conclusions to IFRS S2 specifically states: "The ISSB confirmed that IFRS S2 requires financed emissions disclosure only for insurance-related financial activities associated with an insurer's assets. In other words, IFRS S2 does not require disclosure of the 'associated emissions' of underwriting portfolios in the insurance and reinsurance industries.." (paragraph BC129).
- GHG Protocol's Technical Guidance for Calculating Scope 3 Emissions notes "Accounting for emissions from insurance contracts is not required" (financed emissions chapter, page 138).
- The PCAF Standard on calculating insurance associated emissions "has been reviewed by the GHG Protocol and is in conformance with the requirements set forth in the [Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#), for Category 15 investment activities" (front cover). The PCAF insurance-associated emissions Standard itself states that its application is voluntary (page 3).

There appears to be uncertainty in the Australian market about whether AASB ED SR1 proposes that 'financed emissions' would include emissions associated with an insurer's underwriting, including insurance contracts issued and reinsurance contracts held (i.e. insurance associated emissions).

We consider that, in respect of insurance-associated emissions, the Australian requirements should not go beyond those in the ISSB Standards, in which case insurance associated emissions would be out of scope of Financed Emissions / Category 15 and therefore need not be included in Scope 3 emissions totals or any disaggregation thereof.

We recommend that the AASB explicitly exclude insurance-associated emissions from the scope of the Standards on climate-related disclosures to remove uncertainty and align with the current position of the ISSB. We note that when the relevant models are more fully developed, further consideration could be given to whether information about insurance-associated emissions should become mandatory.

We also note that insurers should be permitted to voluntarily disclose insurance-associated emissions as, in many cases, these may form part of their long-term commitments, targets and metrics, the performance against which they will therefore be required to report.

We note that emissions related to an insurer's claims supply chain should remain in scope as part of other categories of GHG emissions; that is, categories other than 'financed emissions'.

Not requiring disaggregation of Category 15: financed emissions

We note that ISSB IFRS S2 requires: "An Entity that participates in financial activities associated with insurance shall disclose: (a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 GHG emissions, for each industry by asset class. ..." [IFRS S2.B63].

In its Basis for Conclusions, in supporting its proposed modifications, the AASB reasons that (emphasis added):

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- “... IFRS S2 paragraphs B62 and B63 are based on the GHG Protocol Standards requirements, which require an entity to **disaggregate its Scope 1 and Scope 2 GHG emissions**, in addition to its Scope 3 GHG emissions, for each industry by asset class” [ASRS ED1.BC86(a)]; and
- “IFRS S2 paragraphs B62 and B63 require an entity that participates in ... insurance activities **to disaggregate its Scope 1, Scope 2, and Scope 3 GHG emissions** by applying the Global Industry Classification Standard (GICS)...” [ASRS ED1.BC86(b)].

We read ISSB IFRS S2.B63 as relating purely to financed emissions (a single category of Scope 3) and not requiring an insurer to disaggregate **its own** Scope 1 and 2 emissions, but rather those of the investee (effectively creating a ‘look through’ of its own financed emissions). We therefore do not fully follow the rationale in AASB ASRS ED1 paragraph BC86. We acknowledge there could be intricacies with GHG/NGER protocols that, if well-understood, could potentially help clarify the position taken by the AASB and we would appreciate some clarification in this area.

We also note that there are disclosures required by IFRS S2.B63 that do not require disaggregation, including disclosure of the percentage of the entity’s gross exposure included in the financed emissions calculation and additional information if the percentage is less than 100% [IFRS S2.B63(c)].

We suggest that the AASB provide more clarity around the basis for its conclusions on the disaggregation of Category 15: financed emissions. To date we have not seen an Australian-specific rationale for divergence from the ISSB Standards, while noting that the proposed optionality would provide relief to insurers.

We suggest that the AASB consider alternative approaches, which may provide a similar level of relief but ensure decision relevant information is provided, including:

- a ‘phased’ approach to adoption; or
- removing the need for emissions to be disaggregation by Scope, whilst retaining disaggregation by asset class and industry – on the basis that the Scope disaggregation seems likely to be the most onerous aspect of the IFRS S2 requirement.

Consistent with our comments above to Question 5, we do not support mandating the use of ANZSIC when disaggregating the investment portfolio by industry because it would disadvantage Australian-based entities with foreign operations and the subsidiaries of overseas parent entities. We also note that many insurers utilise investment data providers who operate using global categorisation systems.

Superannuation entities

Question 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.

We do not support blanket exemptions in general unless there is a compelling rationale. We note that superannuation entities represent a significant aspect of the economy and the justification for any scope exclusion would need to address why superannuation entities are considered differently from other types of entities with significant investment activities (which includes most insurers).

Carbon credits

Question 22: 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.

We support the proposal.

Questions specific to not-for-profit entities

We have no specific comments on Questions 23 to 27 relating to not-for-profit entities.

However, we consider that, to the extent not-for-profit entities with insurance activities in Australia are operating in the same markets as for-profit insurers, they should be the subject of the same climate-related disclosure requirements as for-profit insurers. This is because it would help provide an overall climate-related picture of the Australian insurance industry.

In particular, in relation to the insurance industry, we note that two of the five largest Private Health insurers operating in Australia are not-for-profit entities.