29 February 2024

Dr. Keith Kendall, Chair and CEO
Australian Accounting Standards Board
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Dear Dr Kendall

Australian Sustainability Reporting Standards (ASRS) – Disclosure of Climate-related Financial Information

The Australian Prudential Regulation Authority (APRA) welcomes this opportunity to comment on the Australian Sustainability Reporting Exposure Draft (ED SR1) issued by the Australian Accounting Standards Board (AASB).[1]

General comments

APRA is supportive of the AASB's efforts to develop ASRS using the International Sustainability Standards Board (ISSB) standards as the baseline. The ISSB standards represent a globally consistent set of disclosure requirements that build upon existing initiatives and frameworks, including those from the Task Force on Climate-related Financial Disclosures (TCFD). Entities applying the ISSB Standards will meet the TCFD recommendations on an ongoing basis.[2]

Climate-related financial disclosures are fundamental to a sound financial system as they reduce information asymmetry and help promote comparability of risk profiles of financial institutions. There are international regulatory disclosures being developed by international banking and insurance standard setters to complement the ISSB framework.[3] By aligning the ASRS with the ISSB standards as much as possible, the AASB will support the consistency, comparability, and reliability of sustainability-related financial and regulatory reporting. Together, these disclosures will promote transparency and market discipline, particularly for entities that require, amongst others, access to international capital markets and reinsurance from investors and counterparties.

Specific comments

The AASB's approach is one of international alignment, with modifications as necessary for the Australian context or to support effective implementation. These modifications include a phased implementation of sustainability reporting requirements, sector-neutrality, and the use of a set climate scenarios (i.e., a 1.5-degree Celsius increase above pre-industrial levels that is aligned with the *Climate Change Act 2022*[4]) for climate resilience assessments. Notwithstanding the benefits of the Australia-specific modifications proposed by the AASB, we would like to draw your attention to the following matters which, in our view, would benefit from further consideration as the AASB finalises the ED SR1:

- **References to Sustainability Accounting Standards Board (SASB) Standards, including IFRS S2 Industry-based guidance** – The AASB has proposed removing the requirement to consider the applicability of the SASB industry-based guidance (including IFRS S2). In addition, the AASB has also removed the requirement to provide industry-specific information. Industry-based guidance is integral to the application of the ISSB standards. Also, the ISSB finalised amendments to the SASB standards to enhance their international applicability in December

[1] This includes ASRS 1 *General requirements for disclosure of Climate-related financial information*, ASRS 2 *Climate-related financial disclosures* and ASRS 101 *References in Australian sustainability reporting standards*.
[2] Reference to the IFRS news article here.
[3] Refer to the November 2023 Basel Committee on Banking Supervision (BCBS) Consultative document-disclosure of climate-related financial risks (bis.org).
[4] For companies that are required to report under Corporations Act 2001 (Cth).

2023.[5] Not considering the application of the industry-specific SASB standards and IFRS S2 industry-based guidance would adversely affect the quality of disclosures of sustainability-related risks and opportunities and related metrics that are specific to an entity's business model.

- **Scope 3 Greenhouse gas (GHG) emissions, including financed emissions** – Unlike the ISSB, the AASB has proposed an entity need only *consider* the applicability of the disclosures relating to financed emissions and Scope 3 GHG emission categories based on the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)* rather than *requiring* these to be applied.[6] These modifications relating to financed emissions and scope 3 GHG emissions are likely to reduce the quality of disclosures relating to climate-related transition risks because: (i) scope 3 GHG emissions represent the majority of the total GHG emissions for APRA-regulated entities; and (ii) not using the GHG protocol standard as the basis for GHG emission calculation methods would create comparability issues for Australian entities across international financial markets. Furthermore, the AASB has proposed providing additional relief that would allow entities to use the immediately preceding reporting period's scope 3 GHG emissions if current information is not available without undue cost or effort. This relief could be used to avoid disclosing significant changes in GHG scope 3 emissions in a relevant reporting period. The ISSB already permits entities to use information from a reporting period that is different from an entity's reporting period, in specific circumstances. [7] Overall, it would be preferable for Australian entities to achieve greater alignment with these ISSB requirements, especially when they have material scope 3 emissions in a reporting period.

- **Scope of application for ASRS 1 and 2** – The AASB has proposed to limit the scope for ASRS 1 and 2 to climate-related risks and opportunities. Moving forward, this limitation in scope could (i) render it incompatible with the ISSB standards; (ii) affect the connectivity with financial reporting and regulatory capital and (iii) limit the ability to address the risks and opportunities at the nexus of climate change and other sustainability-related matters.[8] If the scope of sustainability reporting is broadened in the future, then the life cycle of ED SR1 could be short, and the AASB would need to replace this with standards that reflect the wider scope and dimensions. This would pose additional regulatory burden on the standard setters and the industry. Hence, APRA considers that ASRS 1 should be an IFRS S1-aligned general sustainability disclosure standard.

It is APRA's view that these three proposed deviations from the ISSB baseline could reduce comparability, conflict with guidance from international regulatory standard setters, and increase regulatory burden. There is also the risk that the APRA-regulated entities complying only with the ASRS requirements will not be able to make a statement of compliance with ISSB Standards. To address these challenges, the AASB should look to align with the ISSB standards as much as possible and limit any modifications to enhance interoperability (with ISSB and European Sustainability Reporting Standards) and connectivity with financial reporting (and regulatory capital). We trust you find our comments constructive and helpful. If you have any questions regarding these comments, please contact Rob Sharma (02 9210 3899) at APRA.

Yours sincerely

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Chair, CFR Climate Working Group

[5] The updated SASB standards can be found in the link here.
[6] Hereafter referred to as the GHG Protocol standard.
[7] IFRS S2 para B19.
[8] The ISSB published guidance material to support the preparers in determining the boundary for climate related financial risks in December 2023.