

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 8007 Australia

Dear Dr Kendall

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

NSW Treasury, on behalf of the New South Wales public sector, welcomes the opportunity to respond to ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (ED SR1).

A submission on ED SR 1 has also been made by Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC). NSW Treasury led the authoring of that submission, working closely with representatives from all Australian states and territories, and the Australian Government.

Overall, our views are broadly aligned to the HoTARAC submission. We share the concerns of other HoTARAC members on the applicability of the [draft] ASRS to the public sector in their current form. However, we also see that there are benefits to issuing sector neutral ASRS now, even if they are imperfect for the public sector. If this option is adopted we request that the AASB develop public sector guidance as a matter of urgency (e.g. in the form of FAQs, training materials), whilst continuing to work on more comprehensive guidance for the long term.

We note that the HoTARAC submission provided a detailed response to all issues that the AASB requested comment on. The attachment to this letter sets out the NSW response to a select number of issues:

- a) of particular importance to the NSW public sector; or
- b) where NSW has additional comments; or
- c) where the HoTARAC submission contains a range of views.

In particular, we wish to emphasise the following points in our attached submission:

- NSW considers that the proposed cross-industry metric disclosures will provide useful information to users of public sector general purpose financial reports as they promote comparability and transparency which are drivers of good corporate governance; and
- NSW supports disclosure of Scope 3 emissions in the public sector. However, we are of the view that further guidance is needed on the definition of ‘value chain’ in the public sector and that the appropriate level of entity reporting needs further consideration.

Where we have provided no response below, the views of NSW are consistent with those expressed by HoTARAC.

If you have any queries regarding our comments, please contact Sean Osborn from NSW Treasury by email to sean.osborn@treasury.nsw.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andy Hobbs', with a long horizontal stroke extending to the left.

Andy Hobbs
Executive Director – Financial Stewardship and Public Reporting
NSW Treasury
1 March 2024

ENCLOSED:

NSW Comments to the AASB on ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*

NSW Comments to the AASB on ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

AASB Specific Matters for Comment

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

Question 1

The AASB is proposing to develop two [draft] ASRS Standards ([draft] ASRS 1, based on IFRS S1, and [draft] ASRS 2, based on IFRS S2), and instead of having the same requirements duplicated in both [draft] Standards, decided to include in [draft] ASRS 1 the requirements relating to core content disclosures of governance, strategy and risk management, and in [draft] ASRS 2, to replace relevant IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing the corresponding paragraphs in [draft] ASRS 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)?

Response

We note HoTARAC's preference for Option 2 and support this.

However, we would like to acknowledge that varying views across the NSW public sector, with some NSW agencies expressing a preference for options 1 and 3. The following comments and suggestions were made by agencies:

- Option 1 is the preferred approach from a user perspective. The proposed approach in ED SR1, using Option 3, requires users to read two ASRS standards side by side to determine the required disclosures. This creates a risk that users may not correctly identify all required disclosures, particularly as these are the first [draft] ASRS and the user group is expected to be much broader than accountants who are adapted to reading and interpreting AASB standards. The AASB could provide Option 1 as a separate supporting document or as an Appendix that combines both ASRS 1 and ASRS 2; and
- Option 3 has advantages, for the reasons expressed by the AASB in drafted SR1. Option 3 involves the elimination of duplication across [draft] ASRS 1 and [draft] ASRS 2 and replaces duplicated content with Australian-specific paragraphs with

cross-referencing. This approach ensures that the core content disclosures are appropriately addressed in both [draft] ASRS 1 in [draft] ASRS 2.

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

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(f) 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.

Response

HoTARAC members questioned the relevance and appropriateness of several metrics outlined in paragraph 29 in a public sector context.

However, NSW considers that the proposed cross-industry metric disclosures in paragraph 29 of [draft] ASRS 2 will provide useful information to users of public sector general purpose financial reports as they promote comparability and transparency which are drivers of good corporate governance.

NSW acknowledges that the proposed cross-industry metrics may be difficult for some entities to develop as they rely on rigorous quantitative climate change risk and opportunity assessments. However, considering the general leniency provided through the practical expedients and the allowance suggested in paragraph Aus6.1 of [draft] ASRS 1 and paragraph Aus4.1 of [draft] ASRS 2 for not-for-profit entities, it seems that entities will not be expected to disclose these cross-industry metrics where not practicable or costs exceeds the benefits.

In addition to the practical expedient, a size threshold could be considered, below which an entity is not required to provide the proposed cross industry metrics.

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

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.

Response

HoTARAC agrees with the proposals relating to emission scopes and hierarchy of methods, and that the GHG Protocol standards provide a reference of last resort. This will reduce regulatory burden for those who have already reported under the NGER Act.

NSW agrees with the view of HoTARAC.

NSW's Department of Climate Change Environment Energy and Water also suggests that the AASB consider the following:

- including a reference to the National Inventory Report on GHG in paragraph Aus 31.1(b)(i) of [draft] ASRS 2
- permitting ISO 14064-1 as an alternative to GHG Protocol, to provide flexibility to entities in the land and agriculture sector to select methods most relevant to the industry. This is consistent with the approach adopted in European Sustainability Reporting Standards (ESRS) issued by the European Financial Reporting Advisory Group (EFRAG).

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.

Response

HoTARAC agrees with the proposal in paragraph AusB39.1 of [draft] ASRS 2 and NSW supports this.

However, HoTARAC members expressed a number of concerns with implementing Scope 3 emissions reporting in the public sector until the definition of 'value chain' in a public sector context is appropriately clarified.

NSW supports disclosure of Scope 3 emissions in the public sector. However, further guidance is needed on the definition of 'value chain' in the public sector.

However, it may also not be appropriate for all public sector entities to disclose Scope 3 emissions. NSW is currently performing a cost-benefit analysis to determine the level at which disclosure of Scope 3 emissions is most appropriate. We expect that this will fall somewhere between the whole of government level (too high) and individual entity level (too low).

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.

Response

HoTARAC agrees with the proposal to include the Scope 3 GHG emission categories in IFRS S2 as examples of categories that an entity could consider, as opposed to requiring an entity to report against all 15 of these categories.

NSW supports this proposal for the following reasons.

- Reporting of Scope 3 emissions is important for comparability between reporting entities as well as for assessing an entity's exposure to Scope 3 emissions over time.
- The GHG Protocol is well understood and has been used for some time within the public sector internationally.
- The GHG Protocol is consistent with IPCC Guidelines for National Greenhouse Gas Inventories.
- The 15 reporting categories under the GHG Protocol are very broad and should not leave any gaps for entities to report their Scope 3 emissions.
- By requiring entities to consider the 15 categories, rather than mandating them, entities can commence reporting their Scope 3 emissions for categories where there is a reasonable degree of accuracy and can then expand on these over time as data collection methods and information improves.

Questions specific to not-for-profit entities

Question 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.

Response

Subject to our response to question 18 on the appropriateness to all public sector entities, Scope 3 emissions reporting should be mandatory for not-for-profit entities, these can be material. However, NSW recommends that the AASB consider a longer phase in period for reporting of Scope 3 emissions for not-for-profit (including public sector) entities.

Questions specific to not-for-profit public sector entities

Question 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.

Response

HoTARAC notes that a number of jurisdictions are of the view that Scope 3 emissions reporting in the public sector should be deferred until that analysis is complete and the definition of 'value chain' in a public sector context is appropriately clarified.

NSW recommends the AASB provide further guidance on how to interpret 'value chain' in the public sector. Given the breadth and range of government operations, the potential scope of what is included in an entity's 'value chain' can be a significant component of the whole economy. In addition to the Australian Public Service (APS) Net Zero 2030 Strategy, state and territory governments are looking to develop equivalent policies for their own government operations. Given these policies change or are updated relatively frequently, it is probably not useful to attempt to align the standard with these policies. Instead, the overall objectives, concepts and definitions in ASRS 2 should be drafted broadly enough to allow disclosures based on government policies on climate change adaptation and mitigation.

Therefore, NSW recommends that the AASB consider a longer phase in period for reporting of Scope 3 emissions for not-for-profit (including public sector) entities.