1 March 2024

Australian Accounting Standards Board

Environment Institute of Australia and New Zealand Inc.

Re: EIANZ's response to the Australian Accounting Standards Board Sustainability Reporting Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, October 2023

To whom it may concern,

The Environment Institute of Australia and New Zealand (EIANZ) is the peak body for environmental professionals in Australia and Aotearoa New Zealand. Through its Code of Ethics and Professional Conduct, EIANZ sets high ethical standards for environmental practitioners. The specific interests and skills base of EIANZ lies in evidence-based and ethical environmental practice.

EIANZ's Climate Change and Environmental Accounting Special Interest Sections have collaborated to provide expert opinion on the *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, Exposure Draft (ED) SR1, October 2023, referred to as EDSR1.

EIANZ is generally supportive of the proposed structure and content of the standards. We encourage provision of clear requirements for not-for-profit entities, which can be very significant emitters, and firm boundaries for data accuracy and currency. Reporting and assurance must be informed by appropriate knowledge of climate change risk, mitigation, and adaptation.

It is also EIANZ's view that successful implementation of the Standard requires suitably qualified, experienced, and ethical practitioners, which can be identified by appropriate certification schemes.

The feedback below is generally in response to the information provided and questions posed in EDSR1.

<u>Application Date</u>

- Proposed roadmap for mandatory disclosure requirements

Disclosure of climate-related financial information must be required of significant emitters that are not required to report under Chapter 2M of the *Corporations Act*, such as exporters and local governments. If such entities are not required to report, there will be significant gaps in emissions data and potential for mitigation opportunities to be missed.

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

- Question 1

EIANZ supports adoption of Option 3[1] for its ability to provide for greater detail and maintain alignment to the International Financial Reporting Standards. Benefits of Option 3 also include the ability to provide greater specificity, greater relevance to the Australian context, and potential to introduce additional standards relating to other environmental impacts such as biodiversity.

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

- Question 3

EIANZ strongly supports a requirement for entities to disclose justifications for assessing climate-related risks and opportunities as not material. Prospective shareholders will need to consider the potential climate-related impacts on an entity and will need to know which risks and opportunities have been considered in order to be able to make informed investment decisions.

EIANZ recommends that the Standards provide for double materiality assessment. That is, assessment and reporting of the risks and opportunities to external stakeholders from its activities, as well as the potential impact of risks and opportunities on the financial performance of the entity. This is necessary to provide an accurate reflection of the potential future value of an entity.

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

EIANZ acknowledges that SASB Standards and US-centric industry-based guidance is not ideal for Australian reporting entities, however, considering the lack of local guidance, SASB standards and US industry-based guidance is currently the best available. We note that the requirement proposed to be removed is to "consider" the applicability of these Standards and guidance documents, which allows ample opportunity for reporting entities to choose not to apply them.

- Question 5

Entities should be able to choose to use industry-based disclosure guidelines so long as they meet the requirements of the new Standards and are based on the current state of knowledge for climate-related reporting for the relevant industry.

- Question 6

Voluntary disclosures should be expressly permitted in the ASRS Standards to enable voluntary reporting to continue to forge the reporting path and test new approaches to reporting.

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[1] 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 (what is the option adopted by the AASB in developing the [draft] ASRS 1 and [draft] ASRS 2 in ED SR1).

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

- Question 7

EIANZ recommends that entities should be required to include an index table that informs the reader as to where, in the report, specific information is presented. From experience, preparation of this information is necessary in the production of reports to ensure that all requirements have been addressed. It is not an onerous task to turn a working checklist into an index for publication. The judgement of one individual or entity as to the logical place to present particular information can vary widely from the judgement of another individual, meaning this cannot be relied upon to ensure that users of the reports will be able to find the information required to be provided.

An index also assists with verification processes, enabling a quick first-pass assessment as to whether a report contains all the required information. It is already required for entities reporting on Global Reporting Initiative (GRI) principles.

Interim reporting

- Question 8

EIANZ agrees with the omission of requirements relating to IFRS S1 paragraphs 69 and B48 to avoid known confusion, however, interim reporting facilitates greater overall transparency. Provision should be made for interim reporting somewhere in the Standards.

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

Scope of [draft] ASRS 2

- Question 9

Agree. If feedback has already been received indicating "a significant degree of confusion", then there is an obvious need for clarification.

The example of ozone depleting emissions as not applicable is helpful, however defining "climate-related" as "related to climate change" is not helpful in providing clarification. Refer to the definitions of climate related risks and opportunities in IFRS S2 to support clarification of the scope of ASRS 2.

Climate resilience

- Question 10

Agree. 1.5° is the most accurate estimate of our global climate change objective.

All reporting entities should be required to report their risks and opportunities associated with a 1.5° temperature rise and a 2° temperature rise as a minimum. This allows like-for-like comparison and is consistent with the approach employed by the Taskforce on Climate-related Financial Disclosures, which is informed by several years' reporting experience.

ASRS2 should provide for optional reporting against scenarios associated with 3° and 4° temperature rises, to inform longer term planning.

Scenarios should be defined in the Standard for 1.5°, 2°, 3°, and 4°, to facilitate generation of quality information, consistency with accepted methodologies, and to allow for comparison.

- Question 11

Consider mandating reporting of risks and opportunities arising from a temperature increase consistent with current global nationally determined contributions. This would provide information on what we can expect to see if current plans to address climate change are implemented. It would be useful information for the company reporting, their shareholders and prospective shareholders, and for policymakers.

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

- Question 13

Disclosing climate-related considerations in executive remuneration may increase or maintain executive focus on achieving climate-related objectives, however it is unlikely that the information would be particularly reliable (i.e., it would be difficult to prove or disprove the relative effect of climate-related performance). Therefore, such a requirement may increase reporting burden for little benefit. Additionally, when investors understand a company's climate-related risks and opportunities they will vote with their investment dollar and executive remuneration based on financial performance will reflect that impact.

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

Definition of greenhouse gases

- Question 14

We agree that ASRS 2 should adopt the definition of greenhouse gases from IFRS S2 without modification. The basis for our position is to provide for completeness. Omitting a known greenhouse gas from climate-related reporting creates potential for a gap in information if use of NF_3 expands. Inclusion also provides for consistency with international standards which EIANZ sees as a fundamental objective.

Converting greenhouse gases into a CO2 equivalent value

- Question 15

We agree that volumes of greenhouse gases should be converted to global warming potential (GWP) because this enables aggregation and analysis. We recommend that the Standard refers to the values provided most recently by the Intergovernmental Panel on Climate Change (IPCC), rather than specifically to Assessment Report Number 5 (AR5), which has already been superseded.

The Standard also needs to provide for the effects of gasses emitted at altitude, by including a requirement to apply a standard radiated forcing factor.

Market-based Scope 2 GHG emissions

- Question 16

We agree that entities should provide both market-based and location-based emissions. This will allow market-based emissions, such as offsets, to be transparent.

A blanket exemption for the first three years should not be provided as it will simply delay availability of information and allow poorer decision-making during that time. If a reporting entity requires special consideration due to a mid-year acquisition or divestment, there should be a process for application for additional time or exemption.

GHG emission measurement methodologies

- Question 17

EIANZ supports the proposed addition of paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 because they provide clear guidance and expectations regarding the information required to be reported and acceptable approaches to producing the required information.

Providing relief relating to Scope 3 GHG emissions

- Question 18

We disagree with the proposal to allow the use of preceding financial period data for Scope 3 emissions reporting. The reasons for this are:

1. Current data enables potential investors and other stakeholders to make better-informed decisions.
2. It is likely that most Scope 3 emissions analysis will be based on financial spend which comes from finance systems that will be closed out by the end of the financial year.
3. Requiring current data will drive development and implementation of more efficient data collection systems.
4. Requiring current data is likely to result in more accurate data as there is less time for records to be lost or forgotten.

Scope 3 GHG emission categories

- Question 19

The Standard should require that entities categorise Scope 3 GHG emissions in accordance with the categories of the GHG Protocol Standards. This enables aggregation, analysis and comparison. If entities are allowed to create their own categories, significant emissions could go undetected. Many entities will already be reporting globally in accordance with GHG Protocol categories.

Additionally, defining reporting boundaries is always subjective, based on arbitrarily determined relevance. Industry-specific guidance (like SASB) helps to address this challenge, providing for consistency of reporting across an industry and, in doing so, enabling comparison of emissions.

Financed emissions

- Question 20

Entities should be required to disclose the information outlined in IFRS S2 paragraphs B61-B63. Most organisations did not have data on Scope 1 emissions before reporting of Scope 1 emissions was required. The disaggregated data is relevant to decisions being made by investors and other stakeholders, therefore should be provided. If transition arrangements are required, they can be made.

Superannuation entities

- Question 21

Superannuation entities are not unique in facing challenges with emissions reporting; all entities will face challenges. Superannuation entities will have particular challenges relating to Category 15, financed emissions, but these are not unique to such entities. Category 15 presents a challenge to any entity with a significant investment portfolio, including banks, insurers, real estate funds, private equity, councils and universities. Policymakers and regulators should be prepared to work with the superannuation industry and others with similar challenges, to overcome the challenges, but allowing the industry to avoid reporting is likely to encourage other industries to make similar demands, and a new department will be required to assess applications for dispensation which would be mostly likely to be granted to the industries that can afford the best lawyers.

Carbon credits

- Question 22

We see significant value in requiring unique serialisation of carbon credits, particularly in the voluntary market. Serialisation supports the integrity of the carbon market, provides for transparency and accountability, and enables diligent assessment of the validity of credits and their acquittal. We acknowledge that it may be necessary to allow for carbon credits that aren't uniquely serialised to support the Australian carbon market, noting that major legislative change would be required to provide for unique serialisation.

Questions specific to not-for-profit entities

- Question 23

We agree that the objective of climate-related financial disclosure for 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 **AND** long term. The basis of our agreement is that NFPs require money to operate, and climate-related risks and opportunities have potential to influence their access to money and the cost of their operations. In the case of local government organisations, there are many stakeholders whose lives may be impacted by the entity's management of climate-related risks and opportunities, and who can influence the management of these risks and opportunities if they have access to relevant information.

Questions specific to not-for-profit public sector entities

- Question 29

We agree with the deferral of development of an Australian public sector climate-related impacting reporting standard because there is far too much work to do to address climate change to be wasting resources inventing solutions in parallel.

General matters for comment

- Question 33

The proposed Standards are expected to generate useful climate-related financial information. Improvements to the Standards are likely to be identified as it is applied, but we need to start somewhere with mandatory reporting and this standard is clearly informed by relevant experience.

- Question 34

The Australian economy cannot be healthy in an environment of severe climate change impacts. Measuring and reporting emissions is necessary to understand and prevent these impacts, therefore the proposals are in the interest of the Australian economy. The proposed requirements are unlikely to be perfect, therefore unlikely to be in the "best" interest of the Australian economy, but they are a vast improvement on the absence of mandatory reporting.

EIANZ thanks the AASB for the opportunity to provide this feedback and would welcome the opportunity to discuss further if required. To contact EIANZ, please reach out via email to Executive Officer Jonathon Miller via email to office@eianz.org.

Best regards,

Vicki Brady
President
Environment Institute of Australia and New Zealand