



Actuaries
Institute.

29 February 2024

Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007

Email: standard@asb.gov.au

Dear Sir/Madam,

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

The Actuaries Institute ('the Institute') welcomes the opportunity to make a submission to this consultation on the draft Australian Sustainability Reporting Standards (ASRS Standards).

The Institute is the peak professional body for actuaries in Australia. Our members work in a wide range of fields including insurance, superannuation and retirement incomes, enterprise risk management, data analytics, climate change and sustainability, and government services. The Institute has a longstanding commitment to contribute to public policy discussions where our members have relevant expertise.

The comments provided in this submission are guided by the Institute's '[Public Policy Principles](#)' that any measures or changes should promote public wellbeing, consider potential impacts on equity, be evidence-based and support effectively regulated systems.

The Institute strongly supports the work of the AASB in drafting the ASRS Standards. As climate risks increasingly impact financial performance, it is critical that standards for Australian disclosure of climate-related financial information serve the needs of decision-makers and global financial market participants.

Given the global nature of climate-risk, the Institute strongly supports that — as much as is reasonably possible and practical — the ASRS Standards be prepared in line with the same principles underpinning the International Financial Reporting Standards on Sustainability (IFRS S1 and IFRS S2) issued by the International Sustainability Standards Board (ISSB) and international greenhouse gas (GHG) accounting and reporting principles. These principles include:

- **Consistency:** Use [internationally] consistent methodologies to allow for meaningful performance tracking of emissions over time. Transparently document any changes to the data, inventory boundary, methods or any other relevant factors.
- **Relevance:** Ensure disclosures appropriately reflect the climate-related financial risks of the company and serve the decision-making needs of users — both internal and external to the company.

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- **Completeness:** Account for, and report on, all GHG emission sources and activities within the inventory boundary. Disclose and justify any specific exclusions.
- **Transparency:** Address all relevant issues in a factual and coherent manner, based on a clear audit trail. Disclose any relevant assumptions and make appropriate references to the accounting and calculation methodologies and data sources used.
- **Accuracy:** Achieve sufficient accuracy to enable users to make decisions with reasonable confidence as to the integrity of the reported information.

The Institute notes, and supports in principle, the Australian Government and AASB's initially narrowed focus to climate risk and intended expansion to broader sustainability at later time. We also support the phased implementation across reporting entities under ASRS Standard 2.

Against the above principles, there are, however, a few areas of concern.

International consistency with IFRS S1 and IFRS S2

Some areas of inconsistency with IFRS S1 and IFRS S2 raise concern, including:

- Differences in the core content of IFRS S1 in [draft] ASRS Standards;
- References to Sustainability Accounting Standards Board (SASB) Standards and references to Industry-based guidance and metrics;
- Clarifying the scope of ASRS Standard 2;
- Financed emissions requirements;
- Conversion of GHG emissions to carbon dioxide equivalent; and
- Scenario analysis approaches.

These issues are discussed in the Attachment. In general, inconsistencies with International Financial Reporting Standards may create undue complexity for local subsidiaries of international companies operating in Australia and create potential advantages or disadvantages for Australian companies competing in global capital and funding markets.

Superannuation entities

Superannuation represents a significant and important component of Australia's financial services system. The Institute does not support blanket exemptions for any material part of the Australian financial system and/or economy.

The AASB notes that it "has been informed that some superannuation entities are concerned about the cost and effort required for them to comply with [draft] ASRS Standards that would have the same requirements as IFRS S1 and IFRS S2, particularly with the requirement to prepare Scope 3 GHG emissions".

We acknowledge that many large Australian superannuation funds are "universal owners". While there is a large degree of variance across superannuation funds, many would invest in thousands of financial assets on behalf of their fund members. Preparing scope 3 emissions reports will be a complex aggregation and/or estimation exercise due to the number of investments most funds hold. Data availability concerns faced by most corporates are magnified for funds due to their size. This means scope 3 disclosures will require more cost and effort for superannuation funds to produce than other entities. While we do not support a blanket exclusion, there may be a case for modified requirements on scope 3 reporting.

Climate Resilience

While the Institute appreciates the inclusion of a scenario aligned with the most ambitious global temperature goal set out in the Climate Change Act 2022 (in paragraph Aus 22.1), we caution that this alone is not sufficient to enhance comparability of entities' climate resilience.

For a single long-term temperature goal, there are thousands of possible climate futures and different socioeconomic pathways to get there. Even when a reporting entity works from a benchmark scenario as the basis for modelling (such as the Network for Greening the Financial System's (NGFS's) [Net Zero 2050 scenario](#)) such scenarios provide little or no detail at an entity-level on the transition pathway, supporting assumptions, and the aspects to be considered by the entity. Many assumptions must be tailored to the entity's circumstances and this process reduces comparability.

It is understood that approaches and best practice in scenario modelling will develop over time, but guidance and education will be required to enhance comparability across entities and industries. Actuaries and the Actuaries Institute will be able to support this activity, and the International Actuarial Association (IAA) is currently developing an [International Standard of Actuarial Practice](#) in this area.

Implementation and education

Finally, notwithstanding the modifications, the requirements of the ASRS remain extensive. We encourage all stakeholders to consider climate-related disclosures in the context of a company's full reporting obligations and urge that general-purpose financial reports not become unwieldy and inaccessible.

To support companies in reporting under the ASRS, we believe clear guidance and implementation support from the AASB are required. In addition, education materials and support will likely be required for many, if not all, entities, as well as some education for the users of financial statements. Specific areas of need for education and support include climate scenario modelling (as noted above), and support for the audit and assurance sector to build its capability to validate climate-related financial disclosures to minimise greenwashing risks of reporting entities.

The Institute would be pleased to discuss this submission. If you would like to do, please contact me on (02) 9239 6100 or executive@actuaries.asn.au.

Yours sincerely

(Signed) Elayne Grace

CEO

Attachment: Specific comments on enhancing the international consistency of ASRS

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

The Institute notes, and broadly supports, the Australian Government and AASB's initially narrowed focus to climate risk and intended expansion to broader sustainability at later time.

In developing the ASRS, approaches should, as much as is reasonable, be future-proof and allow for likely progression of international reporting expectations to include sustainability issues other than climate in the future.

IFRS S1 is a foundational standard that speaks to general requirements applicable to all sustainability reporting. The development of other IFRS/ISSB standards on sustainability-related matters beyond climate in the future (such as nature-based disclosures in line with the recommendations of the Taskforce on Nature-related Disclosures (TNFD)) will rely on foundational concepts in IFRS S1.

To restrict the scope of the AASB standards to climate, AASB proposed to replace all references to 'sustainability' in IFRS S1 with 'climate'. We believe this simplified approach creates potential future problems for the Australian implementation of ISSB standards, not least that material changes could be needed in future in the event IFRS releases additional Sustainability standards (IFRS S3, IFRS S4 etc.).

AASB has issued 3 options for comment. Of these we believe **Option 3** (Issue two ASRS Standards) best future-proof the [draft] Standards.

2. References to SASB Standards and references to Industry-based guidance and metrics

As noted in paragraphs BC39–BC41, the AASB is proposing to remove from IFRS S1 and IFRS S2 the requirement for an entity to consider the applicability of SASB Standards and references to Industry-based guidance on Implementing IFRS S2 issued by the ISSB developed based on SASB Standards.

Instead of requiring disclosure of industry-based metrics, the AASB proposes making such disclosures optional by specifying that "if an entity elects to make industry-based disclosures, the entity shall consider the applicability of well-established and understood metrics" associated with participants in the same industry.

We do not support the permanent removal of the requirement to make industry-based disclosures from the ASRS (and replacement with consideration of "well-established and understood metrics") because:

- In the medium term, for the principles of international consistency, relevance, and completeness, it would be beneficial for AASB to attempt to adopt the industry metrics in a manner comparable to IFRS S2.
- Given the infancy of metric articulation across many industries, "well-established and understood metrics" may not be helpful and may promote less disclosure where such metrics are not already established.
- We understand the SASB standards (which many view as US centric at present) are being internationalised.

Rather than excluding the requirement for an entity to consider the applicability of SASB Standards and references to industry-based guidance entirely, an alternative approach would be to defer implementation of disclosure of industry-specific metrics. This will set realistic long-term expectations for Australian companies that they need to work towards disclosing relevant industry-specific metrics but avoid the longer-term detrimental impacts of lack of comparability and international consistency.

3. Inconsistencies with IFRS S2

Treasury's policy position statement on climate-related financial disclosures notes "The Government endorses full adoption of the ISSB's IFRS S2 Climate-related Disclosures standard in Australia, with modifications limited to those necessary to ensure standards are fit for purpose for Australia. This should incorporate Australia's greenhouse gas emissions estimation methodologies and international climate change commitments."

International consistency with IFRS S2 is paramount in these disclosures. Many of the Institute's members work for international organisations and may be required to report under IFRS S2 and ASRS 2. Users of financial statements – such as investors – need to be able to compare the disclosure of Australian companies with international peers in a way that supports well-informed decision-making. For this reason, we highlight several problematic divergences.

3.1 Clarifying the scope of ASRS 2 (paragraph Aus 3.1)

There is a proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard – this is due to a reported 'significant degree of confusion on what was meant by "climate-related risk" and the boundary of [draft] IFRS S2'. We do not support this paragraph because climate-related risks and opportunities are defined in a clear manner in AASB 1 and IFRS S2 – the definition makes clear it is the risks and opportunities relating to climate change.

There has been an internationally agreed definition of the main anthropogenic GHGs since the 1997 Kyoto Protocol. This definition is included in IFRS S2 and carried over into AASB definitions. There is **not** a commonly accepted definition of the following term used in draft paragraph Aus3.1 "other climate-related emissions" or "other climate-related emissions (e.g. ozone depleting emissions) that are not greenhouse gas (GHG) emissions". Using non-standard and new terms risk creating more confusion.

The scope of the standard could be clarified by explanatory memorandum or other supplementary materials that sit outside the standard.

3.2 Financed emissions

Question 20 asks "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, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information?"

IFRS S2 explicitly requires an entity to disclose financed emissions (paragraph b59 and 29(a)(i)(3)) but the proposed ASRS 2 approach to financed emissions (AusB59.1) is much weaker and only states entities must "consider the applicability of disclosures related to its financed emissions".

While there may be a case for initial relief from the requirement to disclose financed emissions, we see no valid reason for permanent removal of this requirement of IFRS S2.¹

Financed emissions will be the single biggest part of emissions for most Australian financial institutions. Their peers reporting under IFRS S2 will be required to disclose financed emissions, so removing the requirement in ASRS 2 for financed emissions disclosure creates international inconsistency.

¹ The reason given is inability to disaggregate Scope 1 and 2 under NGERs. That problem is easily solved by deleting the requirement to disaggregate financed emissions and Scope 1 and Scope 2 data. Financed emissions are calculated under most international methodologies like PCAF using the sum of Scope 1 and Scope 2 times an attribution factor. NGERs data can be fed into the calculation aggregated across Scope 1 and Scope 2. The inability to disaggregate is therefore a presentation issue, not a fundamental calculation issue.

On a related but distinct issue, IFRS S2 B58-B63 requires disaggregated reporting of Scope 1, 2 and 3 whereas ASRS 2 does not. The stated rationale for this difference is that NGERs does not require Scope 1 and 2 to be disaggregated. We see no material issue with removing the requirement to disaggregate financed emissions into Scope 1 and Scope 2, however this can be done without removing the requirement to disclose financed emissions all together.

3.3 Conversion of greenhouse gas emissions to CO₂ equivalents

ASRS 2 requires the using IPCC Assessment Report 5 (AR5) factors for consistency with existing NGER regulations for large emitters. This is problematic as IFRS requires factors from the latest IPCC report available (AR6). As the IPCC Reports are updated, this will present information that is not as well informed as it should be, as well as create consistency issues over time and additional work for Australian subsidiaries of international companies (who may need to convert under AR5 and AR6).

Rather than the accounting standard embedding outdated conversion factors, the Institute recommends that the factors in NGER Scheme legislation be updated to reflect the latest internationally agreed science.

At the same time, consideration could be given as to whether the NGER Scheme legislation should be updated to include nitrogen trifluoride for consistency with the Kyoto Protocol. As the AASB noted, one of those gases, nitrogen trifluoride (NF₃), is not listed in the National Greenhouse and Energy Reporting Act 2007 and related regulations (NGER Scheme legislation) as a class of greenhouse gas.

3.4 Scenario analysis

IFRS S2 does not stipulate the number of climate scenarios an entity should run or specify common information about the inputs to scenario analysis (such as which climate-related scenarios the entity used for the analysis and the sources of those scenarios) (paragraph 22).

In ASRS 2, it is proposed two scenarios are required, one of which must be aligned with the most ambitious global temperature goal² set out in the Climate Change Act 2022 (namely, 1.5°C above pre-industrial levels).

The use of one common scenario is helpful from a consistency perspective, and aligns with Australian legislation, but this differs from the global equivalent IFRS S2. This may lead to subsidiaries of international companies in Australia needing to produce three or more scenarios (e.g., aligned with 1.5°C, a second between 1.5°C and 2°C, and a third over 2°C), locally and for parents, adding to cost and complexity.

For reporting entities in the position of having to report on three or more scenarios, it is not clear that the additional cost and effort will deliver additional benefit to the end-users of these disclosures.

We also note that climate-related scenario analysis is a rapidly evolving practice, with no global standards at present. We welcome the limited liability in relation to scenario analysis for this reason.

Finally, as noted in the cover letter we highlight the International Actuarial Association is currently developing International Standard of Actuarial Practice (ISAP) 8 – IFRS S2 Climate-related disclosures. ISAP 8 aims to provide guidance to actuaries in areas such as scenario modelling and GHG emissions calculations under IFRS S2 to ensure high standards of practice.

² The Institute encourages the AASB to consider standardising this language with IFRS S2 definitions – i.e., use the term “a climate-related scenario aligned with the “most ambitious global temperature goal aligned with the latest international agreement on climate change and reflected in the Climate Change Act 2022”. If Treasury keeps a requirement for a 1.5°C scenario, then AASB 2 Paragraph 22 (b)(i)(4) is redundant and can be deleted (i.e., specify: ‘whether the entity used, among its scenarios, a climate related scenario aligned with the latest international agreement on climate change’).