



Environmental
Defenders Office

Comment Letter: Submission to AASB on Sustainability Reporting Exposure Draft ED SR1

1 March 2024

About EDO

EDO is a community legal centre specialising in public interest environmental law. We help people who want to protect the environment through law. Our reputation is built on:

Successful environmental outcomes using the law. With over 30 years' experience in environmental law, EDO has a proven track record in achieving positive environmental outcomes for the community.

Broad environmental expertise. EDO is the acknowledged expert when it comes to the law and how it applies to the environment. We help the community to solve environmental issues by providing legal and scientific advice, community legal education and proposals for better laws.

Independent and accessible services. As a non-government and not-for-profit legal centre, our services are provided without fear or favour. Anyone can contact us to get free initial legal advice about an environmental problem, with many of our services targeted at rural and regional communities.

Environmental Defenders Office is a legal centre dedicated to protecting the environment.

Submitted electronically via <https://www.aasb.gov.au/current-projects/open-for-comment/submit-comment-letter/?id=2801>

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EXECUTIVE SUMMARY

The Environmental Defenders Office (**EDO**) welcomes the opportunity to comment on AASB's Sustainability Reporting Exposure Draft ED SR1 (**Exposure Draft**).

As part of a national community legal centre specialising in public interest environmental law, the work of the EDO Safe Climate (Corporate and Commercial) lawyers includes examining greenwashing by companies. To avoid facilitating greenwashing, it is critical that the Australian jurisdiction sets climate-related sustainability reporting standards that:

- generate information that is comprehensive, consistent and comparable across different entities and geographies;
- are guided by the most up-to-date science-based criteria; and
- go beyond the standards issued by the International Sustainability Standards Board (**ISSB**) in circumstances where this may better enable Australia and Australian entities to support the goals of the Paris Agreement.

The EDO supports the inaugural goals of the ISSB to develop standards that i) enable entities to provide high-quality comprehensive information, ii) are internationally applicable and iii) serve as a baseline of disclosure from which jurisdictions can build¹. The EDO believes that alignment of Australian standards with the ISSB standards can help to eradicate greenwashing, increase transparency and build trust amongst all stakeholders including users of general purpose financial reports (**GPFR**).

Moreover, going beyond the ISSB standards in order to support the achievement of the Paris Agreement goals will foster international and domestic credibility and enable Australia to establish a position as a global leader in sustainability and climate change response. In particular, the EDO supports complementary standards that may assist companies in developing credible transition plans/net zero standards to complement climate reporting.

We set out below a summary of our key recommendations and detailed responses to the following questions set out in the Introduction to the Exposure Draft:

Questions 1, 3, 4, 5, 6, 7, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 30, 33 and 34.

We have not provided feedback in response to questions 2, 8, 9, 21, 22, 23, 24, 25, 26, 27, 28, 29, 31, 32 and 35 as they raise technical issues that extend beyond the scope of the EDO's work.

Summary of Recommendations

Recommendation 1 – retain SASB standards as starting point for source of guidance

Recommendation 2 – 1.5° scenario and prescribed scenarios for climate resilience assessment

¹ See e.g. [IFRS - IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements](#)

Recommendation 3 – Industry based metrics as per IFRS S2

Recommendation 4 – Index table

DETAILED RESPONSES TO FEEDBACK QUESTIONS

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 of 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)?*

The EDO prefers Option 3.

The EDO supports the ISSB’s approach of establishing core content (governance, strategy, risk management, metrics and targets) in IFRS S1 that serves as the foundation for disclosures on all sustainability matters. Establishing a uniform structure will help reporting entities to develop efficient reporting practices and will make sustainability disclosures easier for users to navigate and analyse. The AASB should not depart from this structure.

IFRS S1 will set the conceptual foundations and general requirements not just for climate-related disclosures but for all other sustainability standards to be developed by the ISSB. As global uptake of the IFRS sustainability standards increases, preparers will need to become adept at referring to IFRS S1 alongside IFRS S2 and any other new sustainability standard. The AASB should adopt a presentation approach that supports the development of this practice and assists Australian companies to keep up with their peers and gain efficiencies over the medium and long term. Option 3 is most likely to achieve this.

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.*

The EDO **agrees** that an entity must disclose the fact of and the explanation for the conclusion that there are no climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

The entity's assessment of materiality is fundamental to the operation of the Treasury's proposed mandatory climate-related disclosure regime and the AASB's sustainability-related reporting requirements. It is appropriate that an entity is required to disclose the reasons for concluding that climate change presents no material risks or opportunities, given the significance of this conclusion.

Materiality is a matter of judgment made by the entity, and users can better assess the merits of this judgment if they are provided with the reasons for it. Requiring an entity to explain its conclusions on materiality will also enable greater information-comparability in relation to judgments made by other entities in similar circumstances.

Given that the State of Environment Report 2021 states that "climate change is affecting every aspect of our environment" it is difficult to see how a company could not have any material risks.² In assessing whether the exemption applies there should be consideration of total GHG emissions and possible exposure to climate-related physical and transitional risks, not merely the reliance on consolidated revenue, value of consolidated gross assets and number of employees.

The EDO further recommends a clarification in the wording of ASRS 1 paragraph Aus6.2 and ASRS 2 paragraph Aus4.2. In IFRS S1 and S2, the concept of materiality does not directly apply to the risks and opportunities themselves. The question of judgment for the entity is whether any risks or opportunities could reasonably be expected to affect the entity's prospects. Materiality relates to the *information* that should be disclosed in relation to those risks and opportunities, in circumstances where omitting, misstating or obscuring such information could reasonably be expected to influence decisions that primary users of GPFR make³.

The EDO recommends that the wording in ASRS 1 paragraph Aus6.2 and ASRS 2 paragraph Aus4.2 is amended to clarify this, in order to align more closely with what is an essential part of the conceptual foundations of the IFRS Sustainability Standards.

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 views.*

The EDO **disagrees** with the AASB's proposal to remove the requirement for an entity to refer to and consider the applicability of the SASB Standards and references to *Industry-based Guidance on Implementing IFRS S2*.

² Australian Government, State of the Environment Report 2021, available at <https://soe.dcceew.gov.au/overview/key-findings>

³ IFRS S1, paragraph 18.

The SASB Standards are a key feature of the structure of IFRS S1 and an important tool for the ISSB to achieve its aim to generate globally comparable, consistent disclosures that are useful to investors. The AASB's reasons for departing from this structure are not compelling.

The IFRS S1 provision requires preparers to “refer to and consider the applicability of the disclosure topics in the SASB Standards”. An entity may consider that these are not applicable to its circumstances⁴. The AASB should direct Australian companies to consider this source of guidance as their starting point. A clear direction will make it easier and more efficient for Australian companies to adopt the Australian standards, while also maintaining a reporting approach that is consistent with overseas companies and the analytical tools of investors and asset managers.

The perception that the SASB Standards are US centric and lack international applicability is not borne out by the prevalence of their use across the world. According to the IFRS, “SASB Standards are used worldwide by companies and investors of varying size. As of December 2023, the SASB Standards are applied by more than 3,200 companies in over 80 jurisdictions including approximately 75% of the companies in the Global S&P 1200”⁵.

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.*

The EDO **disagrees** with this view.

Industry specificity is essential to generate the disclosure of information that is useful to users and stakeholders. Climate-related risks and opportunities vary significantly by industry, and an entity's industry is far more relevant than the entity's geographic location.

The SICs is more internationally applicable than ANZSIC. The AASB should not centre its approach on an Australian classification system; it should support the emergence of standardised, comparable disclosures worldwide.

The more entities apply the same disclosure topics and metrics, the more decision-useful the disclosures become and the greater the potential for reporting to drive better performance.

Consistent with the EDO's response to this question, the EDO has recommended to the Australian Government that does not delay the requirement for reporting entities to disclose industry-based metrics until 2030, and instead brings this forward to 2026⁶

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.*

⁴ IFRS S1, paragraph 55(a).

⁵ [using-sasb-standards-for-ifrs-s1.pdf](https://www.aasb.gov.au/using-sasb-standards-for-ifrs-s1.pdf)

⁶ See recommendation 5 -<https://www.edo.org.au/wp-content/uploads/2024/02/EDO-submission-exposure-draft-legislation-on-mandatory-climate-related-disclosures.pdf>,

Refer to our response to Question 5 above.

It remains essential that the required disclosures can be readily located and that no conflicting information is provided in additional voluntary disclosures. The use of an index table for required disclosures can assist in clarity and accessibility (see our response to Question 7 below).

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.*

The EDO **disagrees** with this proposed requirement. Users should be able to readily locate climate-related financial disclosures within GPFR. Many preparers may be making integrated sustainability disclosures, and/or disclosures on other sustainability matters. An index table will provide necessary clarity for users, while also providing a way for the preparer, assurance provider and regulator to check that the requirements for climate-related financial disclosures have been met.

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

Climate resilience

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

The EDO **supports** the AASB's proposal to require an entity to disclose its climate resilience assessments against at least two possible future states, one of which must be a scenario in which global average temperature is limited to 1.5°C above pre-industrial levels.

The EDO considers that this will enhance the national and international comparability of climate resilience assessments between entities.

Moreover, a specific requirement in respect of resilience in 1.5°C scenario is essential in order to maintain a focus on the goals of the Paris Agreement. The EDO would go further and recommend a requirement for the use of prescribed emission scenarios consistent with both the latest IPCC and IEA modelled pathways that limit warming to 1.5°C, to ensure a science-based, internationally consistent, and comparable approach to climate projections. The EDO is concerned that giving entities discretion to choose climate scenarios that are consistent with the objective of holding the global average temperature increase to 1.5°C or "well below" 2°C allows entities to choose scenarios or engage in "scenario shopping." This was discussed in more detail at recommendation 3 of the submission to Treasury on draft legislation on mandatory climate disclosures.⁷

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.*

⁷ <https://www.edo.org.au/wp-content/uploads/2024/02/EDO-submission-exposure-draft-legislation-on-mandatory-climate-related-disclosures.pdf>

The EDO **agrees** with the AASB's view. Each entity will have its own circumstances that justify the selection of a particular upper-temperature scenario.

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.*

The EDO considers that this would provide useful information. We stress again the importance of not departing from the requirements of IFRS S2 to support global standardisation and comparability across geographies.

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.*

The EDO strongly supports the AASB's proposed requirements. These industry-agnostic metrics require disclosure of quantitative information that can encourage entities to consider climate-related issues as strategic issues. Such disclosures can also assist users to assess the extent of strategic integration within the entity.

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

Definition of greenhouse gas

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.*

The EDO **agrees**. Alignment with IFRS S2 is essential to generate disclosure of information about GHG emissions that is globally consistent and comparable in order to be useful to investors. The clarity for preparers is also helpful.

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.*

The EDO considers that as far as possible, ASRS 1 and 2 should replicate the requirements of IFRS S1 and S2. This is to encourage standardised methodologies to support consistent, comparable disclosures.

The EDO considers it more reasonable to require preparers to adopt the approach under IFRS S2 to all scopes of emissions and all geographic locations, except where the preparer is required to report under the NGER Scheme legislation. This will drive greater information comparability at a global level.

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.*

The EDO supports the requirement to disclose location-based and market-based Scope 2 GHG emissions.

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 refer to our response to Question 15.

We suggest that the AASB clarifies that an entity should use the GHG Protocol Standards methodology when not required to report under NGER Scheme or clarify that “not practicable” means not reporting under NGER Scheme.

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.*

The EDO **does not agree** with this proposal for relief. The requirement for an entity to disclose its Scope 1, 2 and 3 emissions generated during the reporting period should not be subject to an additional relief in respect of Scope 3 emissions.

The practical challenges of calculating Scope 3 emissions are fully addressed by the existing provisions of IFRS S2. Paragraph B19 of IFRS S2 permits an entity to use information obtained from entities in the value chain from reporting periods that are different from the entity’s reporting period if certain conditions are met. Paragraphs B38-B57 of IFRS S2 set out a Scope 3 measurement framework which enables an entity to make judgments about its measurement approach and the sources, accuracy and timeliness of data used to calculate emissions.

The EDO further notes that, consistent with IFRS S2, the AASB proposes to provide a transitional relief in the form of an exemption from reporting Scope 3 emissions in the entity’s first year of reporting. The EDO considers that the availability of this transitional relief – when considered alongside the provisions referred to above - are sufficient to address the challenges arising from the collection of data for the calculation of Scope 3 emissions and there is no basis for the AASB to offer an additional relief.

If the AASB does determine to offer this additional relief, the EDO considers that the AASB must adapt the Scope 3 measurement framework for an entity that seeks to rely on this relief, so that the

entity is required to use direct measurement only and cannot use estimation. This would require an amended version of ASRS 2 paragraphs B38-B52 where the entity relies on the relief for Scope 3 emissions.

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.*

The EDO **does not agree** with this approach. The requirement in IFRS S2 for an entity to consider the 15 categories of Scope 3 emissions under the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) will drive a globally consistent approach for describing sources of Scope 3 emissions. The GHG Protocol Corporate Value Chain Standard is the only internationally accepted methodology for calculating Scope 3 emissions and is already widely used in non-financial reporting. There is no compelling reason to depart from the GHG Protocol in this instance.

The proposal suggested by the AASB risks creating uncertainty for preparers and users. The invitation in paragraph AusB33.1 for an entity to consider the 15 GHG Protocol Categories is likely to raise questions over whether the entity should disclose the reasons why it has determined not to use the 15 GHG Protocol Categories and the extent to which its chosen categories differ from the 15 GHG Protocol Categories. The EDO considers that a direction to apply the 15 GHG Protocol Categories will avoid uncertainty and generate more useful, consistent and comparable information.

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 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.*

The EDO **does not agree** with this proposal. Entities should be explicitly required to disclose the information required by IFRS S2 in relation to financed emissions.

General matters for comment

The EDO submits comments only in response to Questions 33 and 34:

Question 33. *Would the proposals result overall in climate-related financial information that is useful to users?*

Overall yes – AASB standards on climate-related financial information are necessary to drive better quality disclosures that can be used to support better decision-making by investors.

Question 34. *Are the proposals in the best interests of the Australian economy?*

Yes – climate-related disclosure standards are a tool to help manage risks to the economy and encourage better performance by Australian companies. Australia lags behind other capital markets in adopting the IFRS Sustainability Standards and should move forward quickly to adopt an aligned reporting regime.