Clean Energy Investor Group
50 Camberwell Road Hawthorn East VIC 3123

8 March 2023

Dr. Keith Kendall
Board Chair
Australian Accounting Standards Board
Lodged electronically at: standards@aasb.org.au

Dear Dr. Kendall,

CEIG response to the AASB Exposure Draft - ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

The Clean Energy Investor Group (CEIG) warmly welcomes the opportunity to provide comments on the Australian Accounting Standards Board (AASB)'s Exposure Draft - ED SR1 Australian Sustainability Reporting Standards (the Exposure draft) on Disclosure of Climate-related Financial Information published in October 2023.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around $38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to clean energy with a focus on the stakeholders who can provide the long-term cost-effective capital required for this transition.

Key Points

- The AASB proposes to promote enhanced disclosure and improved climate-informed financial decision making in financial statements.
    - **CEIG supports the proposed AASB framework** because it will ensure international alignment, enhance transparency, and promote efficiency and consistency in reporting practices.
- The [draft] standards strike an excellent balance between valuable reporting and disclosure, and **pragmatic reporting expectations**.
- The standards are clear and **minimise repetition and redundancy**.
- Climate resilience aligned standards will **improve transparency and comparability.**
- Financed emissions disclosures find a worthwhile balance between valued disclosure and complex value chain mapping, but **should be revisited** in the future, as data capture processes improve.

GENERAL COMMENTS

Entities responsible for preparing General Purpose Financial Statements (GPFS) in Australia are mandated to consider climate-related issues in these statements if such issues significantly impact the primary users of GPFS. Despite this, current Accounting Standards don't specifically mention climate-related matters, and often, vital climate-related information isn't covered under GPFS. This has led to calls for the Australian Accounting Standards Board (AASB) to broaden its focus, providing additional guidance or regulations to ensure uniformity and comparability in reporting climate-related financial data.

The Exposure Draft (ED SR1) issued by the AASB for the Australian Sustainability Reporting Standards, focuses on the disclosure of climate-related financial information. The draft includes three standards: ASRS 1 for general climate-related disclosures, ASRS 2 for more specific climate-related financial disclosures, and ASRS 101, a reference standard. It aligns with international standards, particularly IFRS S1 and IFRS S2, with modifications to address Australian requirements. Key elements include greenhouse gas emissions, climate resilience, and industry-specific disclosures, aiming to enhance transparency and consistency in reporting climate-related financial risks and opportunities.

The AASB proposes to promote enhanced disclosure and improved climate informed financial decision making. CEIG supports the proposed framework because it will ensure international alignment, enhance transparency, and promote efficiency and consistency in reporting practices. efficiency and consistency in reporting practices.

DISCUSSION OF SPECIFIC CLAUSES

Our analysis and proposed recommendations centre on pivotal issues outlined in the Exposure Draft (ED SR1), which are essential for investors in renewable energy projects committed to facilitating the transition.

We support the presentation of the IFRS S1 in the [draft] standards, as this will ensure efficient and transparent alignment with international standards. While we favour the use of IFRS S1 directly, we agree that due to limited public consultation and limited local contextualisation that Sustainability Accounting Standards Board (SASB) alignment should be at the discretion of reporting entities. CEIG favours industry-based reporting alignment, to inform investor cohorts of the efforts of firms at a sectoral/industry level. This regime also ensures that entities supporting the transition are transparently, and impartially presented when set against those unsupportive of transition aligned investment, supporting investor decision making and acknowledging the critical role of RE investors in driving the transition.

With regard to Market based scope two disclosures, CEIG supports their inclusion in addition to location-based emissions to ensure that investors have a viable capture of scope 2 emissions and their location specific effects. From an RE standpoint, the inclusion of both location and market-based disclosure ensures RE assets are consistently and transparently compared with non-RE incumbent assets. Similarly, CEIG supports Co2 conversion to support consistency in the comparison of RE and non-RE asset classes. CEIG also asserts the value of the inclusion of scope 3 emissions, but acknowledges the time needed to facilitate implementation.

CEIG acknowledges the challenges associated with financed emissions and acknowledges the need for pragmatism in measurement during the earliest vestiges of the new reporting regime. CEIG notes that this set of expectations should be revised as finance value chain data becomes more attainable. Similarly, superannuation entities may face significant challenges in evaluating their value chains during the earliest vestiges of the new regime.

CEIG supports a disclosure regime that necessitates disclosure of climate resilience under multiple (two minimum) states, given the importance for robust reporting, and ensuring that investors understand the risks associated with extant non-RE assets investments under multiple states.

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

CEIG asserts that Option 3 is preferable for presenting the core content disclosure requirements of IFRS S1 in the [draft] ASRS Standards. This option avoids redundancy by incorporating governance, strategy, and risk management disclosures into [draft] ASRS 1 and referencing these in [draft] ASRS 2 with Australian-specific paragraphs. This approach streamlines reporting, reduces compliance burdens, and focuses on climate-specific disclosures, aligning with CEIG's advocacy for clear, efficient regulatory frameworks that facilitate the transition to a sustainable energy future. It ensures transparency and comparability in climate-related financial disclosures, crucial for investors focusing on renewable energy investments.

Replacing duplicated content with references to the Conceptual Frameworks

CEIG agrees with the AASB's approach to reference the Conceptual Framework for Financial Reporting and the Framework for the Preparation and Presentation of Financial Statements instead of duplicating content in [draft] ASRS 1 and [draft] ASRS 2. This approach aligns with CEIG's preference for streamlined, efficient regulatory frameworks that reduce compliance burdens while maintaining transparency and accountability. By referencing existing frameworks, the standards focus on climate-related disclosures, facilitating investors' assessment of climate-related financial risks and opportunities without unnecessary duplication. This method supports CEIG's advocacy for clear and efficient regulations that accelerate the transition to sustainable energy.

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

CEIG supports the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2. This approach aligns with CEIG's emphasis on transparency and informed decision-making in investments. By requiring entities to disclose the absence of material climate-related risks and opportunities and explain their assessment process, it ensures that investors have a clear understanding of the climate-related financial risk landscape. This transparency is crucial for clean energy investors who prioritise sustainability and risk management in their investment choices.

Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards

CEIG agrees with the AASB's decision to remove the requirement for considering SASB Standards due to the short public consultation period, the non-exclusive focus on climate-related risks in the SASB proposals, and the US-centric nature of SASB Standards, which may not fully align with Australian or global market contexts. CEIG values globally relevant, inclusive standards that effectively address climate risks and opportunities, emphasising the need for standards that are adaptable and representative of diverse market conditions, including those specific to the Australian market. This will ensure that RE asset holders are able to align to IFRS while not having to accommodate additional non contextualised SASB approaches.

Industry classification and alignment

CEIG agrees with the AASB's proposal for entities to utilise ANZSIC for industry-based disclosures, emphasising the importance of using well-understood and established metrics that reflect specific business models and activities within the Australian context. This approach ensures clarity and relevance in disclosures, facilitating better investor decision-making, particularly for those focused on sustainable investments. Additionally, CEIG supports the allowance for voluntary disclosures based on other frameworks like SASB Standards, as it would enable entities to provide comprehensive insights into their sustainability practices, enhancing transparency and investor confidence in the clean energy sector. This will also enable incumbent non-RE assets to be transparently set against RE investments at a category level.

Climate resilience

CEIG supports the proposal in [draft] ASRS 2 paragraph Aus22.1, which requires entities to disclose their climate resilience assessments against at least two future states, including one aligned with the 1.5°C global temperature goal.

This approach aligns with CEIG's commitment to sustainable investment and the urgency of addressing climate change. It provides a clear, ambitious benchmark for entities to assess and disclose their climate resilience, aiding investors in evaluating climate-related risks and opportunities.

Regarding not specifying the upper-temperature scenario for physical risk assessment, CEIG agrees with the AASB's view. This flexibility allows entities to consider their unique circumstances, such as operation nature and location, which is crucial for accurately assessing physical climate risks. This approach can help investors understand the specific climate risks faced by different entities, facilitating more informed investment decisions in the clean energy sector.

Cross-industry metric disclosures

CEIG finds the cross-industry metric disclosures in IFRS S2 and [draft] ASRS 2, as outlined in paragraphs 29(b)–29(g), useful for investors and encouraging climate investment. These metrics provide a standardised approach to reporting on climate-related risks and opportunities, which is crucial for stakeholders, including investors focused on renewable energy and sustainability. Standardised metrics enhance comparability and consistency across different industries, aiding in better assessment and understanding of how different entities perform in relation to their climate-related risks and opportunities. This aligns with CEIG's interest in promoting transparency and informed decision-making in sustainable investments. This will enable RE investments to be set against alternative investment classes in a transparent and consistent manner.

Cross-industry remuneration disclosure

CEIG agrees with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1. These requirements align with CEIG's emphasis on transparency and accountability in climate-related disclosures. By requiring entities to disclose how climate considerations factor into executive remuneration, stakeholders gain insights into how seriously an organisation treats its climate-related commitments. This can be a significant factor for investors, like those associated with CEIG, who are interested in supporting companies that are genuinely committed to addressing climate change. Additionally, aligning these terms with existing definitions in AASB 124 helps maintain consistency and clarity.

Greenhouse gas (GHG) emissions

CEIG agrees with the AASB's decision to adopt the IFRS S2 definition of greenhouse gases without modification, including nitrogen trifluoride (NF_3). Although NF_3 is not listed in the NGER Scheme legislation, incorporating the broader IFRS S2 definition can ensure consistency with international standards, which is important for global comparability and transparency. This approach may also future-proof reporting requirements, considering potential changes in industry practices or environmental regulations. For CEIG, as we advocate for effective and globally aligned climate action, this consistency could be crucial for informed investment decisions in the clean energy sector.

Converting greenhouse gases into a CO2 equivalent value

CEIG agrees with the AASB's approach for Australian entities to use Global Warming Potential (GWP) values from the IPCC 5th assessment report (AR5), as required under the NGER Scheme legislation, for converting greenhouse gases into CO2 equivalent values. This approach aligns with existing national regulatory frameworks, reducing regulatory burden and complexity for entities. It provides consistency in reporting and comparability within the Australian context, which is important for stakeholders, including investors focused on environmental compliance and sustainability. CEIG's interest in clear, efficient, and locally relevant regulatory practices supports this approach.

Market-based Scope 2 GHG emissions

CEIG supports the proposals in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2, which require the disclosure of market-based Scope 2 GHG emissions in addition to location-based emissions, with a phased-in approach. This inclusion aligns with CEIG's focus on comprehensive and transparent reporting of climate-related impacts. The phased-in approach recognises the additional complexities involved in calculating market-based emissions, allowing entities time to adapt. This comprehensive reporting could provide investors with a more accurate picture of an entity's environmental impact and efforts to reduce it, aiding in responsible investment decisions in the clean energy sector.

GHG emission measurement methodologies

CEIG agrees with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1. These proposals advocate for distinct measurement of different GHG emission scopes and encourage the use of methodologies outlined in the NGER Scheme legislation, prioritising Australian-specific data sources and factors. When NGER methodologies are impractical, they suggest alternatives consistent with jurisdictional requirements or GHG Protocol Standards. This approach aligns with CEIG's emphasis on accurate, region-specific, and standardised reporting for informed investment decisions in the clean energy sector.

Providing relief relating to Scope 3 GHG emissions

CEIG supports the proposal in paragraph AusB39.1 of [draft] ASRS 2, which allows entities to disclose Scope 3 GHG emissions using data from the previous reporting period if current data is unavailable. This approach recognises the challenges in obtaining timely and accurate Scope 3 emissions data, which often involves complex value chains. It offers practical flexibility while maintaining the commitment to transparency in emissions reporting, aligning with CEIG's focus on realistic and effective climate action strategies. This flexibility is vital for entities beginning to track and report these more complex emissions categories. CEIG would recommend the requirement for the provision of explanatory information from the disclosing entity pertaining to the entity's inability to capture and or represent data in the relevant interval.

Scope 3 GHG emission categories

CEIG offers tentative support the AASB's approach in [draft] ASRS 2 paragraph AusB33.1, which includes the Scope 3 GHG emission categories from IFRS S2 as examples rather than as mandatory categories. This approach offers flexibility to entities in categorising their Scope 3 emissions, allowing them to provide a more accurate representation of their activities. It acknowledges the complexity and diversity of Scope 3 emissions, aligning with CEIG's interest in detailed and relevant disclosures that aid in understanding the full spectrum of an entity's climate impact. CEIG notes that it is critical to monitor scope 3 disclosures to determine whether such flexibility results in less compelling and decision relevant information.

Financed Emissions

CEIG broadly agrees with the AASB's proposal in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1, and AusB63.1, which requires entities to consider the applicability of disclosures related to financed emissions. This approach allows entities flexibility in determining the relevance and practicability of these disclosures, recognising that not all entities may have the necessary information for detailed disaggregated reporting as per GHG Protocol Standards. Such a stance aligns with CEIG's focus on realistic and effective climate-related financial disclosure practices, ensuring that entities provide meaningful data without being burdened by impractical reporting requirements. CEIG notes that data is increasingly available to facilitate such disclosures, and as data capture and availability improves making such disclosures more practicable ASRS 2 should be revisited in the future.

Superannuation entities
CEIG recognises that superannuation entities could face specific challenges in complying with the climate-related financial disclosure requirements in [draft] ASRS 1 and [draft] ASRS 2. These challenges could stem from the nature of their investments, which are often diverse and spread across various sectors and geographies, making the gathering of consistent and detailed climate-related data more complex. Additionally, superannuation entities might have to manage a balance between long-term investment strategies and the evolving nature of climate-related risks and opportunities. This complexity could lead to difficulties in accurately assessing and reporting climate impacts, potentially requiring significant resources and expertise. CEIG notes that with advancements in measurement and data collection, this framework should be revisited.

Considering the AFRS Overall
When considering the [draft] AFRS overall, CEIG strongly welcomes the proposed rules, notwithstanding the noted caveats. The benefits of the disclosure regime for investor groups, and given our climate obligations, outweigh the burdens associated with enhanced disclosure. With specific reference to questions 33, 34 and 35 CEIG wishes to note the following.

Usefulness of Climate-Related Financial Information (33):
The proposed ASRS standards are likely to result in climate-related financial information that is useful to users, especially investors focused on sustainable and clean energy sectors. This information aids in assessing risks and opportunities related to climate change, which is crucial for informed decision-making.

Best Interests of the Australian Economy (34):
The proposals align with the interests of the Australian economy by encouraging sustainable practices and transparency in business operations. They help in identifying and mitigating climate-related financial risks, which is essential for long-term economic stability and growth.

Costs and Benefits of the [draft] AFRS (35):
While there will clearly be incremental costs associated with implementing the new reporting requirements, particularly for gathering and processing data on climate-related risks and GHG emissions. These costs would vary depending on the entity's size and complexity, and given the viable standardisation proposed are not overly onerous.

The qualitative benefits include improved risk management, better investor confidence, and alignment with global standards, which could enhance Australia's position in the global market. Quantitatively, although specific amounts are difficult to estimate without detailed industry data, the long-term financial benefits will undoubtedly include more efficient capital allocation, reduced transition risk, greater support for the energy transition, improved alignment with climate obligations and risk mitigation.

Overall, while there are costs involved, the strategic benefits of improved climate-related financial disclosures are likely to outweigh these in the long term. CEIG thanks the AASB for the opportunity to provide feedback on the Exposure draft and looks forward to continued engagement on those issues. Our Policy Director can be contacted at marilyne.crestias@ceig.org.au if you would like to further discuss any elements of this submission.

Yours sincerely,

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