Australian Information Industry Association

Submission on

Exposure Draft ED SR1

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

01 March 2024

Introduction

The Australian Information Industry Association (AIIA) thanks the Australian Accounting Standards Board for the opportunity to respond to its consultation on the exposure draft ED SR1. AIIA supports climate disclosures to improve transparency and drive progress in the fight against climate change. AIIA believes ED SR1 is an important step to drive comprehensive emissions disclosure and is keen to ensure the requirements are streamlined and easy to comply with, having harmonised with international reporting calendar and business structures.

1. **Start of Reporting/ Reporting groups:** We advocate for the reporting period for Group 1 companies to begin in July 2025 (or January 2026 for calendar year reporting) rather than 1 July 2024. This provides companies with sufficient time to establish reporting mechanisms and collect meaningful data before the initial reporting period. However, we also note that there are members offering solutions and services to support these new standards. Such a delay will have negative commercial consequences to these businesses supporting their Australian customers. At a minimum, AIIA requests first reporting for Group 1 entities be aligned with other international reporting requirements, e.g. for financial years beginning on or after 1 January 2025 to align with EU Corporate Sustainability Reporting Directive (CSRD) timelines. Given that consultations on the draft standards are continuing until March, companies will have an extremely short lead time to prepare for a reporting period starting July 2024 so a later commencement date would improve the quality of reporting.

2. **Criticality of interoperability:** Given the diverse range of sustainability reporting frameworks ensuring interoperability between government requirements and the AASB standards is essential. This would streamline the use of disclosures for investors and stakeholders while reducing compliance risks for business. We support interoperability with existing regimes multinationals would likely already be subject to, including both the IFRS/ISSB standards (as referenced) but also the European Sustainability Reporting Standards (ESRS) issued under the CSRD. Different reporting formats across multiple jurisdictions should be avoided, as that could impact the quality of reporting and the ability of users to compare data across jurisdictions.

3. **Parent-level Reporting and Subsidiary Exemptions**
    a. Draft ASRS 1 provides that disclosures must be made for the same reporting entity as the related financial statements, and the Draft Legislation proposes more flexibility for consolidated groups. Both fall short of introducing enough flexibility to provide a more comprehensive view across entities. Countries should provide an exemption for subsidiary entities of parent corporations that report sustainability-related financial disclosures at an aggregated level that is inclusive of that country's data. Parent-level disclosures provide a more comprehensive view across subsidiary entities, maximum comparability, and support the integration of climate disclosure information into financial reporting. Enabling flexibility for a company to report the most decision-useful information at the most appropriate level promotes climate action while reducing compliance burden. It also provides investors and other primary users of their financial reporting with the necessary level of information on a company’s overall sustainability profile and strategy.
    b. Flexibility should also be secured in terms of reporting periods allowing entities to align to their parent company’s fiscal calendar which should improve the quality of reporting and enable users to better compare data across jurisdictions where multinational companies are issuing sustainability reports. In addition, there may be reliance on parent company data for the Australian sustainability report so it would make sense to allow the parent company’s fiscal year data to be used in those cases.

4. **Flexibility in Emission Accounting Methodology**.
   We support the flexibility that is indicated regarding GHG emission accounting methodology. Multinational companies should have the option to use methodologies they already employ internationally. Mandating the NGER accounting methodology exclusively creates administrative burdens, undermines consistency and may lead to less precise reporting for companies operating across borders.

5. **Industry-Specific Standards:** Companies operating across multiple industries may not find industry-based disclosure requirements meaningfully more relevant or comparable than using cross-industry metrics. Applying multiple overlapping standards risks confusion and reduces comparability. We support prioritising disclosures based on financial materiality over the use of the industry-based criteria and recommend flexibility in applying the most relevant standards. Future industry-specific guidance should prioritise interoperability and consistency with existing standards.

6. **Commercially Sensitive and Security-Related Information:** While the draft standards and legislation offer some exemptions, we propose:
   a. **Broader exemptions:** Include exemptions for commercially sensitive information and security-related information beyond risks directly related to transition planning. Disclosing the location of critical infrastructure, for example, presents genuine security risks.
   b. **Protection of trade secrets:** Explicitly provide safeguards for information qualifying as a trade secret, preventing its disclosure via sustainability reporting.

7. **Safe Harbour Provisions**:
   a. **Extend safe harbour duration:** The Draft Legislation only provides a three-year safe harbour for statements relating to scope 3 GHG emissions and scenario analysis made in statements for a financial year commencing between 1 July 2024 and 30 June 2027 (Safe Harbour Period). Such a short safe harbour provision risks not being sufficient in time for companies to improve Scope 3 data to an adequate level of quality and reliability. Especially with Scope 3 reporting starting (according to IFRS) in 2027 on 2026 FY and a GHG Protocol revision underway, the quality of scope 3 will only improve slowly – both within AU and abroad.
   b. **Using the initially planned scope:** The Draft Legislation does not extend safe harbour provisions to transition planning or forward-looking statements more broadly, as originally proposed in the government's initial consultation paper. Forward-looking information is, by nature, uncertain and subject to change when new information becomes available. To encourage proactive transition planning, providing safe harbour from liability for forward-looking statements would encourage reporting entities to take a more comprehensive approach to risk identification and to adapt disclosures when new information becomes available, such as when informed by scenario analyses.

8. **GHG Emissions Intensity:** We invite the AASB to consider making GHG emissions intensity disclosures a secondary requirement, in addition to absolute emissions reporting. Intensity-based disclosures provide investors with more comparable data and a clearer picture of a company's climate change responsiveness, facilitating better assessment of high-growth companies.

9. **Limiting the reporting burden**: Consistent with IFRS S1, only material information about climate-related risks and opportunities that could reasonably be expected to affect the entity's financial prospects will be required to be disclosed. However, in contrast to IFRS S1, we note that if an entity determines that there are no material climate-related risks and opportunities, Draft ASRS 1 requires an entity to disclose this fact and how it came to this conclusion. This information is superfluous and could create confusion. A similar requirement does not exist in financial reporting.

10. **Climate resilience**: Discussion of scenario analysis should be limited to companies that use that method to assess their climate exposure. Not all companies use that approach, and it will be a significant burden and cost with limited benefit to require that all companies do.

11. **Auditing**: Entities should be provided with the option to use an auditor other than the auditor of the financial statements for the sustainability report, as it is not yet known whether auditors of financial statements will have the skills or bandwidth to conduct sustainability reporting audits.

12. **Assurance standards:** Companies need clear assurance standards and adequate time to work with their auditors to meet them. The reporting standards should provide that assurance standards need to be reevaluated regularly to meet widely accepted global standards, especially in the area of carbon accounting which is a dynamic and evolving area. Given the significant assumptions and qualifications involved with Scope 3 emissions reporting, the reporting standards should provide for limited assurance until there is global consensus on how to execute on a higher level of assurance.

13. **Report location and timing:** Companies should have the flexibility to report sustainability information in a report separate from financial statements, and on a later deadline e.g. 9 months after fiscal year end. In practice, it is much quicker to prepare annual financial statements than sustainability reports, especially as sustainability reporting is a new and evolving area compared to the well-established regime around financial reporting. It will be challenging, and impossible in some cases, to produce a fully audited, accurate and complete sustainability report in time for the deadline to file the financial statements, especially if the parent company data needed for the report is reported on a different fiscal period. Scope 3 emissions data, in particular, requires the collection of data from third parties in the supply chain and that also needs to take into consideration their fiscal year ends which can vary significantly from the reporting company's.

14. **Digital Adoption of Disclosures and Reporting:** Several bodies, including CPA Australia, have previously written about the adoption of digital financial reporting, referencing standards like XBRL. While XBRL is currently voluntary in Australia, CPA Australia has reported that "no company has chosen to lodge a digital financial report with ASIC." By contrast, countries with mandatory XBRL reporting obligations have seen increased efficiency in data analysis, from investors through to regulators. As an example, the Monetary Authority of Singapore has tested and launched Gprnt to help companies automate their ESG reporting process, and allow end users (such as financial institutions, regulators and large corporates) to access relevant data and timely insights to support their sustainability-related decision making. The platform will support enhanced data access and product innovation by the Environment, Social and Governance community. The introduction of the AASB ED SR1 proposal would seem to further strengthen the case for digital reporting.

Conclusion

The AIIA appreciates this opportunity to contribute to shaping Australia's sustainability reporting landscape. We emphasise the value of streamlined international alignment, data quality challenges, and the need for flexibility. The tech sector is ready to collaborate on solutions supporting the success of these standards. Should you have any questions, please contact Ms Siew Lee Seow, General Manager, Policy and Media at siewlee@aiia.com.au.

Yours sincerely
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About the AIIA

The Australian Information Industry Association (AIIA) is Australia's peak representative body and advocacy group for those in the digital ecosystem. We are a not-for-profit organisation to benefit members, which represents around 90% of the over 1 million employed in the technology sector in Australia. Since 1978, the AIIA has pursued activities to stimulate and grow the digital ecosystem, to create a favourable business environment for our members and to contribute to Australia's economic prosperity.

We do this by delivering outstanding member value by:

- providing a strong voice of influence
- building a sense of community through events and education
- enabling a network for collaboration and inspiration; and
- developing compelling content and relevant and interesting information.

We are unique in that we represent the diversity of the technology ecosystem from small and medium businesses, start-ups, universities, and digital incubators through to large Australian companies, multinational software and hardware companies, data centres, telecommunications companies and technology consulting companies.