SUBMISSION

Submission to the Australian Accounting Standards Board – Australian Sustainability Reporting Standards: Disclosure of Climate-related Financial Information

4 March 2024

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Via email: standard@aasb.gov.au

4 March 2024

Dear Sir/Madam

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

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission on Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information.

About ASFA

ASFA has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA-regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers. We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

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If you have any queries or comments in relation to the content of our submission, please contact Andrew Craston on 0401 016 587, or acraston@superannuation.asn.au.

Yours sincerely

Andrew Craston

Director, Economics

General comments

ASFA supports the adoption by Australia of internationally-aligned standards for climate-related financial reporting. ASFA also supports the Australian Accounting Standards Board (AASB) formally establishing detailed disclosure standards, aligned as far as practicable with the final standards issued by the International Sustainability Standards Board (ISSB).

ASFA supports the inclusion of superannuation entities into the regime for mandatory climate reporting. APRA-regulated superannuation funds have a responsibility to manage the impact of risks and opportunities arising from climate change on long-term investment performance. Across the business ecosystem, good-quality disclosure of climate-related risk will facilitate a more efficient and sustainable allocation of capital (including by superannuation funds) than otherwise would be the case, and support Australia's transition to a low-carbon economy.

ASFA's submission focuses on a number of high-level aspects of the draft Australian Sustainability Reporting Standards (*ASRS 1: General Requirements for Disclosure of Climate-related Financial Information* and *ASRS 2 Climate-related Financial Disclosures*), that are particularly relevant to APRA-regulated superannuation funds.

As an overarching point, ASFA considers that some aspects of the standards will require adjustment to ensure alignment with the specific features of superannuation entities, and that clear, tailored guidance will need to be developed (for the superannuation industry) in advance of the introduction of reporting requirements. The original standards, upon which the Australian Sustainability Reporting Standards are based, relate to the provision of institutional capital to (typically) non-financial private sector entities. In contrast, superannuation funds are universal asset owners that make investments on behalf of individual Australians – who will be the primary users of fund reporting.

Definition of primary users of financial statements (Question 21)

ASFA considers that a particular issue for superannuation entities is how the current definition of 'primary users' of general-purpose financial statements relates to members of superannuation funds.

Broadly speaking, the definition of primary users of general-purpose financial statements relates to the provision of institutional capital to private sector (typically non-financial) corporate entities. With respect to for-profit private sector entities, the objective of general-purpose financial reporting – as defined in the AASB's *Conceptual Framework for Financial Reporting* – is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.[1] Those decisions involve decisions about:

- buying, selling or holding equity and debt instruments;
- providing or settling loans and other forms of credit; or
- exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

By this definition, primary users are typically wholesale financial institutions that make decisions regarding the provision of new debt and equity funding to corporate entities, or the buying/selling of listed securities in secondary markets.

[1] AASB 2019, *Conceptual Framework for Financial Reporting*
https://www.aasb.gov.au/admin/file/content105/c9/Conceptual_Framework_05-19.pdf

With respect to climate-related financial disclosures in particular, draft *ASRS 1* provides additional information regarding the concept of a primary user.

- "Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances" (Paragraph B16 in Appendix B of draft *ASRS 1*).
- "Climate-related financial disclosures are prepared for primary users who have reasonable knowledge of business and economic activities and who review and analyse information diligently." (Paragraph B17 in Appendix B of draft *ASRS 1*).

However, with respect to the climate-related financial disclosures of superannuation entities, the primary users will be the individual members of superannuation funds – who, generally, cannot be assumed to "have reasonable knowledge of business and economic activities and who review and analyse information diligently". In this regard, under *Accounting Standard 1056: Superannuation Entities*, the AASB concluded that the most prominent among the users of general-purpose financial statements of superannuation entities are:

- current and potential members and beneficiaries;
- parties that act on behalf of members and beneficiaries, such as financial analysts, advisors and unions; and
- employer-sponsors.[2]

ASFA considers that it would be appropriate for this definition to be adopted within Australian Sustainability Reporting Standards. That said, separate guidance will still be required to help align the reporting of superannuation entities with the needs of the key end-users (that is, individual members of superannuation funds).

Application of cross-industry metrics (Question 12)

The issues of applying the general definition framework to superannuation entities is reflected in disclosure requirements for cross-industry metrics.

Just as the definition framework relates to the provision of institutional capital to private sector (typically non-financial) corporate entities, measurement metrics are designed for private sector entities with operations concentrated in a particular sector of the economy, or a small number of different sectors.

- Chapter 29 of IFRS S2 Climate-related Disclosures: Metrics 29(b) to 29(d) relate to the amount/percentage of business activities and assets that are vulnerable to climate-related risks/opportunities, while 29(e) relates to the amount of capital expenditure, financing or investment deployed towards climate-related risks/opportunities.
- Throughout the draft: Metrics related to cashflow, the cost of capital, access to finance.

Superannuation funds are universal asset owners. That is, a typical superannuation fund will have investments across the Australian and global economy – diversified in terms of industry and country – which, in aggregate, are (fairly) representative of broad-based economic activity (in Australia and globally). As such, it is not clear how the aforementioned metrics would apply to superannuation fund activities. In this regard, ASFA considers that guidance should be developed for superannuation entities in the application of the metrics.

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[2] https://www.aasb.gov.au/admin/file/content105/c9/AASB1056_06-14.pdf

Relief for aggregating Scope 3 emissions (Question 18)

With respect to reporting a current period's Scope 3 emissions, ASFA supports the proposal that an entity can use data for the (immediately) preceding period, "if reasonable and supportable data related to the current reporting period is unavailable".

Superannuation funds, as well as other types of asset managers, sit at the end of the chain of emission disclosures in the economy. Fund estimates of Scope 3 *financed* emissions (which will typically comprise around 90 per cent of a fund's disclosed emissions) are an aggregation of the emissions of the multitude of entities in which funds invest – and so are reliant on the disclosures of those entities. In practical terms, the most recent, useable data for this purpose are likely to be for the preceding reporting period.

Previous ASFA submissions in respect of the government's climate-related financial disclosure regime have highlighted the fact that fund estimates of Scope 3 *financed* emissions – particularly in the early stages of the regime – will be incomplete and subject to a relatively high degree of uncertainty. That said, over time, data produced by entities across the economy is likely to become increasingly robust and consistent, which in turn will support more robust fund estimates of Scope 3 *financed* emissions.

Particularly important during the early stages of the regime will be guidance around the measurement/disclosure of Scope 3 *financed* emissions for superannuation funds (and other similar entities). ASRS 2 sets out a measurement framework for Scope 3 emissions. However, this is not directly applicable to Scope 3 *financed* emissions – which includes the Scope 1, Scope 2 and Scope 3 emissions of entities in which funds invest. ASFA considers that guidance (rather than modifications to the draft standards) would be appropriate – to assist funds to apply the existing (draft) framework specifically to Scope 3 *financed* emissions. More broadly, particular guidance will be required regarding what would constitute "undue cost of effort" in complying with climate-related financial disclosure requirements.

Disclosure of disaggregated financed emissions (Question 20)

With respect to the proposal for disaggregating reported Scope 3 *financed* emissions, ASFA notes that clarity is required regarding the intention of the proposed changes.

ASFA's interpretation is that the proposal is intended to provide asset management entities with greater flexibility in their reporting of Scope 3 financed emissions – that is, an entity can choose to disaggregate its Scope 3 financed emissions (into Scope 1, Scope 2 and Scope 3). For an asset management entity, this decision will be informed by the quality and coverage of the relevant source data, and the application of the principle of 'undue cost and effort'.

While ASFA supports the proposal in principle, the likely practical consequence of this change will be an inconsistency in the reporting of Scope 3 *financed* emissions across superannuation entities, which is likely to reduce the comparability of disclosures (between entities). In this regard, ASFA considers that the adoption of the proposal will necessitate guidance on the disclosure of Scope 3 *financed* emissions to enhance comparability of disclosures.