Insurance Council of Australia

27/02/2024

Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne, VIC 3000
Australia

Submitted via comment letter: http://www.aasb.gov.au/current-projects/open-for-comment

Dear Australian Accounting Standards Board (AASB),

Comment Letter: AASB Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-Related Financial Information (ED SR1 ASRS)

The Insurance Council of Australia (ICA) is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people, generates gross written premiums of $60.2 billion per annum and on average manage $159 million in claims every working day.

We commend the AASB on the release of ED SR1 ASRS. We recognise the [draft] ASRS Standards are an important next step for more consistent climate-related financial disclosures and welcome the opportunity to comment. We note the [draft] ASRS Standards will operate alongside existing Australian Accounting Standards and will broadly align to the International Sustainability Standards Board (ISSB) inaugural sustainability reporting standards IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures).

IFRS S1 sets out disclosure requirements on how companies should communicate their sustainability-related risks and opportunities, while IFRS S2 sets out specific requirements related to climate-related risks and opportunities and is designed to be used with IFRS S1. We understand the scope of the [draft] ASRS Standards focus exclusively on climate-related risks and opportunities.

Our submission draws on the consolidated feedback of the ICA's members and focuses on issues and implementation concerns around the proposed [draft] ASRS Standards. ICA's member views on the main themes are summarised below. Detailed responses to the specific and general matters for comment raised in ED SR1 ASRS are included within **Attachment A**. Some members may provide their own separate submission.

Globally consistent, consolidated framework

ICA supports the Australian Government's commitment to introduce internationally aligned mandatory climate-related financial reporting requirements, and we welcome the AASB's decision to adopt the ISSB Sustainability Disclosure Standards as the foundation for the proposed [draft] ASRS Standards. Ensuring interoperability with international standards is a key concern for our members; many of which operate in multiple jurisdictions. Interoperability will facilitate consistency and comparability between climate reporting, avoid duplication of effort, and alleviate the regulatory burden on organisations with global footprints.

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ICA members recommend allowing flexibility for Australian subsidiaries of multinational entities to use well-recognised industry classification systems other than ANSZIC. This will facilitate the ability for Australian subsidiaries to leverage climate-related financial risk disclosures made by their global parent companies. This will facilitate international alignment, streamline reporting processes and minimise the duplication of effort.

Our members support a ‘climate first’ approach’ and understand the AASB’s aim to minimise duplication by developing two [draft] ASRS standards aligned with IFRS S1 and IFRS S2, but replacing requirements relating to disclosures of governance, strategy and risk management in [draft] ASRS 2 with cross-references to [draft] ASRS 1 (Option 3). However, in practice, replacing duplicated content in [draft] ASRS 2 with cross-references to the corresponding paragraphs in [draft] ASRS 1 adds complexity to the interpretation of the standards and their alignment with IFRS S1 and IFRS S2.

Additionally, Option 3 may unintentionally hinder the AASB’s ability to update [draft] ASRS 1 in the future. The cross-references between the two [draft] standards means if [draft] ASRS 1 is amended to include general sustainability matters in the future, in line with IFRS S1, then [draft] ASRS 2 will also need to be updated and the cross-references removed to ensure the scope of [draft] ASRS 2 remains contained to climate, in line with IFRS S2. Restricting the scope of reporting to climate-related financial risks and opportunities could instead be done through legislation.

Developing two [draft] ASRS Standards with the same requirements directly aligned with IFRS S1 and IFRS S2 (Option 2) could potentially facilitate the integration of broader sustainability matters in future and better facilitate international interoperability. On this basis, ICA members support Option 2. If the AASB proceeds with Option 3, it should provide further implementation guidance on navigating the cross-references between the two [draft] ASRS Standards.

The Treasury and AASB should provide a clear timeline for accommodating broader sustainability topics, such as nature and human rights, to the extent feasible given the number and extent of international developments affecting these topics. Future integration should aim to align with emerging standards, including any future sustainability standards published by the ISSB. An adequate and well-considered consultation process will be welcomed prior to integrating additional sustainability reporting requirements.

Modifications to IFRS S1 for [draft] ASRS 1

ICA is supportive of the proposed changes from IFRS S1 to [draft] ASRS 1, specifically:

- focusing the scope on climate-related financial disclosures first, with a view to consider integrating other sustainability reporting matters in future (as noted above);
- requiring an entity that determines it has no material climate-related risks and opportunities to disclose and explain how it came to this conclusion;
- omitting references to optional requirements on interim reporting to avoid confusion over whether interim reporting is mandatory; and
- omitting explicit requirements to apply industry-specific metrics derived from the Sustainability Accounting Standards Board (SASB) Standards.

We acknowledge the AASB’s thinking in ED SR1 paragraphs BC39 to BC41, and the potential for internationalising the SASB Standards and industry-based metrics. In the interim, ICA members

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recommend allowing flexibility for Australian subsidiaries of multinational organisations to use well-recognised classification systems other than ANSZIC, granted that adequate disclosure is provided to explain the chosen classification system.

Modifications to IFRS S2 for [draft] ASRS 2

ICA is supportive of the proposed changes to IFRS S2 for [draft] ASRS 2, specifically:

- clarifying the scope of "climate-related risks and opportunities" applies to climate change risks and opportunities only, and not other climate-related emissions (e.g., ozone depleting emissions);
- providing clarification that transitional relief for Scope 3 GHG emissions reporting under AusC4.1 in ASRS 2; and
- specifying the minimum number of climate scenarios and lower-temperature scenario for climate resilience assessments to enhance comparability of transition risks disclosures.

The AASB's decision to require entities apply a temperature scenario of 1.5°C above pre-industrial levels will help entities determine which 'baseline' scenario to use and facilitate comparability.

Further guidance should be provided on expectations regarding the frequency for updating climate scenario analyses. When done well, climate change scenario analysis is a major exercise, and automatic annual re-assessments would not be cost beneficial. The AASB could consider including a requirement for entities to monitor their scenario analyses on an annual basis, but only require they be updated when there are indicators the existing analyses no longer reflect the information currently available.

ICA members are also supportive of the proposed cross-industry metrics set out in 29(b) – 29(g) of [draft] ASRS 2. However, our non-listed members raised concern on the potential confidentiality and commercial sensitivities of disclosing executive remuneration.

The ICA and its members support an approach to materiality that aligns with the position on materiality from the ISSB and ensures harmonisation with existing definitions of financial materiality in the Australian and international standards. This would help to ensure consistency for reporting entities. We note this differs from the approach taken by the Corporate Sustainability Reporting Directive of a double materiality perspective.

Greenhouse gas emissions

ICA is supportive of the proposed changes to IFRS S2 for [draft] ASRS 2 regarding greenhouse gas (GHG) emissions, specifically:

- aligning GHG measurement methodologies with the existing NGER Scheme legislation to ensure consistency with existing reporting requirements and avoid additional regulatory burden for Australian entities. However, international comparability might be best served in the medium to long-term by allowing flexibility to apply other established emissions factors for entities with global operations, but requiring entities to disclose and explain their choice;
- the AASB's decision to require disclosure of both market-based and location-based Scope 2 GHG emissions; and
- omitting explicit requirements to disclose Scope 3 GHG emissions categories in line with the 15 categories listed in the GHG Protocol.

Scope 3 emissions

There are considerable methodology and data gaps which currently prevent the accurate measurement and reporting of some Scope 3 emissions. The Insurance Council and its members recommend a phased approach in disclosing Scope 3 emissions. Scope 3 categories with established and matured methodologies should be disclosed first, followed by those with limited/no available methodologies to be adopted at later phases on a best endeavour basis.

Notably, financed emissions account for a significant part of the financial sector's emissions. ICA members support an explicit requirement for financial institutions to report financed emissions associated with their asset-management and investment activities, linked to the availability of credible measurement methodologies. An explicit requirement would better incentivise financial institutions to establish the data collection systems and processes necessary to prepare financed emissions disclosures.

However, due the absence of established, credible methodologies for measuring financed emissions associated with insurers' underwriting portfolios, ICA members recommend the AASB adopt a similar position to the ISSB by explicitly excluding "underwritten emissions". Paragraph BC129 of "Basis for Conclusions on Climate-related Disclosures" issued by the ISSB contains language explicitly excluding underwritten emissions from IFRS 2. The AASB could adopt similar language in [draft] ASRS 2 to provide clarity on the exclusion of underwritten emissions and facilitate interoperability with the ISSB position.

ICA members support the AASB playing an active role in educating organisations on disclosing in accordance with the proposed standards. We note that the Taskforce on Climate-related Financial Disclosures (TCFD) provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub, and the ICA members support the AASB adopting a similar approach.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Ange Nichols, Senior Advisor Climate Action: ange.nichols@insurancecouncil.com.au.

Yours sincerely,

Andrew Hall
Executive Director and CEO

ATTACHMENT A: RESPONSE TO AASB EXPOSURE DRAFT SR1 SPECIFIC AND GENERAL MATTERS FOR COMMENT

<table>
<tr><th>Specific matters for comment</th><th>ICA Response</th></tr>
<tr><td colspan="2">Presenting the core content of IFRS S1 in [draft] ASRS Standards</td></tr>
<tr><td> Question 1.
In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:
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;
Option 2 Two ASRS Standards where the same requirements in respect to disclosures of governance, strategy and risk management would be included in both Standards;
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
Option 4 Another presentation approach (please provide details of that presentation method)?
Please provide reasons to support your view </td>
<td> ICA supports the Australian Government’s commitment to introduce internationally aligned mandatory climate-related financial reporting requirements, and we welcome the AASB’s decision to adopt the ISSB Standards as the foundation for the proposed [draft] ASRS Standards.
Ensuring interoperability with international standards is a key concern for our members; many of which operate in multiple jurisdictions. Interoperability will facilitate consistency and comparability between climate reporting, avoid duplication of effort, and alleviate the regulatory burden on organisations with global footprints.
Our members support a ‘climate first’ approach’ and understand the AASB’s aim to minimise duplication by developing two [draft] ASRS standards aligned with IFRS S1 and IFRS S2, but replacing requirements relating to disclosures of governance, strategy and risk management in [draft] ASRS 2 with cross-references to [draft] ASRS 1 (Option 3). However, in practice, replacing duplicated content in [draft] ASRS 2 with cross-references to the corresponding paragraphs in [draft] ASRS 1 adds complexity to the interpretation of the standards and their alignment with IFRS S1 and IFRS S2.
Additionally, Option 3 may unintentionally hinder the AASB’s ability to update [draft] ASRS 1 in the future. The cross-references between the two [draft] standards means if [draft] ASRS 1 is amended to include general sustainability matters in the future, in line with IFRS S1, then [draft] ASRS 2 will also need to be updated and the cross-references removed to ensure the scope of [draft] ASRS 2 remains contained to climate, in line with IFRS S2. Restricting the scope of reporting to climate-related financial risks and opportunities could instead be done through legislation.
Developing two [draft] ASRS Standards with the same requirements directly aligned with IFRS S1 and IFRS S2 (Option 2) could potentially facilitate the integration of broader sustainability matters in future and better facilitate </td></tr>
</table>

	international interoperability. On this basis, ICA members support Option 2. If the AASB proceeds with Option 3, it should provide further implementation guidance on navigating the cross-references between the two [draft] ASRS Standards. The Treasury and AASB should provide a clear timeline for accommodating broader sustainability topics, such as nature and human rights, to the extent feasible given the number and extent of international developments affecting these topics. Future integration should aim to align with emerging standards, including any future sustainability standards published by the ISSB. An adequate and well-considered consultation process will be welcomed prior to integrating additional sustainability reporting requirements.
Replacing duplicated content with references to the Conceptual Frameworks	
Question 2. Do you agree with the AASB's approach to make references to its *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of Financial Statements* (in respect to not-for-profit entities) instead of duplicating definitions and contents of those Frameworks in [draft] ASRS 1 and [draft] ASRS 2? Please provide reasons to support your view.	Yes, we agree with the proposed approach to avoid duplicating the definitions and contents contained within the Conceptual Framework for Financial Reporting and the Framework for the Preparation and Presentation of Financial Statements.
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? (i.e., including requirements for entities that determine they have no material climate-related risks and opportunities to disclose that fact and explain how it came to that conclusion) Please provide reasons to support your view.	Yes, we agree with the proposed requirements for an entity that determines it has no material climate-related risks and opportunities to disclose how it came to that conclusion. This will provide useful information for investors and facilitate greater transparency.

Modifications to the baseline of IFRS S1 for [draft] ASRS 1

Sources of guidance and references to SASB Standards

Question 4. Do you agree with the AASB's views noted in paragraphs BC39-BC41? (i.e., proposing to remove 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.) Please provide reasons to support your view.	Yes, we agree with the proposed amendment to omit explicit requirements to apply industry-specific metrics derived from the SASB Standards, until the content has been comprehensively internationalised by the ISSB and the AASB has undergone its own due process.
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 the Australian and New Zealand Standard Industrial Classification (ANZSIC)? Please provide reasons to support your view.	We agree that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics associated with the same industry, as classified in ANZSIC. However, ICA members recommend allowing flexibility for Australian subsidiaries of multinational entities to use well-recognised industry classification systems other than ANZIC. This will facilitate the ability for Australian subsidiaries to leverage climate-related financial risk disclosures prepared by their global parent companies. This will facilitate international alignment, streamline reporting processes, and minimise the duplication of effort. However, the AASB should establish a timeline for introducing internationally aligned industry-based metrics. We recommend field testing the ISSB baseline metrics with large Australian entities to ensure the metrics are appropriate for Australia and the report users.

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)? Note, 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.	Yes, we agree entities should be permitted to also provide voluntary disclosures based on other relevant frameworks or pronouncements, to the extent that these additional voluntary disclosures promote effective disclosures and facilitate interoperability and do not obscure or conflict with required disclosures.

Disclosing the location of the entity's climate-related financial disclosures

Question 7. Instead of requiring a detailed index table to be included in General Purpose Financial Reporting (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.	ICA believes that climate-related financial disclosures must show the relationship between climate and financial risk - so while ICA agree the table is not needed, the information must clearly show the relationship between climate risk and financial implications.

Interim reporting

Question 8. Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? (i.e., omitting paragraph 69 and B48, which provides guidance on the content of interim disclosures should an entity elect to prepare interim reports, in order to avoid confusion over whether interim reporting is required.) Please provide reasons to support your view.	Yes, we agree with the proposed omission of IFRS S1 paragraphs 69 and B48. This clarifies requirements relating to interim reporting. Annual climate disclosures will be more meaningful to report users, as there will likely be limited progress on climate strategy and emissions reductions within 6-month interval periods.

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

Scope of [draft] ASRS 2

Question 9. Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the Scope of the [draft] Standard? Please provide reasons to support your view.	Yes, we agree with the proposition to clarify that the scope of "climate-related risks and opportunities" applies to climate change risks and opportunities, and no other climate-related emissions (e.g., ozone depleting emissions). This provides further clarity to users and readers, on the disclosure requirements.

Climate resilience

Question 10. Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? (i.e. an entity shall disclose its climate resilience assessments against at least two relevant possible future states, one of which is the most ambitious global temperature goal set out in the *Climate Change Act 2022*.) Please provide reasons to support your view.	Yes, the Insurance Council and its members agree with the proposal to specify the minimum number of climate scenarios and the lower-temperature scenario for climate resilience assessments to enhance comparability of transition risks disclosures. The AASB's decision to require entities apply a temperature scenario of 1.5°C above pre-industrial levels will help entities determine which 'baseline' scenario to use and facilitate comparability. However, to strengthen international alignment, the lower-temperature scenario of 1.5°C above pre-industrial levels should be linked to the Paris Agreement rather than the Climate Change Act 2022 (Cth). Further guidance should be provided on expectations regarding the frequency for updating climate scenario analyses. When done well, climate change scenario analysis is a major exercise, and automatic annual re-assessments would not be cost beneficial. One approach could be the requirement that entities monitor their scenario analyses on an ongoing/annual basis but would only need to consider changing the analyses when there are indicators that the existing analyses no longer reflect the information currently available.

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.	No, we recommend a minimum upper climate scenario also be established to ensure entities do not opt for a lower upper scenario to reduce perceived climate risk. In the case of entities relying on their global climate financial risk report or aligning their reporting with global requirements, this approach would provide flexibility for the entities to use an appropriate scenario at or above the minimum upper climate scenario that aligns with reporting at the global level.

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.	Yes, we agree, the 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. The categories are useful for consistency of disclosure and will provide greater transparency over climate-related risks. We note that although the requirements encourage 'disclosure' rather than 'action', disclosing these will create incentives for report preparers to take action to improve performance overtime.

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? (i.e. requirements to disclose; (a) a description of whether and how climate-related considerations are factored into executive remuneration; and (b) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.) In your opinion, will this requirement result in information useful to users? Please provide reasons to support your view.	Yes, we agree, the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose a description of whether and how climate-related considerations are factored into executive remuneration will result in useful information for users. However, our non-listed members raised concern on the potential confidentiality and commercial sensitivities of disclosing executive remuneration. Additional guidance should be provided on how to protect commercial confidentiality.

Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19–AusB63.1 and Australian application guidance)	
Definition of greenhouse gases	
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.	Yes, we agree that the definition of GHG from IFRS S2 does not need to be modified as nitrogen trifluoride (NF_3) is an immaterial emission source in an Australian context.
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 Global Warming Potential (GWP) values in line with the reporting requirements under NGER Scheme legislation? Please provide reasons to support your view.	The proposed changes will mitigate additional regulatory burden for Australian companies already reporting under the *National Greenhouse and Energy Reporting Act 2007* and related regulations (NGER Scheme legislation). However, many of our overseas owned members use the Sixth Assessment Report (AR6) GWP values, rather than Fifth Assessment Report (AR5) GWP values. To ensure alignment, remove duplication and minimise the reporting burden on entities, the Insurance Council and its members recommend that rather than requiring the use of AR5 for converting greenhouse gases into a CO2 equivalent value, flexibility should be provided to reporting entities to allow them to use at least AR5 GWP values or above, as new assessment reports are released.
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? (i.e., that an entity discloses its market-based Scope 2 greenhouse gas emissions after the first three annual reporting periods in which the entity applies the [draft] Standard) Please provide reasons to support your view.	Yes, we agree. The proposal would align with the proposal contained in the Department of Climate Change, Energy, the Environment and Water's consultation paper on updates to the NGER Scheme legislation that would introduce an optional supplementary 'market-based method' for determining Scope 2 emissions associated with the consumption of electricity.

GHG emission measurement methodologies

Question 17. Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? (i.e. an entity shall measure its GHG emissions using relevant methodologies set out in NGER Scheme legislation before applying other methodologies that are relevant to the sources of GHG emissions, or one consistent with listed GHG emission measurement frameworks.) Please provide reasons to support your view.	The proposed changes will mitigate additional regulatory burden for Australian companies already reporting under the National Greenhouse and Energy Reporting Act 2007 and related regulations (NGER Scheme legislation). However, many of our overseas owned members use the Sixth Assessment Report (AR6) GWP values, rather than Fifth Assessment Report (AR5) GWP values. To ensure alignment, remove duplication and minimise the reporting burden on entities, the Insurance Council and its members recommend that rather than requiring the use of AR5 for converting greenhouse gases into a CO2 equivalent value, flexibility should be provided to reporting entities to allow them to use at least AR5 GWP values or above, as new assessment reports are released.

Providing relief relating to Scope 3 GHG emissions

Question 18. Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2? (i.e., an entity who does not have reasonable and supportable Scope 3 GHG emissions data for the same reporting period as its related financial statements without exerting undue cost or effort can use data for the immediately preceding reporting period and shall disclose that fact.) Please provide reasons to support your view.	Yes, we agree. An entity should be permitted to disclose in the current reporting period its Scope 3 GHG emissions using data for the immediately preceding reporting period given that supply chain and Scope 3 data may not be available during the reporting period by the time of the disclosure deadlines.

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.	Yes, we agree. The proposed amendments would provide organisations more flexibility in how they disclose their Scope 3 emissions in climate disclosures and allow members who operate in other jurisdictions to disclose categories suited to them.

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.	There are considerable methodology and data gaps which currently prevent the accurate measurement and reporting of some Scope 3 emissions, including some categories of financed emissions. The Insurance Council and its members recommend a phased approach in disclosing Scope 3 emissions. Scope 3 categories with established and matured methodologies should be disclosed first, followed by those with limited/no available methodologies to be adopted at later phases on a best endeavour basis. Notably, financed emissions account for a significant part of the financial sector's emissions. ICA members support an explicit requirement for financial institutions to report financed emissions associated with their asset-management and investment activities, due to the availability of credible measurement methodologies. An explicit requirement would better incentivise financial institutions to establish the data collection systems and processes necessary to prepare financed emissions disclosures. Due the absence of established, credible methodologies for measuring financed emissions associated with insurers' underwriting portfolios, ICA members recommend the AASB adopt a similar position to the ISSB by explicitly excluding "underwritten emissions". Paragraph BC129 of "Basis for Conclusions on Climate-related Disclosures" issued by the ISSB contains language explicitly excluding underwritten emissions from IFRS 2. The AASB could adopt similar

	language in [draft] ASRS 2 to provide clarity on the exclusion of underwritten emissions and facilitate interoperability with the ISSB position.
Superannuation entities	
Question 21. In your opinion, are there circumstances specific to superannuation entities that would cause challenges for superannuation entities to comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2? If so, please provide details of those circumstances and why they would lead to superannuation entities being unable to comply with the proposed requirements or else able to comply only with undue cost or effort.	Not applicable.
Carbon credits	
Question 22. Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2? (i.e., include non-Kyoto ACCUs within the definition of carbon credit despite IFRS not allowing non-Kyoto carbon credits) Please provide reasons to support your view.	Yes, we agree. The modification of the definition of carbon credit to ensure non-Kyoto Australian Carbon Credit Units (ACCUs) can also be recognised as carbon credits is a suitable modification for an Australian context.
Questions specific to not-for-profit entities	
Not applicable.	
Questions specific to not-for-profit public sector entities	
Not applicable.	

General matters for comment	ICA Response
Application of the AASB Sustainability Reporting Standard-Setting Framework	
Question 30. Has the AASB Sustainability Reporting Standard-Setting Framework (September 2023)[1] been applied appropriately in developing the proposals in this Exposure Draft?	Not applicable.
Regulatory issues	
Question 31. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any issues relating to: (a) Not-for-profit entities; and (b) Public sector entities?	Forward-looking statements, as envisaged by the [draft] Standards, may give rise to liability for misleading and deceptive disclosures. Standard wording for a disclaimer or modified liability should be included for uncertainty in information disclosed to avoid legal risks associated with material misstatement, noting there is an increasing duty for companies to disclose sustainability risks and opportunities. For example, potential liability exists for misleading and deceptive disclosure under s1041H of the *Corporations Act 2001* and s18 of the Australian Consumer Law. We note that in the Policy Position Statement, modified liability will be provided for disclosures of climate-related forward-looking statements. However, under the draft legislation, modified liability will only be provided for disclosures of forward-looking statements relating to scope 3 emissions and scenario analysis. Under the proposed mandatory climate disclosure scheme, there are many types of forward-looking statements that require estimation of impacts of risks and opportunities which are inherently uncertain and may be deemed misleading or deceptive under the existing regulatory framework, specifically

[1] Standard Setting Framework, *Australian Accounting Standards Board*, September 2023, https://aasb.gov.au/media/vxzbsiip/aasb_sr_stdsettingfwk_09-23.pdf

the misleading and deceptive conduct regime, for example s.769C of the Australian Corporations Act, s12BB of the ASIC Act 2001 and s.4 of the Australian Consumer Law. Unlike certain other jurisdictions, reporting entities in Australia (as well as directors and officers) are exposed to the liability relating to forward-looking statements because there is no safe harbour exemption which allows for the exclusion of liability by identifying a statement as a forward-looking statement and including a proximate cautionary statement. Regulator-only actions for a fixed period will assist in mitigating this challenge.

These forward-looking disclosures (as set out in the draft Australian Sustainability Reporting Standards, ED SR1), may include:

- anticipated effects of climate- related risks and opportunities on the entity's business model and value chain;
- anticipated changes to the entity's business model, including its resource allocation;
- how the entity expects its financial position to change over the short, medium and long term given its strategy to manage climate-related risks and opportunities, taking into consideration its investment and disposal plans and its planned sources of funding to implement its strategy; and
- how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities.
- how the entity plans to respond to climate-related risks and opportunities in its strategy and decision-making, and how it plans to resource this;
- anticipated direct and indirect mitigation and adaptation efforts;
- any climate-related transition plan the entity has; and
- how the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets.

At a minimum, modified liability should be provided for both scenario analysis and transition planning, given scenario analysis and transition planning are

	intrinsically linked and collectively form an entity's climate risk strategy. This interconnection between scenario analysis, transition plans and other forward-looking disclosures will make it very difficult to apply limited liability to some forward-looking disclosures and not others. ICA will not comment on issues relating to not-for-profit and public sector entities as this is not applicable to our members.

Auditing or assurance challenges

Question 32. Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?	There are significant challenges associated with assurance of scenario models and Scope 3 emissions, given the quantum of inputs, level of estimation and variability in assumptions. While there is a critical role for independent external assurance to lend credibility to climate and sustainability information, reasonable assurance across climate-related content isn't practical whilst applicable accounting/reporting best practices aren't yet clearly defined. The Insurance Council and its members support the approach of limited assurance and recommend that the progression to reasonable assurance aligns with the development of the relevant auditing standards and uplift in auditing capabilities in Australia.

Usefulness of climate-related financial information

Question 33. Would the proposals result overall in climate-related financial information that is useful to users?	The [draft] ASRS Standards will help produce disclosures that demonstrate the relationship between climate and financial risks. Mark Carney, in his "Tragedy of the Horizon" publications[2], underscored the need for more transparent, comprehensive disclosures concerning climate-related financial risks. In his view, without appropriate disclosure of these risks, the response to climate change will be insufficient, late, and potentially destabilising for financial markets. The latest Hartford-Davis legal opinion on directors' duties for climate/financial risk[3] further accentuates the legal obligations that company directors have toward addressing and reporting climate-related financial risks. The legal opinion suggests failure to consider and disclose material climate-related financial risks could potentially lead to director liability and could be seen as a violation of their fiduciary duties.

Economic impacts

Question 34. Are the proposals in the best interests of the Australian economy?	Yes, the proposals outlined in ED SR1 ASRS will result in greater transparency of climate-related financial risks and opportunities. The disclosures will facilitate redirecting capital flows away from high-emitting assets and activities, toward more sustainable alternatives that are aligned with a net-zero future. The [draft] ASRS Standards should align to global reporting requirements as much as possible. Flexibility should be provided to Australian entities with material operations outside Australia to allow these entities to use their global climate financial risk report or align their reporting with global requirements. This is an option which has either been adopted or is being proposed in other jurisdictions such as the European Union and Singapore. This flexible

[2] Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, at Lloyd's of London, *Breaking the tragedy of the horizon – climate change and stability*, 29 September 2015, accessed via: https://www.bis.org/review/r151009a.pdf.
[3] New Legal Advice: Climate Reporting Standards Keep Focus on Financial Impacts, 6 February 2023, Investor Group on Climate Change Website, accessed via: https://igcc.org.au/legal-advice-directors-climate/.

	approach should be accompanied by guidance from ASIC to ensure a standardised method for these entities to meet their Australian obligations while relying on their global climate financial risk report and/or or aligning their reporting with global requirements.

Costs and benefits

Question 35. Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs of the proposals.	While mandatory climate-related financial disclosures may increase initial regulatory compliance costs for report preparers, they will facilitate informed decision-making to mitigate future climate change impacts. Thus, the upfront cost can be outweighed by the long-term benefits of reduced societal and economic damages from climate change.