



The Australian Industry Group  
Level 2, 441 St Kilda Road  
Melbourne VIC 3004  
PO Box 7622  
Melbourne VIC 3004  
Australia  
ABN 76 369 958 788

1 March 2024

Australian Accounting Standards Board  
[Standard@asb.gov.au](mailto:Standard@asb.gov.au)

## **AI GROUP RESPONSE TO THE CLIMATE-RELATED FINANCIAL DISCLOSURE STANDARD**

The Australian Industry Group (Ai Group) welcomes the chance to make a submission on the [Exposure Draft ED SR1 Australian Sustainability Reports Standards](#) – Disclosure of Climate related Financial Information (ED SR1).

Ai Group is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for over 150 years. Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, waste services, the defence industry, retail, aged care, civil airlines and ICT.

Our members are affected by climate change and climate policy in many different ways, but all have a stake in a successful transition that avoids as much climate change as possible and positions Australia to prosper in a net zero emissions world. Some of them already make climate-related financial disclosures, others do not and may be directly caught up in the Standard and the Government's proposed mandate, while others will not be covered but may be impacted through information requirements imposed by other participants in their supply chains.

Overall we consider that ED SR1 represents a good basis for Australia to mirror international reporting approaches. We have a strong preference for consistency with international standards, with variations where necessary to account for Australian circumstances. ED SR1 broadly gets this right. Achieving as much interoperability as possible with standards applied in the United States and European Union will be useful for investors and for businesses that operate in multiple jurisdictions. The preference for cross-industry metrics is useful given the challenges in comparing industry-specific standards and addressing businesses that operate in multiple sectors.

However there are a few points where the Standard could be improved.

### **Flexibility on parent and subsidiary reporting**

ED SR1 proposes that businesses with an international parent and local subsidiary should report climate related financial information at whichever level they report existing financial information in Australia. However while reasonable on its face, this rule may not provide the most useful investment-relevant information. An international business may present Australia-specific financial information in compliance with local law while their investors focus on the global business; parent-level climate disclosure would be most relevant to those investors and consistent with typical approaches in sustainability reporting. The final SR1 should allow greater flexibility in the choice of reporting level, as long as Australian climate related risks and opportunities are captured.

### **Flexibility in accounting and reporting methodology**

ED SR1 provides that businesses may use specified internationally recognised greenhouse gas measurement frameworks when methodologies in Australia's National Greenhouse and Energy Reporting System are not practicable and relevant local methodologies are not available. Ai Group considers this excessively restrictive;

businesses should have the option of using the specified recognised methodologies where they use them to make international disclosures comparable to those under SR1.

At the outset we note that Ai Group has urged the Treasury to amend the related exposure draft legislation in two important ways:

- to push back the commencement of all Groups' reporting by 12 months, to allow more time for covered businesses, supply chains and advisory services to prepare; and
- that the light enforcement period in s1705B for disclosures related to Scope 3 emissions be extended by a year to the year commencing 1 July 2028; that such light enforcement should apply to the first year in which a business must report Scope 3 even if that year commences after 1 July 2028; and that s1705B be expanded to cover transition plans and forward-looking statements.

#### **Exceptions to reporting sensitive information**

ED SR1 provides that reporting businesses need not publish commercially sensitive information in relation to climate-related opportunities. However there are also important sensitivities relating to the operational security of some facilities, which could be compromised by the publication of information about their location (such as highly specific geographic information on climate risk, or Scope 2 emissions). While we would hope that the Standard provides sufficient room to avoid publication of such security-relevant data, we urge the Board to amend it to remove doubt.

To avoid an excessively broad exception that could frustrate the purpose of the Standard and the proposed legislation, an additional exception could be limited to climate risk and opportunity information pertaining to critical infrastructure facilities. The *Security of Critical Infrastructure Act 2018* defines several varieties of critical infrastructure. A reasonable approach would be to bolster the section on commercially sensitive information at B34-37 with a new paragraph to the effect of:

“Nothing in this Standard requires an entity to disclose information that would compromise the security of a critical infrastructure asset, as defined in the *Security of Critical Infrastructure Act 2018*.”

This new paragraph should also be subject to a restriction similar to the one current paragraph B37, that exemptions should not be used as a basis for broad non-disclosure of climate-related financial information.

#### **Disclosing the lack of material information**

Paragraph Aus6.2 of EDSR1 provides that if an entity determines there are no material climate related risks and opportunities to disclose, they shall disclose that fact and explain how it came to that conclusion in their general purpose financial reports. This section goes beyond the international standard. We understand its intention to be good. However, members have raised the concern that it could in practice prove excessively complex and unusable. It could be interpreted so as to require a comprehensive reporting of negative or non-material results.

If Aus6.2 is to remain, greater guidance is needed to ensure reasonable interpretation. A brief statement of the forms of assessment that a company undertook (such as an emissions inventory) and who undertook them (such as internal staff or an external consultant) should be sufficient for investors to judge whether a statement of a lack of disclosable risks or opportunities is well based.

Again, we welcome the extended consultation period on this important standard and look forward to the swift finalisation of SR1 so as to put business in the best possible position to apply it as the mandate phases in. For any questions in relation to this submission, please contact Ai Group Director of Climate Change and Energy Tennant Reed ([tennant.reed@aigroup.com.au](mailto:tennant.reed@aigroup.com.au), 0418 337 930).

Sincerely yours,

**Louise McGrath**  
**Head of Industry Development and Policy**