



Level 36, Tower Two
Collins Square
727 Collins Street
Melbourne Vic 3008

GPO Box 2291U
Melbourne Vic 3000
Australia

ABN: 51 194 660 183
Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

Australian Accounting Standards Board
Email: standard@asb.gov.au

1 March 2024

Re: ED SR1 – Request for Comment on Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise but also employees, Governments, regulators – and the wider community. We strive to contribute in a positive way to the debate that is shaping the Australian economy and we welcome the opportunity to comment on Exposure Draft (ED SR1).

Growing investor and stakeholder demand for consistent and comparable disclosures of sustainability-related financial information means that any standards issued in Australia must align with those issued globally. Given the success of the alignment of Australian Accounting Standards with IFRS® Accounting Standards and the resulting ability for Australian entities to engage on global capital markets, we strongly support the same level of alignment in sustainability-related financial information. With this perspective, we believe that the ISSB sustainability standards should be the Australian baseline for sustainability standards and accordingly that there must be a compelling reason to depart from this international baseline at a minimum.

KPMG acknowledges that the Government has chosen to adopt the estimation methodologies and frameworks included in the National Greenhouse and Energy Reporting (Measurement) Determination 2008, as opposed to the internationally recognised GHG Protocol methodology. This decision may result in higher reporting and assurance costs for Australian entities with operations outside Australia that may be required to also prepare Scope 1, 2 and 3 reporting based on the internationally recognised standard. We recommend that the Government considers flexibility to allow Australian entities to report under the entity's choice of the GHG Protocol methodology or the methodologies included in the National Greenhouse and Energy Reporting (Measurement) Determination 2008.

To further address compliance costs, reduce duplication and to facilitate connected information, thereby making it easier for users to understand and navigate an entity's Annual report, we recommend flexibility of reporting location be explicitly enabled.



While KPMG is strongly supportive of the proposals set out in the ED, we have outlined a number of matters for consideration in response to the questions asked at the Appendix of this letter.

Lastly, we understand that the Australian Accounting Standards Board (AUASB) will be setting out a pathway for phasing in assurance requirements over time, which would commence with limited assurance of Scope 1 and 2 GHG emissions disclosures from years commencing 1 July 2024 onwards. We do have some concern with a delay in adopting the full assurance roadmap outlined in the last Treasury consultation paper. Industry needs strong guidance and certainty so that it can invest in its people, processes and training to ensure that we have enough appropriately skilled people to meet the intention of having reasonable assurance of all climate disclosures commencing 1 July 2027. We would welcome discussions in the appropriate forums in relation to assuring highly subjective elements of the new Standards, such as climate resilience, scenario analysis and other forward-looking information.

We would be pleased to discuss our comments with the Australian Accounting Standards Board and we look forward to working with the Government and our clients on this important matter.

Yours sincerely,

Julian McPherson
National Managing Partner,
Audit & Assurance
KPMG Australia

Julia Bilyanska
Partner in Charge,
Climate Change & Sustainability
KPMG Australia

Appendix: Consultation paper themes

Presenting the core content of IFRS S1 in [draft] ASRSs

1. In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:
 - (a) Option 1 – one ASRS 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;
 - (b) Option 2 – two ASRSs where the same requirements in respect to disclosures of governance, strategy and risk management would be included in both Standards;
 - (c) Option 3 – two ASRS, 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] paragraphs in [draft] ASRS 2 in this Exposure Draft); or
 - (d) Another presentation approach (please provide details of that presentation method)?

Please provide reasons to support your view.

KPMG Response Q1

KPMG supports the current approach to meet climate reporting obligations - however consideration needs to be taken as to how this is future proofed as more reporting standards are released. We consider Option 2 would ensure this.

Replacing duplicated content with references to the Conceptual Frameworks

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.

KPMG Response Q2

KPMG agrees in principle with this approach as it ensures consistency with the AASB in developing the Australian Accounting Standards.

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

3. Do you agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2? Please provide reasons to support your view.

KPMG Response Q3

KPMG supports the amendments and the need to only require disclosure if material risks and opportunities of importance arise. Consideration should be given on providing education material to help decision making regarding materiality, for example the AICD's Climate Risk and Governance Guide¹.

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

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

4. Do you agree with the AASB's views noted in paragraphs BC39-BC41? Please provide reasons to support your view.
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 characterize participation in the same industry, as classified in ANZSIC? Please provide reasons to support your view.
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)? 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.

KPMG Response Q4-6

Practically, the SASB standards are not appropriate industry metrics for the Australian context as often they have little reference to the Australian industry and require a lot of

¹ [Material Risk and Opportunity Assessment \(aicd.com.au\)](https://www.aicd.com.au)

resources to measure. As a result, KPMG agrees not to require SASB in the interim - however there is a need to monitor international developments and incorporate ISSB developments in this area into the ASRS in the long term to maximise global consistency and comparability across capital markets.

We support entities considering well-established and understood metrics disclosed by others within the same industry when determining what industry-based disclosures are made. We understand however that certain Australian bodies, such as the ASX use GIC codes to classify entities into industry groups. We believe the AASB should consider whether mandating ANZSIC codes is the most appropriate basis of classification for Australian entities or whether optionality should be provided to utilize the most predominantly-used industry classification codes which could be ANZSIC or GICs.

ASRSs should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements. This is important for the shareholders to understand the business and its prospects as well as being important for international comparability.

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

7. Instead of requiring a detailed index table to be included in 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.

KPMG Response Q7

KPMG supports the flexibility to provide information in a meaningful manner. However, it is unclear whether the Treasury draft requirements require the sustainability report to form a separate and discrete report/section within the Annual report, or whether entities can integrate this information into other sections of their Annual report, such as the directors' report and operating and financial review.

To reduce duplication and to facilitate connected information, thereby making it easier for users to understand and navigate an entity's Annual report, we recommend flexibility of reporting location be explicitly enabled.

Interim reporting

8. Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.

KPMG Response Q8

KPMG supports this as it aligns with limited director reporting disclosures for listed companies at interim compared to year end. Adding interim reporting would also not be aligned with non-listed companies who do not currently have interim reporting obligations.

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

Scope of [draft] ASRS 2

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.*

KPMG Response Q9

KPMG agrees with the proposal as clarity improves usability, however we note that having detailed definitions can limit flexibility and global alignment.

Climate resilience

10. Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view.
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.

KPMG Response Q10-11

KPMG considers that the standard should align to the most ambitious global temperature goal set out in the Australian *Climate Change Act 2022*, as it will provide a point of comparability across all entities.

KPMG agrees with AASB's view that it should not specify the upper temperature scenario which entities should use in their climate related scenario analysis as it provides a level of baseline and a probable and/or worst-case scenario. It also allows flexibility for entities to update temperature scenarios and assessments each year as new scientific information/ research comes to light.

Cross-industry metric disclosures (paragraphs 29(b)-29(g))

12. Do you consider the cross-industry metric disclosures set out in paragraphs 29(b)-29(g) of IFRS 2 (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.

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

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 (see below)? In your opinion, will this requirement result in information useful to users? Please provide reasons to support your view.

KPMG Response Q12-13

KPMG agrees with the proposed amendments as they would maximise global consistency with reporting. However, it would be beneficial to have flexibility in how to incorporate such disclosures, as doing so would enable listed companies to cross reference to their remuneration report where this information may already be disclosed.

Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19-AusB63.1 and Australian application guidance)

Definition of greenhouse gases

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.

Converting greenhouse gases into a CO2 equivalent value

15. Do you agree with 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.

KPMG Response Q14-15

The current drafting of the requirements related to GWP values would benefit from further guidance and clarity. We refer you also to our response to Q17 below, noting that:

- global alignment of GWP values will occur over time, and
- given emissions factors differ by jurisdiction, Australian entities that have operations in other jurisdictions should have flexibility to use the appropriate emissions factors applicable in those other jurisdictions.

Market-based Scope 2 GHG emissions

- 16.** Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2? Please provide reasons to support your view.

KPMG Response Q16

KPMG supports market-based disclosures as it is becoming common practice to disclose. Additionally it takes into account the renewable energy procured.

GHG emission measurement methodologies

- 17.** Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view.

KPMG response Q17

Whilst we acknowledge the intention to leverage current reporting by NGER reporters, we note that NGER legislation is not applicable for all Australian entities, nor for any overseas entities. The current hierarchy is therefore open to interpretation and potential confusion in relation to:

- The interpretation of what is meant by the word “practicable”, and whether the current drafting requires the application of NGER measurement methodologies for a wider population than current NGER reporters;
- Whether the reporting boundaries used in assessing emissions sources should be determined by application of the NGER methodology (ie operational control) or the broader options permitted by GHG Protocol methodology; and
- Whether the GWP used in measuring emissions should follow NGER guidance or GHG Protocol guidance (noting Question 15 above).

We believe that the AASB should either:

- Consider providing explicit guidance in Aus31.1 and AusB25.1 in relation to the above aspects, including whether it is the intention that only NGER reporters must use NGER measurement methodology (and that it is optional for all other entities); or
- Remove the hierarchy altogether. This alternative option would require the application of GHG Protocol for all entities – this would a) provide flexibility for non-NGER reporters, b) provide for better alignment with international frameworks and c) also enable NGER reporters to apply their current reporting should they choose.

Providing relief relating to Scope 3 GHG emissions

18. Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2?
Please provide reasons to support your view.

KPMG Response Q18

KPMG is supportive of permitting an entity to disclose as it is practicable.

Scope 3 GHG emission categories

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 its Scope 3 GHG emissions, rather than requiring an entity to categorise the source of emissions in accordance with the categories of the GHG Protocol Standards?
Please provide reasons to support your view.

KPMG Response Q19

KPMG believes that Scope 3 GHG emissions categories in IFRS 2 and outlined in the GHG Protocol Standards should be a required disclosure under ASRS 2.

Financed emissions

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.

KPMG Response Q20

KPMG believes that financed emissions should be required, should comply with international standards and that global alignment should be prioritized.

Superannuation entities

21. In your opinion, are there circumstances specific to superannuation entities that would cause challenges for them to comply with the proposed requirements in [draft] ASRS 1 and [draft] ARSR 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.

KPMG Response Q21

To ensure consistency and global comparability, superannuation entities should comply with the proposed requirements.

Carbon credits

22. Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2? Please provide reasons to support your view.

KPMG Response Q22

KPMG supports the proposal. We recommend clarification also be provided in relation to other types of Australian Carbon Certificates, such as Safeguard Mechanism Certificates, in order to reduce potential misunderstanding.

Questions specific to not-for-profit entities

23. Do you agree with paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 that the objective of a non-for-profit entity would be to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term? Please provide reasons to support your view.
24. Is there additional guidance that you consider would be helpful in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures? If so, please provide details of that guidance and explain why you think it would be helpful.
25. Do you agree with the proposal in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1? Please provide reasons to support your view.
26. Do you agree with the AASB's view noted in paragraphs BC31-BC22 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view.
27. If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related

financial disclosure requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful.

KPMG Response Q23-27

KPMG is supportive of the Australian Accounting Standards being aligned for not-for-profit entities.

Questions specific to not-for-profit public sector entities

28. Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to:
- (a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and
 - (b) better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030?

In your response, please specify:

- (a) which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful; and
- (b) which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view.
 - i. Whole of Government;
 - ii. General Government Sector;
 - iii. Government departments;
 - iv. Government entities; and
 - v. Local governments.

29. Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standards-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view.

KPMG Response Q28-29

KPMG is supportive of the way Australian Accounting Standards are aligned for non profit public sector entities. In addition, KPMG notes that Government is consulting

separately in relation to public sector entities². We note and are supportive of the AASB following IPSASB on their related projects.

General matters for comment

The AASB would also particularly value comments on the following general matters:

30. Has the [AASB Sustainability Reporting Standard-Setting Framework](#) (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?
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?
32. Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?
33. Would the proposals result overall in climate-related financial information that is useful to users?
34. Are the proposals in the best interests of the Australian economy?
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 estimate amount (s) of any expected incremental costs of the proposals.

KPMG Response Q32

While KPMG is supportive of the proposals set out in the Treasury Exposure Draft, we note that the AUASB will be setting out a pathway for phasing in assurance requirements over time, which would commence with limited assurance of Scope 1 and 2 GHG emissions disclosures from years commencing 1 July 2024 onwards. We do have some concern with a delay in adopting the full assurance roadmap outlined in the last consultation paper.

Industry needs strong guidance and certainty so that it can invest in its people, processes and training to ensure that we have appropriately skilled people to meet the intent of having reasonable assurance of all climate disclosures commencing 1 July

² <https://www.finance.gov.au/government/climate-action-government-operations/commonwealth-climate-disclosure>



2027. The Second Consultation Paper also proposed that “*consultation on professional audit and assurance requirements is proposed to be conducted at a later stage*”. We would appreciate guidance from Treasury as to whether this consultation process will be undertaken by the Auditing and Assurance Standards Board (AUASB) and, if so, to set out the mandate to allow them to achieve this and any implications this may have on the proposed merger of the AUASB, the Australian Accounting Standards Board (AASB) and Financial Reporting Council in 2026.

We would welcome discussions in the appropriate forums in relation to assuring highly subjective elements of the new Standards, such as climate resilience, scenario analysis and other forward-looking information.