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This submission is in relation to Climate-related financial disclosure: exposure draft legislation, 12 January 2024 (the Draft).

Betashares Capital Limited is a leading Australian fund manager specialising in exchange traded funds and other funds (collectively 'ETFs') traded on the Australian Securities Exchange (ASX). Since launching our first ETF more than a decade ago, Betashares has grown to become one of Australia's largest managers of ETFs, with over one million Australian clients. As of January 2024, Betashares had more than \$35 billion in assets under management in over 80 funds.

This submission repeats some of the comments we made in relation to the Climate-related financial disclosure, Consultation Paper, June 2023 as well as raising additional matters. It focuses on the extent to which the Draft achieves the policy objectives detailed in the Policy position statement. We have also made comments in relation to Scope 3 disclosures, liability protections, and the development of an auditing and assurance standard by the Australian Auditing and Assurance Standards Board (AUASB).

Policy Objectives

The Policy position statement states:

"The Government is committed to improving the quality of climate-related financial disclosures, providing Australians and investors with greater transparency and more comparable information about an entity's exposure to climate-related financial risks and opportunities and climate-related plans and strategies.

Improving climate disclosures will support regulators to assess and manage systemic risks to the financial system as a result of climate change and efforts taken to mitigate its effects."

The Draft will result in a large number of companies and asset owners making climate change financial disclosures. For most companies, climate risk principally relates to, and is limited to, impacts to the overall Australian economy and to public infrastructure. We question whether the additional costs imposed on those businesses will result in information of meaningful value to investors or the Government and continue to advocate for a more targeted, materiality screened application of the Draft. We do note and support the intent to exempt smaller entities from the requirement to produce extensive climate statements.

Government entity exemption

For many companies, a substantial portion of the climate risk they face is the risk to public infrastructure. For asset owners, including superannuation funds, securities issued by the Australian Federal Government and State Governments constitute a material proportion of investment portfolios. Hence, the policy objective of understanding climate risk for the majority of Australian companies and asset owners cannot be achieved if government entities are exempt from disclosure obligations. We consider that government disclosures to date, such as in the Intergenerational

Report 2023, which are based on integrated assessment models using linear damage functions, understate the risk of climate change to the Australian economy and we refer to the UK Institute and Faculty of Actuaries report 'The Emperor's New Climate Change Scenarios' which discusses the limitations of most climate change scenario modelling¹.

For the relatively small number of companies that do face material climate change transition or physical risk, the proposed disclosures covered by the Draft are insufficiently prescriptive to allow investors, or the government to understand the physical or transition financial risks faced by companies and the Australian economy in aggregate. This is discussed below.

The ability of the Draft to achieve the policy objective of understanding systemic risks to the economy is also constrained by the Government's rejection of the principle of double materiality in the adoption of AASB ASRS 2, which is modelled on IFRS S2. We note in contrast the recently published GRI Draft Climate Change Standard², which includes required disclosure which would be of value to investors and the Government in understanding systemic risks to the Australian economy. For example, GRI Disclosure CC-1 h. i. requires companies to describe the impacts that may result from the organisation's transition plan on workers, local communities, and vulnerable groups. This is information that would greatly assist investors and the Government in understanding systemic transition risk. We would encourage the incorporation of the principle of double materiality in the Australian standard.

It is our view that while the publication of Scope 1, Scope 2 and Scope 3 emissions data as specified in the Draft will be of some value to investors, in the main an opportunity has been lost to establish a disclosure framework that would be of real value in the assessment of climate risk to companies and the Australian economy in aggregate.

Transition Risk

Scenario shopping

AASB draft standard ASRS S2 requires companies to report transition against a scenario that limits warming to 1.5°C above pre-industrial levels. There are thousands of climate scenarios and many of these are consistent with this benchmark. However, the extent to which these scenarios are technically feasible, consistent with market structures, available technologies and stated policies varies significantly. For example, we have seen Australian companies report against 'overshoot' scenarios that incorporate material carbon dioxide removal (CDR), which is not expected to be economically or technically feasible³, and scenarios developed by consultants specifically for a given industry. These scenarios are not fit-for-purpose for transition risk scenario analysis and analysis against these scenarios is of little value to investors.

To prevent 'scenario shopping' of this type, either the Draft or ASRS 2 should be prescriptive as to the specific, fit for purpose, transition scenario to be modelled. We recommend the IEA Net Zero Emissions by 2050 Scenario (NZE). By being prescriptive as to the specific scenarios reporting entities should use, Government not only improves comparability across company reports, but it also mitigates the *behavioural* risk posed by companies having the discretion to 'cherry pick' scenarios that minimise the risks inherent in their operations and strategy.

¹ <https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf>

² <https://globalreporting.org/media/lcznznf0/gri-topic-standard-project-for-climate-change-exposure-draft.pdf>

³ <https://www.stateofcdr.org/>

Physical Risk

ASRS 2 does not prescribe a physical risk scenario or even specify an upper temperature that an entity must use in scenario analysis. Without at least one set of prescribed metrics, the value of disclosure reports to investors is materially reduced.

It is noted that there are substantial costs involved in physical risk scenario analysis and that while investors have a high degree of concern in relation to certain industry sectors, for most companies, investors are not concerned by climate change physical risk at the individual company level. Concern is again more focused on the impact of climate change on public infrastructure and the overall economy.

Where companies do have exposure to physical assets such as buildings or infrastructure, or to impacted activities such as primary production (dairy, livestock, grain etc), we note concerns expressed by climate scientists and risk experts that the output from Coupled Model Intercomparison Project (CMIP) climate models does not have the spatial or temporal resolution required for financial risk analysis. There is considerable risk of climate data being misconstrued and used inappropriately⁴. Companies do not face climate risk; they face weather risk. Most companies do not know their current weather risk and a requirement of ASRS 2 is that, except under prescribed circumstances, after 1 July 2027 companies will provide quantitative analysis of the change in weather risk as a result of climate change. Our expectation is that companies will incur substantial costs performing physical risk analysis using datasets from dynamically downscaled CMIP models. Such approaches are fundamentally flawed when applied at more granular scales, they also ignore the risk of 'compound events'⁵. At this point in time climate models provide investors with little insight as to the likely impact of climate change on an individual company's physical assets or financial outcomes. Further, our experience suggests that modelling of this type is likely to be used by companies to downplay the potential impacts of climate change, creating a degree of complacency and the underestimation of risk. For most companies, a qualitative description of physical climate risk should be sufficient for the purpose of compliance with the Draft.

Scope 3 Disclosures

Unlike IFRS S2, AFRS 2 does not require companies to categorise its Scope 3 emissions into the 15 categories listed in the GHG Protocol. The risk associated with Scope 3 emissions vary materially based on the category of emissions. To provide information of value to investors, AFRS 2 should be amended in line with IFRS S2 to require the categorisation of disclosed Scope 3 emissions. We note that there is substantial discretion in the calculation and reporting of Scope 3 emissions under the GHG Protocol standard and hope the standard becomes more prescriptive over time. In the meantime, AFRS 2 should be amended to reduce the level of discretion. For example, in the reporting of Category 1; Purchased goods and services, reporters can use a 'supplier-specific method' or base disclosure on industry average emission factors. AFRS 2 should require that supplier-specific data is used when available. We would encourage the Government to signal a policy intent to move away from the GHG Protocol altogether and establish a timeline for the adoption of E-liability carbon accounting.⁶

⁴ <https://www.nature.com/articles/s41558-020-00984-6>

⁵ See <https://iopscience.iop.org/article/10.1088/2752-5295/ac856f/pdf>

⁶ <https://hbr.org/2021/11/accounting-for-climate-change>

Liability

The Draft details a modified liability approach that will apply for a transitional period, allowing reporting entities time to develop experience in reporting to the required standards. We note reports in the media that some stakeholders would prefer the proposed liability relief be extended from Scope 3 emissions and forward-looking statements to cover all disclosures prescribed in the new 'sustainability report'. Other than Scope 3 and forward-looking statements, the required disclosures in the Draft relate to Scope 1 and Scope 2 emissions, and a description of the governance structures in place to manage climate change risk. Under NGERs, relevant companies have had considerable experience in the reporting of Scope 1 and Scope 2 emissions. We see no reason that the exemption should be extended beyond Scope 3 and scenario testing, nor for the implementation of the final legislation to be delayed.

Assurance

The Draft states that the AUASB will determine an assurance standard for climate change financial disclosures based on a final IAASB standard. The current draft IAASB standard (ED-5000) incorporates by reference the International Ethics Standards Board for Accountants (IESBA) Standard with regard to ethics. Further, IESBA has published an exposure draft [International Ethics Standards for Sustainability Assurance](#). The AUASB submission on ED-5000 states that it "strongly disagrees" with the approach to quality management and ethics incorporated in ED-5000 as it would "backdoor" a requirement for Quality and Ethics standards on firms engaged in providing sustainability assurance. Further it states that some national standard setters may need to remove all references to quality management and ethics from the final ISSA 5000. As a user of sustainability assurance reports, we believe it important that any AUASB assurance standard incorporate principles of quality and ethics, as detailed in IAASB ED 5000 and the IESBA exposure draft. We note that existing sustainability assurances, such as in relation to voluntary sustainability reports or compliance with green bond/climate bond standards, do not comply with the principle of 'objectivity' as detailed in the IESBA exposure draft. For investors to have confidence in disclosures, quality and ethics provisions need to be incorporated in the AUASB standard.

We thank you for this opportunity to provide feedback.

Yours sincerely



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