28 February 2024

AASB Sustainability Reporting Exposure Draft: Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

This submission is made in response to the AASB Sustainability Reporting Standards Exposure Draft ED SR1 dated October 2023. This submission is made by our private equity business, Adamantem Capital, and our public equities business, Melior Investment Management.

Rob Koczkar
Managing Director
Adamantem Capital

Lucy Steed
Chief Executive Officer
Melior Investment Management

Adamantem Capital Pty Ltd
Level 8, 167 Macquarie St, Sydney NSW 2000
P: +61 2 9004 6060 | E: info@adamantem.com.au
ABN: 91 614 857 037

Melior Investment Management Pty Ltd
Level 8, 167 Macquarie St, Sydney NSW 2000
P: +61 2 9004 6071 | E: info@meliorim.com.au
ABN: 16 629 013 896

Consultation on AASB Sustainability Reporting Standards Exposure Draft: ED SR1

Adamantem Capital and Melior Investment Management (the "Adamantem Group") submission

Who we are

Adamantem Capital

Adamantem Capital is a private equity investment manager, established in 2016, specialising in the Australian and New Zealand mid-market. It invests with conviction behind clear, well-articulated and well-researched value creation opportunities. Adamantem Capital currently manages three private equity investment funds. Adamantem fully integrates responsible investing into its investment approach, focussing on delivering financial returns, including through a strong focus on creating positive environmental and social outcomes.

Melior Investment Management

Melior is a specialist equities manager founded in Australia in 2018 and is manager of the Melior Australian Impact Fund. Melior seeks to deliver long term competitive returns and contribute positively to the United Nations Sustainable Development Goals (SDGs). Melior's investment philosophy is that investing in companies that contribute to the SDGs, and have strong financial and ESG credentials, has the potential for benchmark outperformance over time. Melior seeks to contribute to the SDGs through allocating its investment capital to positive impact companies, engaging management, and boards to improve their sustainability practices and company impact and publicly advocating for better social and environmental outcomes.

Our response to prior related Consultations

We have made submissions to the prior Treasury consultations on the introduction of climate-related financial disclosures in Australia: 'Climate-related financial disclosure' and 'Climate-related financial disclosure: Second consultation', and the recent Treasury consultation on 'Climate-related Financial Disclosure: Exposure Draft Legislation'.

Our Response to the Consultation

This submission outlines elements of the Australian Sustainability Reporting Standards (ASRS) Exposure Draft and accompanying explanatory materials which we support, suggest require further consideration, or feel need additional detail or review prior to finalisation.

Elements of the Exposure Draft that we support

We are supportive of the following aspects or options of the Exposure Draft:

Two ASRS Standards: We endorse the idea of maintaining distinct core content disclosure requirements for IFRS S1 and IFRS S2 within two ASRS Standards. Ensuring international alignment of the ASRS Standards to the greatest extent feasible is crucial. The establishment of the International Sustainability Standards Board (ISSB) was primarily driven by the necessity for globally interoperable sustainability reporting. Consequently, should the ISSB determine it prudent to segregate sustainability reporting from climate-focused reporting, we propose that the AASB follows suit with a harmonised approach. Further discussion of the importance of alignment with IFRS S1 and IFRS S2 is included later in this submission.

Climate resilience: We endorse the mandate for reporting entities to disclose climate resilience assessments against a minimum of two potential future scenarios, with one aligning with the most ambitious global temperature goal specified in the *Climate Change Act 2022*. It is imperative that Australia's climate objectives and expectations for businesses remain consistent across legislation and reporting standards.

Cross-industry remuneration disclosure: We endorse the necessity to incorporate a metric mandating disclosure of climate-related factors in executive remuneration, particularly for publicly listed companies. However, further elaboration is required on best practices, including necessary governance structures. The integration of climate-related considerations into executive remuneration is anticipated to enhance the efficacy of climate management for reporting entities and should thus be regarded as a valuable metric for users of the ASRS Standards.

Definition of greenhouse gases: We advocate for the adoption of the IFRS 2 definition of greenhouse gases, which is in line with the definition outlined in the Kyoto Protocol. Prioritising alignment with IFRS 2 and internationally accepted definitions must be emphasised throughout the ASRS Standards.

Providing relief relating to Scope 3 GHG emissions: we are supportive of providing relief for reporting entities to disclose the current reporting period Scope 3 GHG emissions using data from the immediately preceding reporting period, if reasonable and supportable data related to the current period is not available. It is crucial that if this flexibility is utilised, reporting entities clearly specify which elements of the Scope 3 GHG emissions data pertain to each reporting period.

MELIOR INVESTMENT MANAGEMENT ADAMANTEM CAPITAL

Elements of the Exposure Draft that we suggest require further consideration

Deviations IFRS S1 and S2: the main point of concern with the draft standards is the deviation from the ISSB baseline in a number of areas. Consistency with ISSB as much as possible is important given the international applicability of IFRS, to both reduce the compliance burden on companies but also to ensure comparability of information for investors to support the efficient allocation of capital across global markets.

Scope 1 and 2 Emissions Methodology: As expressed in our previous three consultation submissions on climate-related financial disclosures, we acknowledge the preference for utilising NGERS methodology for Scope 1 and 2 emissions. However, the scope of entities subject to mandatory climate disclosures in the final state will significantly surpass those currently covered by NGERS legislation and we believe a key priority should be to ensure an alignment of Australian greenhouse gas emissions reporting with internationally recognised and accepted frameworks, for similar reasons to the above. Additionally, it is worth noting that NGERS doesn't encompass international emissions, which will be pertinent under the mandatory climate reporting framework.

Elements of the Exposure Draft legislation that we suggest require further detail

Entities that do not have material climate-related risks and opportunities: We endorse the proposed materiality-based exemption for smaller Group 3 entities outlined in the current draft legislation. However, in order to ensure this exemption is appropriately and transparently applied, and to provide confidence in the robustness of Australia's mandatory climate disclosure framework, the ASRS Standards should provide clear and detailed guidance on determining "material climate-related risks and opportunities", including whether any such determination will require independent third-party validation. Additionally, clear instructions are needed regarding the analysis and disclosure requirements for entities that deem climate-related risks and opportunities immaterial.

Climate resilience assessments: We support the concept of entities conducting climate resilience assessments against at least two potential future scenarios, with one aligning with the most ambitious global temperature goal outlined in the Climate Change Act 2022. We urge the AASB to prioritise the creation of Australian-focused scenarios and offer guidance suggesting recommended scenarios for reporting entities, rather than mandating specific scenarios. It remains crucial to continually evaluate and provide guidance on best practices for climate resilience assessments.