2 June 2025

The Chair
Australian Accounting Standards Board

Via online lodgement

Dear Chair

RE: Exposure Draft SR2: Proposed Amendments to AASB S2 re financed emissions

Thank you for the opportunity to comment on Exposure Draft SR2 (the proposal).

Who we are

Australian Ethical Investment Limited was established in 1986 to manage the savings of Australians in an environmentally and socially responsible way. Today we manage over $13 billion in superannuation and managed funds.

As a long term investor across the Australian and global economy, cognisant of the systemic and existential threats of climate change, we seek to contribute to government policy that both informs markets and sees enhanced responses to these risks.

Australian Ethical Investment supports the climate-related financial disclosures regime. We are both a preparer and user of such disclosures.

Comments on the Proposal

Our comments are confined to **Question 1** and **Question 2.** We are broadly supportive of the other amendments addressed by the remaining consultation questions.

Question 1: Measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions

In summary:

- We agree with the amendments with respect to derivatives and suggest a further clarification that derivatives exposure amounts may be reported on a net rather than gross basis.
- With respect to facilitated and insurance associated emissions, we consider the proposed amendment to paragraph 29A should be enhanced so that industry breakdowns are required, as well as total amounts.

Our rationale and further comments in each area are set out below.

Derivatives

We agree with the proposed amendments because there is no agreed upon methodology for estimating emissions associated with derivatives, nor is the emergence of such a methodology expected in the near term given the particular challenges for such instruments, such as:

- In some cases the derivative market might be substantially larger than the underlying, and frequently the same underlying asset will be covered by multiple types of derivatives in multiple different markets – including options whose theoretical exposure continually changes, and instruments where the exposures may actually be negative.
- It is not readily knowable what the total derivatives on issue across the market are, the net position, and which instruments to attribute emissions to across derivatives and other interests in the same assets.

Further, none of the capital involved goes toward the underlying activity - unlike when debt or equity is issued. It is unclear that this falls within the definitions of indirect emissions in the GHG protocol where: "Indirect emissions (including scope 3 emissions) are emissions that **are a consequence of the activities of the reporting company**, but occur at sources owned or controlled by another company."

Accordingly, we also agree this should be ongoing, rather than transitional relief.

The current requirement to disclose the amount of derivatives should be clarified to make clear that derivatives exposure may be reported *on a net, rather than gross, basis*. This would ensure an asset manager's reported emissions are more closely aligned to financial reporting, which does not double count activity because it occurs from the perspective of net exposure.

We also support applying such an approach to short positions for the same reasons.

Facilitated and insurance associated emissions

We acknowledge the methodological challenges that have resulted in the proposal to allow exclusion of emissions estimates from these financial activities from disclosure and welcome the ISSB's suggestion of an alternative disclosure in the form of the financial amount related to the emissions excluded. We consider there is scope to substantially enhance this alternative disclosure - without adding meaningfully to reporting burden - by requiring data about the magnitude/amount of the activities excluded *to be disaggregated by sector*.

Until emissions methodologies for facilitated and insurance associated emissions are settled, it is critical that alternative disclosure is provided to help report users understand the climate risks related to facilitated and insurance associated emissions.

In our view such risks are potentially material.

As transition progresses, we would expect that high emissions activities will contract and, therefore, require less facilitation services. This in turn will result in declining revenues for investment banks and insurers from these activities. This will especially be the case if the reporting entity's facilitation activities are concentrated in sectors exposed to those climate risks. Transitioning away from long established client relationships and industry networks and establishing new lines of business to replace those lost takes time, effort and planning.

Disclosure is currently insufficient to assess such climate risks and opportunities for those involved in these financial activities. Unlike banking and investment where industry sector and even asset level (investment portfolio) disclosure is already provided in many cases, investment banks' and insurers' activities relevant to climate risk remain opaque.

We consider requiring info about the magnitude/amount of the activities excluded *to be disaggregated by sector* would be far more useful than magnitude/amount alone, while still being a reasonable reporting burden.

It would also help to validate statements about climate opportunities arising from facilitating climate solutions.

While confidentiality concerns could apply to customer and project level disclosures, sector level disclosure would protect client confidentiality while still substantially enhancing the understanding of risk exposures by users of financial reports.

Therefore, we consider that where emissions estimation methods are not yet agreed such that entities wish to take up the option provided by 29A(a) to exclude emissions from financial activities:

- Disclosures should be provided not only of overall amounts excluded, but also the total amount of this activity undertaken by the reporting entity, so excluded amounts are understood in context.
- Both amounts should be disaggregated by industry sector (GICS or an alternative industry-classification system) as a means to provide insight into the climate risks associated with the investment banking and insurance activities.

Suggested additional wording (underlined text) is set out below:

29A(b)(ii) the amount of other financial activities it excluded, disaggregated

- into **insurance underwriting, reinsurance underwriting and investment banking**, and
- by industry.

29A(c)

An entity shall disclose information that enables users of general purpose financial reports to understand the the total magnitude of financial activities associated with:

- facilitated emissions from investment banking; and
- insurance-associated emissions from insurance and reinsurance underwriting

Amounts disclosed are to be disaggregated:

- into insurance underwriting, reinsurance underwriting and investment banking, and
- by industry.

This proposal would align "amount" based disclosure for these activities to the financed emissions disclosures for commercial lending and investment.

Question 2: Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions

We support the amendments proposed including keeping emphasis on GICS as the first option in each instance.

Thank you again for the opportunity to comment on the proposal. If you have any questions about our submission or wish to discuss it further, please contact me via email at ageorge@australianethical.com.au

Yours sincerely

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Australian Ethical Investment