Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	6–7 March 2025 (M211)
Topic:	**Clarifications to IFRS S2 and extending reliefs under IFRS S2**	**Agenda Item:**	9.5
		Date:	20 February 2025
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Objective

1 The purpose of this paper is:

(a) to outline the existing criteria the Board should take into account in considering whether and, if so, when to propose amendments to an Australian Sustainability Reporting Standard (ASRS) in response to ISSB proposals, as established in the AASB *Sustainability Reporting Standard-Setting Framework* (Standard-Setting Framework) and the AASB *Due Process Framework for Setting Sustainability Reporting Standards* (Due Process Framework); and

(b) for the Board to determine its approach to responding to proposed amendments to IFRS S2 *Climate-related Disclosures*.

Summary

2 Staff recommend that the AASB exposes (when published) the ISSB's proposed amendments to IFRS S2 by conducting a concurrent due process to the ISSB's due process. Given the shortened timelines set by the ISSB and the narrow scope of the proposed amendments, staff recommend that the AASB allows a 30-day comment period.

Structure

3 This paper is structured as follows:

(a) Section One: Background

(b) Section Two: ISSB due process and timeframe

(c) Section Three: AASB considerations

Section One: Background

4 At its November 2024 meeting, the ISSB discussed criteria for evaluating potential amendments to IFRS S1 or IFRS S2 in response to stakeholder feedback on application challenges arising from implementation. The ISSB decided that potential amendments would:

(a) be considered only if the ISSB identifies a demonstrated need, after it has explored all other options, to respond to pervasive application challenges arising from implementation, including concerns related to diversity in practice;

(b) not result in a significant loss of useful information, including a significant reduction of the qualitative characteristics of useful sustainability-related financial information, compared with that provided by entities applying the issued requirements in IFRS S1 and IFRS S2;

(c) not unduly disrupt entities' processes for implementing or jurisdictional processes for adopting or using IFRS S1 and IFRS S2. The ISSB would balance the need for amendments with the potential disruption they could cause. The ISSB would seek to avoid amendments that, compared to the issued requirements, would:

(i) reduce interoperability between the IFRS Sustainability Disclosure Standards and either the European Sustainability Reporting Standards (ESRS) or the GRI Standards;

(ii) reduce connectivity between the IFRS Sustainability Disclosure Standards and the IFRS Accounting Standards;

(iii) increase the complexity of applying the requirements in IFRS S1 or IFRS S2, reducing the proportionality of the Standards.

5 At its January 2025 meeting, the ISSB voted to begin the process for balloting an Exposure Draft (ED) for amendments to IFRS S2 relating to the following **three** items:

(a) disclosure of Scope 3 Category 15 greenhouse gas (GHG) emissions related to derivatives and specific financial activities;

(b) applicability of the jurisdictional relief in IFRS S2 for measurement of GHG emissions as it relates to the:

(i) use of global warming potential (GWP) values from the latest Intergovernmental Panel on Climate Change (IPCC) assessment when a jurisdiction requires the use of different GWP values; and

(ii) method for measuring GHG emissions to part of a reporting entity.

(c) to permit entities in specific circumstances to use an industry classification system other than GICS and to require entities doing so to disclose the industry classification system used and explain the basis for selection.

6 Tables 1, 2 and 3 summarise the above three issues with IFRS S2 raised by stakeholders, the ISSB's response (as decided at its 29 January 2025 meeting), and AASB staff observations.

***Table 1**: Relief from disclosing Scope 3 GHG emissions for some financial activities: Agenda Paper 9B*

Stakeholder concerns	ISSB January 2025 decisions	AASB staff observations
There is ambiguity around whether Category 15 GHG emissions need to be disclosed for: • investment banking activities in the investment banking industry; • underwriting activities of insurers; and • derivatives. A literal reading of IFRS S2 might imply no specific exemptions from Category 15 GHG emission disclosures. Still, the IFRS S2 Basis for Conclusions indicates disclosures are not required due to a lack of established methodologies for these activities (see BC127 and BC129).	The ISSB agreed that this issue is about clarifying requirements, not changing them. The ISSB agreed to propose: • specifically relieving entities (in the body of IFRS S2) from disclosing Scope 3 GHG emissions for these activities/transactions; • not putting a time limit on the exclusions/relief (that is, the relief is not transitional); and • requiring disclosure of the amount of derivatives and specific financial activities excluded from the measurement and disclosure of Scope 3 Category 15 GHG emissions as a result of the limitation in scope. In supporting the decisions, some ISSB members noted that the "impracticability" relief available in IFRS S2 (see B57) represents a significant hurdle and may not sufficiently address the concerns raised by stakeholders.	AASB staff are aware that Australian stakeholders have raised similar issues, particularly in the insurance industry, regarding 'insurance-associated emissions'. TIG Agenda paper 4 is available here, and the TIG meeting summary is available here. AASB S2 (BC58) includes a reference to the ambiguities in IFRS S2: *"The AASB noted the ISSB confirmed that IFRS S2 requires financed emission disclosure only for insurance-related financial activities associated with an insurer's assets. In other words, IFRS S2 does not require disclosure of the 'associated emissions' of underwriting portfolios in the insurance and reinsurance industries. The AASB also noted that, for all financial activities, the ISSB decided to remove the proposal for an entity to include derivatives when calculating its financed emissions. The AASB adopted the same position as the ISSB for insurance-related financial activities and derivatives."*

***Table 2**: Relief from using GWP values in the latest IPCC assessment when different values are required in a jurisdiction for all or part of an entity: [Agenda Paper 9B]*

Stakeholder concerns	ISSB January 2025 decisions	AASB staff observations
There is a lack of clarity regarding using: • GWP values from the latest IPCC assessment when a jurisdiction requires using different GWP values; and • GHG Protocol Corporate Standard measures when a jurisdiction requires using different measures. IFRS S2 is currently unclear about when and to what extent: • jurisdictional GWP values required could be used in place of the latest IPCC GWP values; and • jurisdictional measures could be used in place of GHG Protocol Corporate Standard measures. In particular, it is unclear what an entity is permitted to do when different jurisdictional requirements are mandated for only part of an entity reporting under IFRS S2.	The ISSB agreed that this issue is about clarifying requirements, not changing them. The ISSB agreed to propose amending IFRS S2: • to clarify that the jurisdictional relief applies if an entity, in whole or in part, is required by a jurisdictional authority or exchange on which it is listed to use GWP values that are not from the latest IPCC assessment, in which case the entity would be permitted to use those GWP values instead • to clarify the jurisdictional relief so that if an entity, in whole or in part, is required by a jurisdictional authority or exchange on which it is listed to use a method other than the GHG Protocol Corporate Standard to measure GHG emissions, the entity would be permitted to use this method instead.	The AASB S2 requirements for using GWP values are aligned with the existing IFRS S2 requirements (see AASB S2 B20-AusB22.1). TIG Agenda paper 5 is available [here] and the TIG meeting summary is available [here].

***Table 3**: Application challenges and concerns associated with the requirement in IFRS S2 to use the GICS: [Agenda Paper 9C]*

Stakeholder concerns	ISSB January 2025 decisions	AASB staff observations
IFRS S2 requires entities participating in financial activities associated with commercial banking and/or insurance to disaggregate Scope 1, Scope 2 and Scope 3 GHG emissions for each industry by asset class. When disaggregating by industry, IFRS S2 requires entities to use GICS to classify counterparties (see B62 and B63). Stakeholder feedback to the ISSB indicates: • possible legal and cost implications for entities applying IFRS S2, as entities must have a licensing agreement to use GICS if they	The ISSB agreed to propose amending IFRS S2 requirements to use GICS when disaggregating specific financed emissions information, such that an entity would use: (a) GICS, if the entity currently uses GICS in any part of the entity to classify its lending and investment activities (b) an alternative industry-classification system the entity or part of the entity is required to use by a jurisdictional authority or an exchange on which it is listed to disaggregate its lending and investment portfolios for other reporting purposes. If the entity uses more than one	The AASB S2 requirements on industry classification (see B62-AusB63.1) are aligned with the existing IFRS S2 requirements.

***Table 3**: Application challenges and concerns associated with the requirement in IFRS S2 to use the GICS: Agenda Paper 9C*

Stakeholder concerns	ISSB January 2025 decisions	AASB staff observations
are not already using GICS for other purposes; and • possible duplicative reporting if an entity is subject to other reporting requirements using an industry classification system other than GICS.	industry-classification system, the entity would be required to disaggregate specific financed emissions information using: (i) a classification system used to report climate-related financial information (ii) in the absence of (i), a classification system used for providing financial information for other reporting purposes (iii) in the absence of (i) or (ii), an industry-classification system of the entity's choice that provides disaggregated financed emissions information in a manner that is useful to users. The ISSB also agreed to propose adding a requirement to disclose the industry-classification system the entity uses to disaggregate financed emissions information and explain the basis for the selection, if the entity uses a system other than GICS.	

Section Two: ISSB due process

7 The ISSB acknowledges that amendments to IFRS S2 should be made as quickly as possible because some jurisdictions are currently implementing either IFRS S2 directly or Standards that are based on IFRS S2. In this context, at its 29 January 2025 meeting, the ISSB agreed:

(a) due process criteria have been met for all issues considered in the ISSB's agenda item 9 (see issues identified in paragraph 4 above) with respect of the project work to date;

(b) an Exposure Draft should be issued for a 60-day public comment period, serving as a compromise between the usual 120-day period and the necessity for prompt action; and

(c) to propose an effective date that is as soon as possible and permit an earlier application.

8 The ISSB noted the actual effective date would be determined in deliberations considering stakeholder feedback and, therefore, did not specifically identify what an effective date as soon as possible would be. However, the discussion at the meeting implied a possible effective date of annual reporting periods beginning on or after 1 January 2026.

9 The ISSB noted the following activities need to be performed to issue the Exposure Draft:

(a) preparing a ballot draft, including a Basis for Conclusions capturing the ISSB's reasoning;

(b) seeking Due Process Oversight Committee (DPOC) approval for the truncated comment period of 60 days;[1] and

(c) balloting of the final Exposure Draft.

10 The ISSB staff expects that if the ISSB acts now the amendments could be issued—dependent on stakeholder feedback during consultation on the proposed amendments—in 2025 with an effective date of 1 January 2026 (that is, the amendments would be effective for annual reporting periods beginning on or after 1 January 2026).[2]

Section Three: AASB considerations

AASB Sustainability Reporting Standard-Setting Framework

11 The Standard-Setting Framework is underpinned by the assumption that:

> "IFRS Sustainability Disclosure Standards (and guidance) issued by the ISSB present a suitable foundation for developing Australian Sustainability Reporting Standards. International alignment is prioritised in this Framework, with amendments to the baseline of IFRS Sustainability Disclosure Standards made only where it is necessary to do so to meet the needs of Australian stakeholders." (Paragraph 10)

12 The Standard-Setting Framework also notes that:[3]

> "Aligning with IFRS Sustainability Disclosure Standards as the foundation for Australian Sustainability Reporting Standards and guidance is expected to maintain domestic and international confidence in the Australian economy (including its capital markets), allow Australian for-profit and not-for-profit entities to obtain the benefits of international competitiveness and comparability, facilitate the movement of professionals across sectors and borders, and help ensure the costs of complying with Australian Sustainability Reporting Standards do not outweigh their benefits." (Paragraph 12)

13 Staff note that maintaining alignment with IFRS Sustainability Disclosure Standards would be consistent with:

(a) stakeholder feedback to ED SR1, which favoured the requirements in IFRS S2 being incorporated in ASRS with minimal or no modifications;[4]

(b) the functions and powers of the AASB under the *Australian Securities and Investments Commission Act 2001 (Cth)*, in particular, regarding participating in and contributing to the development of sustainability standards for worldwide use (see s227(1)(d)(ii)); and

(c) Treasury's preferred policy position following feedback to its *Climate-related financial disclosure* Consultation paper (December 2022).[5]

14 The Due Process Framework also identifies AASB activities to maximise Australia's input and influence on the development of internationally aligned sustainability reporting requirements, including:

> "… issues consultation documents from significant international sustainability reporting standard-setters and framework providers concurrently in Australia to seek Australian input and, where relevant, makes submissions on issues likely to be of relevance to Australian entities. The AASB

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1 Paragraph 6.7 of the IFRS Foundation Due Process Handbook notes: "The Board normally allows a minimum period of 120 days for comment on an exposure draft. If the matter is narrow in scope and urgent the Board may set a comment period of less than 120 days but no less than 30 days after consulting and obtaining approval from the DPOC."

2 Table 5 presents a potential timeline range based on AASB staff judgments.

3 Paragraphs 10–15 of the Framework establish the rationale for IFRS Sustainability Disclosure Standards providing a suitable foundation for developing ASRS in full.

4 See paragraph BC13 of AASB S2.

5 Consistent with the Treasury view expressed in its Policy Impact Analysis (September 2023).

takes input received from Australian stakeholders into account when forming a view as to the appropriateness of options considered by those standard-setters and framework providers and in preparing the related submissions." (Paragraph 20(c))

15 In following both the Standard-Setting Framework and the Due Process Framework, the AASB would, therefore, be expected to address the issues the ISSB is dealing with concurrently.

16 Paragraph 20 of the Standard-Setting Framework sets out the following bases on which the AASB may depart from or modify an IFRS Sustainability Standard:

(a) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice warranting Australian-specific requirements or guidance;

(b) requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers;

(c) requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or else will conflict with global sustainability reporting practices;

(d) the AASB identifies equivalent or corresponding disclosure requirements in Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards and would result in duplicate disclosure or reporting for Australian entities. In making this assessment, the AASB would consider relevant Australian legislation such as the *National Greenhouse and Energy Reporting Act 2007*; and/or

(e) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs or require additional time when compared with international counterparts, warranting deferral of the application date.

17 Staff consider that, in applying the Standard-Setting Framework and the Due Process Framework, some form of action should be taken in respect of AASB S2 on the amendments being proposed by the ISSB. Staff note that the issues being addressed by the ISSB are likely of equal relevance to Australian entities applying AASB S2 as for entities applying IFRS S2.

Circumstances surrounding the current proposed ISSB amendments

18 The nature of the amendments are relevant to the AASB's deliberations with respect to the proposed ISSB amendments. Specifically, the proposed amendments are:

(a) narrow in scope—all aspects of the proposed amendments are narrow-scope amendments affecting only particular requirements in IFRS S2 and two of the four amendments only affect entities that engage in specific financial activities, that is they do not affect all entities.

(b) targeted in nature—all the proposed amendments relate to greenhouse gas (GHG) emissions disclosure requirements, specifically:

(i) application of the jurisdictional relief related to the measurement of GHG emissions; and

(ii) application of the requirement to disclose emissions for a specific category of Scope 3 GHG emissions and application of the requirement to disaggregate GHG emissions for particular financial activities.

(c) responsive to challenges raised by stakeholders—the proposed amendments provide relief or clarity in response to application challenges, and therefore ISSB staff are of the view that the proposed amendments would not be burdensome to entities and are not expected to significantly reduce the usefulness of information provided to users of general purpose financial reports. New disclosure requirements are proposed only for entities applying the relief and these new disclosures apply to two of the four proposed amendments.

Shortlisted approaches

19 Staff have shortlisted three potential approaches for the AASB. These are:

(a) issue an AASB Exposure Draft concurrently with the ISSB Exposure Draft as soon as feasible;

(b) issue an AASB Exposure Draft after the ISSB has completed its deliberations; or

(c) do not issue any consultative documents.

20 Table 4 presents a staff analysis of the advantages and disadvantages of the three potential shortlisted above to help determine what actions—if any—the Board should take in relation to the ISSB's proposed amendments.

***Table 4**: Advantages and disadvantages of shortlisted approaches*

Approach	Advantages	Disadvantages
Approach A: Issue Australian ED *concurrent* with ISSB ED as soon as feasible	• Subject to stakeholder feedback, provides the greatest opportunity for AASB S2 and IFRS S2 alignment • Potential to more quickly address application challenges identified by international stakeholders • Allows for timely feedback to the ISSB based on domestic stakeholder views and engagement in the international standard-setting process • Provides domestic stakeholders with early awareness of potential clarifications • Greatest potential to finalise amendments before the end of the first reporting period for certain entities (i.e. Group 1 entities with December year ends) • Avoids potential market confusion arising from any new differences between AASB S2 and IFRS S2	• May cause uncertainty in the domestic market during the implementation period • Could lead to application changes for entities already implementing AASB S2 • Compressed timeline for conducting due process, which may limit stakeholder feedback
Approach B: Issue Australian ED *after* ISSB completes its deliberations	• Content would be based on the outcomes of the ISSB's final deliberations • Extends due process timeline without being aligned with the ISSB's own timings	• Risks of short-term misalignment and reduced comparability between AASB S2 and IFRS S2 • Delays providing clarity to local entities • Compresses the timeline for local entities to implement changes • Reduces opportunity for input into global standard-setting processes
Approach C: Do not issue any consultative documents	• Maintains status quo for entities already implementing AASB S2	• Misalignment and reduced comparability between AASB S2 and IFRS S2 • Implies the clarifications to and reliefs from some IFRS S2 requirements are not applicable in respect of AASB S2

21 Overall, staff consider Approach A to be the preferred option because it would allow the AASB to inform the ISSB's deliberations with domestic stakeholder views. Subject to feedback and deliberations, this approach would respond as quickly as possible to address application challenges and ensure international alignment is maintained.

Logistical, timing and other considerations

22 Table 5 shows time ranges estimated by AASB staff for the ISSB's due process for its proposed amendments.

Table 5*: AASB staff estimated timeline range for the ISSB proposed amendments*

Step	Estimated ISSB Timing	AASB staff comment
ISSB ED issued	Q2 2025	This is reported in the [ISSB Update](#)
ISSB ED comments close	June – August 2025	Assumes DPOC approval of 60-day comment period
Analysis of feedback by ISSB and redeliberation of proposals	As late as September – October 2025	Depends on the nature and extent of feedback, including the extent of disparity among stakeholder views
Revisions issued by ISSB	As late as December 2025	As above

23 Staff note the following logistical and timing considerations for the AASB:

(a) if the AASB were to follow its customary process applied to Accounting Standards, the AASB would issue the ISSB Exposure Draft with a comment period shorter than the ISSB comment period to enable Australian stakeholder comments to be received to inform comments the AASB might make to the ISSB. The ISSB's 60-day comment window would mean the AASB comment period would need to be shorter—the minimum specified in the Due Process Framework is 30 days and is permitted if a project is sufficiently narrow in scope or urgent. Staff view the proposed amendments as narrow in scope and urgent.

(b) the ISSB's effective date is likely to be at least 1 January 2026, one year after the effective date for Group 1 Australian entities applying AASB S2. Earlier application could be either mandated or permitted, particularly since the amendments are expected to be largely clarifications/relief.

(c) any AASB Amending Standard would need to go through the AASB processes in Australia, including being tabled in Parliament.[6]

(d) the Board cannot specify an effective date for an Amending Standard that is before the Standard is made. Accordingly, waiting for the ISSB to complete its deliberations before taking any action is unlikely to enable completion of any amendments to AASB S2 before the end of 2025 and the AASB is not permitted to make amendments with retrospective effect. If the Board makes an Amending Standard in 2025, there is precedent for the effective date being periods ending on or after a particular date (such as 31 December 2025).[7]

24 Assuming the AASB intends to comment on the ISSB's proposals, the AASB's submission would need to be prepared and finalised out of session. Consideration should be given to forming a subcommittee for this purpose, with final approval by the Chair. A possible timeline for this is presented in Table 6.

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6 Staff note a Standard has legal effect from its stated effective date on being made by the AASB, despite being subject to disallowance.

7 For example, see AASB 1048 *Interpretation of Standards*.

***Table 6**: AASB staff estimated timeline range for the AASB submitting comments to the ISSB*

Step	AASB Timing	AASB possible action
AASB forms subcommittee	March 2025	In preparation for responding to the ISSB ED
AASB ED issued	Q2 2025	Issue AASB ED incorporating ISSB ED as soon as feasible after the ISSB ED becomes available
AASB ED comments close	June – August 2025	Expected to be approximately three weeks prior to ISSB 60-day comment period
AASB subcommittee analysis of AASB ED feedback		Expect to have a two-week window for a subcommittee meeting
AASB Chair approves submission to ISSB		Expect to have one week for staff to finalise the submission for the Chair's approval

Staff recommendations and questions for the Board

25 Staff recommend:

(a) the AASB exposes the ISSB's proposed amendments to IFRS S2 by conducting a concurrent due process to the ISSB's due process while providing Australian stakeholders with a minimum 30-day comment period. Staff consider this to be consistent with the AASB *Sustainability Reporting Standard-Setting Framework* and AASB *Due Process Framework for Setting Australian Sustainability Reporting Standards* as applied to the current circumstances—that is, narrow-scope changes that are urgent;

(b) AASB staff should prepare the Exposure Draft subject to approval to issue by the AASB Chair on behalf of the Board; and

(c) the AASB form a subcommittee to consider Australian stakeholder feedback on the AASB/ISSB Exposure Draft and prepare and finalise a submission to the ISSB out of session with the AASB Chair having final approval.

Question 1 to the Board (for discussion):

Do Board members have any comments or questions on the information contained within this paper?

Question 2 to the Board (for decision):

Do Board members agree with the staff recommendation in paragraph 25(a) to conduct a concurrent due process to the ISSB's due process, including having an Exposure Draft with a minimum 30-day comment period for Australian stakeholders? If not, what alternative would members prefer?

Question 3 to the Board (for decision):

If Board members support the staff recommendation in paragraph 25(a), do Board members also support the process staff recommend in paragraph 25(b) for issuing an Exposure Draft? If not, what alternative would members prefer?

Question 4 to the Board (for decision):

If Board members support the staff recommendations in paragraphs 25(a) and (b), do Board members also support the process staff recommend in paragraph 25(c) for the AASB submitting comments to the ISSB? If not, what alternative would members prefer?