Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	AASB 26 June 2024 (M205)
Topic:	**Financed emissions (SMC 20)**	**Agenda Item:**	4.5
		Date:	11 June 2024
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objectives of this paper

1 In respect to the proposal in ED SR 1 to require entities participating in asset management, commercial banking activities and financial activities associated with the insurance industry to consider the applicability of the additional financed emissions disclosure (i.e. as outlined in IFRS S2 paragraphs B61–B63[1]), instead of requiring these entities to disclose such information, the objectives of this paper are for the AASB to:

(a) consider stakeholder feedback on SMC 20; and

(b) decide on any changes required to be made to the proposed disclosure requirements regarding financed emissions.

Abbreviations

2 The abbreviations used in this paper are outlined in Appendix A of Agenda Paper 4.0.

Background

3 IFRS S2 paragraphs 29(a)(vi)(2) and B58–B63 require an entity that participates in asset management, commercial banking activities and financial activities associated with the insurance industry to provide additional disclosures relating to its financed emissions.

4 When incorporating those IFRS S2 requirements relating to financed emissions, the AASB made the following changes:

(a) instead of **requiring** an entity to disclose the information outlined in IFRS S2 paragraphs B61–B63, [draft] ASRS 2 requires an entity to **consider the applicability** of those disclosures related to its financed emissions (see [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1).

1 See Appendix A for IFRS S2 paragraphs B61–B63.

This is because IFRS S2 paragraphs B61–B63 referred to the Scope 3 Category 15 (investments) as defined in the GHG Protocol Standards, whereas the Board proposed prioritising NGER Scheme legislation as the default measurement methodology.

(b) IFRS S2 paragraphs B62 and B63, which apply to entities participating in commercial banking activities and financial activities associated with the insurance industry, respectively, require an entity to disaggregate its financed emissions by industry using the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties. [Draft] ASRS 2 paragraph AusB63.1(a)(i) proposed that an entity be required to apply ANZSIC to classify counterparties. This is because, as the Board observed, entities in Australia are required to apply the ANZSIC industrial classification system issued by the Australian Bureau of Statistics under existing Australian legislation and regulations.[2]

5 The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (the Bill) issued on 27 March 2024 proposed that entities within the scope of the Bill must report Scope 3 GHG emissions (including financed emissions) (s296D(1)(b)(iii)). The draft legislation does not include any additional or specific disclosures for financed emissions other than section 296D(1)(b)(iii) and any additional disclosures (based on IFRS S2) are for the AASB to decide.

Overview of staff recommendations

6 In relation to an entity participating in one or more of the financial activities of asset management, commercial banking and/or insurance, staff recommend to:

(a) make no change to the baseline of IFRS S2 with respect to the requirements in paragraphs B59 and B61–B63. That is to require an entity participating in one or more of the financial activities of asset management, commercial banking, and insurance to disclose additional and specific information about its financed emissions; and

(b) provide transition relief to exempt entities captured by (a) from reporting the additional and specific information about their financed emissions outlined in IFRS S2 paragraphs B59 and B61–B63 in the first three annual reporting periods in which an entity applies ASRS Standards.

Structure

7 The rest of the paper is structured as follows:

(a) Section 1: Summary of stakeholder feedback

(b) Section 2: Staff analysis and recommendations

(c) Section 3: Other comments from stakeholders

(d) Appendix A: IFRS S2 paragraphs B59–B63

(e) Appendix B: [draft] IFRS S2 proposed metrics for financed and facilitated emissions.

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2 Stakeholder comments on SMC 4 (removal of the requirement to consider the applicability of the SASB Standards and references to Industry-based Guidance on Implementing IFRS S2) and SMC 5 (requirement to consider the ANZSIC system when electing to make industry-based disclosures) will be presented at a future meeting.

Section 1: Summary of stakeholder feedback

8 SMC 20 of ED SR1 asked stakeholders: "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." An identical question was included in the survey.

9 A total of 117 comment letters and 289 survey responses were submitted during the comment period:

(a) 65 comment letters responded to SMC 20, with 4 of them not clearly stating a view; and

(b) 66 survey submissions responded to SMC 20.

Staff applied judgement in determining the classification of stakeholder comments.

10 The following table provides a high-level overview of the responses received in relation to the proposals in paragraphs AusB59.1, AusB61.1 and AusB63.1:

	Agree	Partially agree	Disagree
Out of the 61 comment letters that expressed a view on SMC 20[3]	13%	23%	64%
Out of 66 survey responses that commented on SMC 20[4]	64%	11%	25%

11 Overall, stakeholders expressed mixed views on the proposals related to financed emissions.

12 Staff observed that the drafting of paragraphs AusB59.1, AusB61.1, and AusB63.1 in [draft] ASRS 2 is not necessarily clear and may lead to inconsistent interpretation, particularly for the term "consider applicability":

(a) Some stakeholders interpreted the additional disclosures in paragraphs AusB59.1, AusB61.1, and AusB63.1 as voluntary — that is, entities only need to consider whether those disclosures would apply to them but not necessarily need to disclose that information.

(b) Other stakeholders interpreted "consider applicability" to be a reminder for entities to apply judgement when preparing disclosures that would meet their users' needs.

13 Comments from roundtables broadly align with the mixed views expressed in comment letters and survey responses. An overview of roundtable discussions has been separately provided for the Board's reference.

Stakeholders' reasons for supporting the proposal[5]

14 The stakeholders who elaborated on their reasons for supporting the proposal commented that calculating and disclosing financed emissions accurately can be challenging, especially for smaller entities. The proposals in paragraphs AusB59.1, AusB61.1, and AusB63.1 would reinforce the

3 Some stakeholders did not expressly state in their comment letters whether they agree, disagree, or partially agree with a proposal. Staff applied judgement in categorising the overall comments expressed in the comment letters. An overview of stakeholder feedback expressed in the comment letters is presented as Agenda paper 5.9 (M204) for the Board's reference.

4 The survey responses have been provided separately for the Board's reference.

5 Stakeholders who partially agreed with the proposal made additional suggestions for the Board's consideration. These suggestions are discussed in Section 3 of this paper.

application of the materiality principle[6] and provide entities with the flexibility to self-determine relevant and useful disclosures. [7] Staff observe that many of these stakeholders interpreted the proposed drafting "consider applicability" as indicating that the additional disclosures in paragraphs AusB59.1, AusB61.1, and AusB63.1 are voluntary (see paragraph 12(a)).

15 A few stakeholders made the following comments:

(a) The disaggregation of an entity's absolute gross financed emission by Scope 1, 2 and 3 emissions, and then by industry and/or asset classes will create an unnecessary administrative burden for reporting entities. Data limitation also poses challenges for disaggregation by asset class.[8] The benefits of providing such a detailed disclosure would not outweigh the cost and effort required to prepare it.[9]

(b) There is currently no industry standard for calculating certain financed emissions disclosure. For example, stakeholders observed that unlike loans, bonds and equity investments, which are covered by Partnership for Carbon Accounting Financials (PCAF) Standards, there is currently no industry standard for calculating financed emissions for undrawn commitments as proposed by paragraph AusB63.1 (c)(ii) (i.e. IFRS S2 paragraph B62(c)(ii)).[10] If there is an expectation to calculate financed emissions for undrawn loan commitments,[11] a standardised methodology or further guidance will need to be developed to avoid incomparable disclosures.[12]

(c) The challenges in data and methodology availability faced by many entities may be addressed by developing a phased-in approach or making the proposals to consider the applicability of those disclosures related to financed emissions as an interim measure. As data capture and availability improve, making such disclosures more practicable, ASRS 2 should be revisited in the future.[13]

<u>Stakeholders' reasons for not supporting the proposal</u>

16 Many stakeholders explicitly expressed their disagreement with the proposals regarding financed emissions. Their feedback can be summarised into two main views as follows:

(a) **View 1**: A few stakeholders commented that the proposed financed emissions disclosure requirement (and related baseline requirements in IFRS S2) is too onerous and should not be included in [draft] ASRS 2. Stakeholders doubt the value of the information at such a level of detail.[14]

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6 For example, comment letter: 28.

7 For example, comment letters: 75, 101 and 113; and survey response: 25.

8 For example, comment letters: 74 and 97.

9 For example, comment letters: 6, 11, 12, 53, 61, 62 and 77.

10 [Draft]ASRS 2 paragraph AusB63.1(c)(ii), which is the same as IFRS S2 paragraph B62(c)(iii), states that:

"AusB63,1 An entity that participates in commercial banking activities shall disclose: …

(c) the percentage of the entity's gross exposure included in the financed emissions calculation. The entity shall: …

(ii) disclose separately the percentage of its undrawn loan commitments included in the financed emissions calculation; and …" …

11 IFRS S2 requires relevant entities to disclose information about their undrawn loan commitments. As stated in paragraph BC127, "The ISSB decided to confirm and clarify the proposed requirements for an entity engaged in financial activities associated with commercial banking or insurance to disclose information about its undrawn loan commitments. That is, the entity would be required to disclose separately its financial exposures and its emissions related to those undrawn loan commitments".

12 For example, comment letters: 53 and 61.

13 For example, comment letters: 3, 11, 12, 20 and 74; and survey responses: 156 and 196.

14 For example, comment letters: 6 and 61; and survey responses: 14 and 214.

(b) **View 2**: Many stakeholders are of the view that [Draft] ASRS 2 should adopt the IFRS S2 baseline to require the additional disclosure related to financed emissions in paragraphs AusB59.1, AusB61.1, and AusB63.1. The proposed approach in [draft] ASRS 2 is too permissive. For asset managers, commercial banks and insurers,[15] financed emissions will be the most material source of Scope 3 emissions. Allowing individual entities to decide whether or not to disclose financed emissions could result in uneven and unequal industry practices, leading to potentially unusable disclosure. It could reduce the usefulness and comparability of disclosures relating to climate-related transition risk in financial institutions.[16]

17 A few stakeholders noted that although the Australian Bureau of Statistics uses ANZSIC to classify entities, the classification system is rarely used in general business in Australia and does not otherwise form a significant part of business interactions.[17] Stakeholders suggested that if proceeding with the proposals in [draft] ASRS 2, flexibility should be provided for entities to choose between ANZSIC or GICS industry classification codes or consider providing mapping guidance between the two industry classification code systems.[18]

Section 2: Staff analysis and recommendations

18 While stakeholders generally recognise the importance of financed emissions disclosures, there is a mixed view on the additional disclosures related to financed emissions outlined in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1, and AusB63.1.

19 The AASB noted that the financed emissions disclosure requirements in IFRS S2 paragraphs B61–B63 have not been publicly consulted on in Australia or globally before the issuance of ED SR1.[19] Metrics related to financed and facilitated emissions were proposed in Appendix B of the [draft] IFRS S2 under 'Transition Risk Exposure', for four industries in the financial sector, namely commercial banks, asset management and custody activities, investment banking, and brokerage and insurance. The proposed requirements in [draft] IFRS S2 include disclosure of absolute gross financed emissions and gross intensity[20] of financed emissions, both disaggregated by Scope 1, 2 and 3 emissions (see appendix B for the draft disclosure proposed in [draft] IFRS S2). Staff consider the current requirements in IFRS S2 to be a significant step up from the initial proposal in [draft] IFRS S2.

20 Staff acknowledge stakeholders' concerns about data availability and lack of standardised methodologies for certain financed emission elements (see paragraph 15 above). Stakeholders have highlighted that many entities may not be able to provide financed emission disclosures of sufficient quality to be decision-useful for users at the time that ASRS Standards are first applied and may need longer to prepare to provide the detailed disaggregated information.

21 Staff consider that one of the potential approaches to address the initial challenges of reporting disaggregated financed emissions information is to provide a temporary exemption from the

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15 Refer to Section 3, paragraph 27(e) of this paper for further discussion related to insurers.

16 For example, comment letters: 3, 4, 5, 8, 15, 16, 20, 21, 24, 26, 27, 30, 31, 34, 40, 42, 43, 55, 54, 56, 60, 62, 65, 68, 77, 86, 88, 89, 94, 98, 103, 104, 105, 108, 109, 110, 111 and 114; and survey responses: 9, 75, 107, 130, 217, 251 and 266.

17 For example, comment letters: 21, 26, 40 and 65. Stakeholder comments on SMC 4 (removal of the requirement to consider the applicability of the SASB Standards and references to Industry-based Guidance on Implementing IFRS S2) and SMC 5 (requirement to consider the ANZSIC system when electing to make industry-based disclosures) will be presented at a future meeting.

18 For example, comment letters: 6, 12, 53 and 55.

19 One stakeholder [comment letter: 97] requested that any future move requiring disclosures regarding insurance-associated emissions should be the subject of a separate thorough due process as there are unique issues connected with identifying and measuring insurance-associated emissions.

20 Emissions intensity is defined as the amount of Scope 1 emissions, Scope 2 emissions and Scope 3 emissions per unit of economic activity (e.g., mt CO_2-e/ USD 1 million revenue or mt CO_2-e/USD 1 billion assets under management).

additional financed emissions disclosure requirements prescribed in IFRS S2 paragraphs B59 and B61–B63. That is to:

(a) make no change to the baseline of IFRS S2 with respect to the requirements in paragraphs B59 and B61–B63. That is to require an entity participating in one or more of the financial activities of asset management, commercial banking, and insurance to disclose additional and specific information about its financed emissions; and

(b) provide transition relief to exempt entities captured by (a) from reporting the additional and specific information about its financed emissions outlined in IFRS S2 paragraphs B59 and B61–B63 in the first three annual reporting periods in which an entity applies ASRS Standards.

22 [Draft] ASRS 2 paragraph AusC4.1 exempts entities from disclosing their Scope 3 GHG emissions, including financed emissions, in the first annual report period in which an entity applies ASRS Standards. Also, [draft] ASRS 2 paragraph B19 (verbatim of IFRS S2 paragraph B19) allows entities to use information from a reporting period that is different from the entity's reporting period, if specific conditions are met.[21]

23 Under paragraphs AusC4.1, B19 and the phased-in approach outlined in paragraph 21 above, an entity participating in one or more of the financial activities of asset management, commercial banking and/or insurance would be:

(a) required to disclose its financed emissions as part of the absolute gross Scope 3 GHG emissions from the second annual reporting period after an entity applies ASRS Standards;

(b) required to disclose the additional and specific information about its financed emissions outlined in IFRS S2 paragraphs B61–B63 from the 4th annual reporting period after the entity applies ASRS Standards; and

(c) permitted to use information obtained from its value chain for a reporting period that is different from the entity's reporting period if specific conditions are met.

24 With reference to the *AASB Sustainability Reporting Standard-setting Framework* (paragraph 20(e)), if the transition from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs or require additional time when compared with international counterparts, deferral of the application date for certain requirement could be justified.

25 Under the recommended approach outlined in paragraph 21, entities would be required to use GICS 6-digit industry-level codes for classifying counterparties. GICS has been used by various share markets globally. The ASX indices use GICS for 11 standardised industry definitions, plus 5 other sectors developed for the Australian market. GICS, developed by Standard & Poor's and MSCI, is very similar to the Industrial Classification Benchmark (ICB), developed by Dow Jones and FTSE.[22] Staff consider that requiring GICS would be appropriate on the basis that:

(a) it would help investors analyse and compare the Australian market with its international counterparts, particularly for financed emissions, which could be commonly attributed to cross-border investments; and

21 Stakeholder comments on SMC 18 (Scope 3 GHG emissions relief) will be presented in a separate paper.

22 See the research guide provided by the RMIT University.

(b) it would help to alleviate the preparation cost of the requirements in paragraphs B62(a)(i) and B63(a)(i) to disaggregate financed emissions by industry, on the basis that:

   (i) entities, especially ASX-listed entities, and their investors, should be familiar with GICS from its wide use in the capital markets; and

   (ii) disaggregation by industry based on the GICS 6-digit industry-level code would not be more burdensome than ANZSIC, considering that the GICS 6-digit industry-level code includes 74 industries, whereas the ANZSIC code has 18 divisions that are further disaggregated into 96 subdivisions, and a number of group and class codes.

26 The phased-in approach outlined in paragraph 21 above would:

(a) maintain alignment with the IFRS S2 baseline requirements and promote consistency and comparability of disclosure;

(b) provide preparers with more time to develop systems and processes needed to obtain the relevant data; and

(c) allow more time for developing methodologies, where needed, and guidance to assist the implementation of the disclosure requirements.

Question 1 to the Board:

Do Board members agree with staff recommendations in paragraph 21 to adopt a phased-in approach for financed emissions disclosures to:

(a) make no change to the baseline of IFRS S2 with respect to the requirements in paragraphs B59 and B61–B63. That is to require an entity participating in one or more of the financial activities of asset management, commercial banking, and insurance to disclose additional and specific information about its financed emissions; and

(b) provide transition relief to exempt entities captured by (a) from reporting the additional and specific information about its financed emissions outlined in IFRS S2 paragraphs B59 and B61–B63 in the first three annual reporting periods in which an entity applies ASRS Standards?

If not, what other approaches would Board members suggest?

Section 3: Other comments from stakeholders

27 In addition to the stakeholders' comments summarised in paragraphs 14–17, some stakeholders suggest the Board to consider the following:

(a) If proceeding with the current proposal in [draft] ASRS 2, clarifying the basis on which an entity would determine whether the financed emission disclosure is applicable to them.[23]

(b) Add IFRS S2 paragraph B62(c)(ii) to [draft] ASRS 2, which clarifies that, for funded amounts, the entity shall exclude all impacts of risk mitigants from gross exposure, if applicable. [24] Stakeholders consider this significant information to understand the correct financial measure

23 For example, comment letters: 9 and 40.

24 For example, comment letters: 61, 62 and 86.

to use to input into financed emissions. It helps to ensure comparability between banks and prevents banks from using risk mitigants to achieve zero effective financed emissions.

(c) Revise [draft] ASRS 2 paragraph B37 by replacing 'shall disclose' with 'shall consider disclosing' to align with proposed modifications to paragraphs AusB61.1 and AusB63.1. [25]

> **Staff analysis**
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> With respect to the stakeholder comments noted in (a)–(c), staff consider that the recommended approach in paragraph 21 would mean that these concerns would no longer be relevant.[26] This is because, as noted in paragraph 21, staff are recommending removing the proposed requirement for entities to "consider applicability", and instead adopting the baseline requirements to require an entity participating in one or more of the financial activities of asset management, commercial banking and/or insurance to disclose the additional and specific information about its financed emissions outlined in IFRS S2 paragraphs B61–B63.

(d) Reconsider the drafting of [draft] ASRS 2 paragraph BC86(b) to better align with the requirements in IFRS S2 paragraphs B62(a) and B63(a) and avoid inconsistent application. Two stakeholders found the current drafting confusing, as it could be read that "Scope 3 GHG emissions" and "financed emissions" are interchangeable.[27]

> **Staff analysis**
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> IFRS S2 paragraph B62(a) requires "An entity that participates in commercial banking activities [financial activities associated with the insurance industry] shall disclose **its absolute gross financed emissions**, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class…" [**emphasis added**].[28]
>
> ED SR 1 paragraph BC86(b) states: "IFRS S2 paragraphs B62 and B63 require an entity that participates in commercial banking and insurance activities to disaggregate **its** Scope 1, Scope 2 and Scope 3 GHG emissions by applying the Global Industry Classification Standard…" [**emphasis added**].
>
> Staff acknowledge this inconsistency is due to a drafting error in ED SR1.
>
> **Staff recommendation**: Staff recommend that the Board revise [draft] ASRS 2 paragraph BC86(b) to better align with IFRS S2 paragraphs B62(a) and B63(a) and avoid inconsistent interpretation.

(e) Clarify in [draft] ASRS 2 whether financed emissions include emissions associated with an insurer's underwriting portfolios in the insurance and reinsurance industries. [29]

> **Staff analysis**
>
> IFRS S2 paragraph BC129 states that "The ISSB confirmed that IFRS S2 requires financed emissions 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

25 For example, comment letters: 6 and 13.
26 Staff acknowledge that a drafting error omitted the requirement in IFRS S2 paragraph B62(c)(ii) in [draft] ASRS 2.
27 For example, comment letters: 11, 18, 81 and 94.
28 IFRS S2 paragraph B63(a) requires "An entity that participates in financial activities associated with the insurance industry shall disclose **its absolute gross financed emissions**, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class…" [**emphasis added**].
29 For example, comment letters: 3, 11, 21 and 72.

underwriting portfolios in the insurance and reinsurance industries. Similarly, the ISSB decided not to proceed with the proposed requirements for an entity engaged in financial activities associated with investment banking to disclose information about its 'facilitated emissions', citing the lack of established methodology in relation to such emissions".

The paragraph is not included in the ED SR1 Basis for Conclusions as no amendments were proposed to emissions associated with an insurer's underwriting portfolios in ED SR1. ED SR1's Basis for Conclusions focuses on the Board discussion and rationale for Australian-specific issues and any proposed departures from the international baseline. The IFRS Basis for Conclusions will be made publicly available on the AASB website as supplementary material to AASB Standards developed based on IFRS Standards. Stakeholders could refer to them for further clarification if needed.

Given that emissions associated with an insurer's underwriting portfolios are an important clarification sought by stakeholders with an interest in the insurance sector, and that (like the ISSB) the AASB has not yet considered issues specific to insurance-related emissions, staff consider the AASB should adopt the same position as the ISSB. That is, the AASB's Basis for Conclusions to [draft] ASRS 2 should clarify that ASRS 2 requires financed emissions disclosure only for insurance-related financial activities associated with an insurer's assets (and not its underwriting activities).

Staff recommendation: Staff recommend the Board to add a paragraph (similar to IFRS S2 paragraph BC129) to the [draft] ASRS 2 Basis for Conclusions to provide clarification on the financed emissions associated with an insurer's underwriting portfolios.

(f) Clearly define the terms "asset management" and "commercial banking and insurance" in the ASRS Standards to assist consistent application.[30]

Staff analysis

With respect to the stakeholder comment noted in (f), staff consider that no action is needed at this stage. Stakeholders could refer to existing guidance such as the IFRS S2 *Climate-related Disclosure* Industry-based Guidance issued by ISSB which contains detailed descriptions of asset management, commercial banking and insurance activities.

(g) The comparability of financed emissions reporting could be further enhanced by requiring disclosure of financed emissions intensity, which facilitates comparisons between financial institutions of varying sizes.[31]

Staff analysis

As part of its redeliberation on [draft] IFRS S2, in its December 2022 meeting, the ISSB decided not to require GHG emissions intensity disclosure and keep only the disclosure requirement for absolute gross GHG emissions (i.e. paragraph 29(a)(i) of IFRS S2). The calculation of an entity's GHG emissions intensity is usually based on information that is already disclosed in the financial statements (e.g. revenue); or will be required by other climate-related financial disclosures (e.g. the absolute gross financed emissions)

Staff concur with the ISSB analysis that users would likely have access to the information needed to elect their own denominator and calculate GHG emissions intensity for entities that are useful, relevant, and comparable to assist their analysis.

30 For example, comment letters: 41 and 81.
31 For example, comment letter: 105.

Moreover, [draft] ASRS 2 does not prohibit an entity from making additional disclosures to provide relevant information for users. Accordingly, an entity can elect to make additional disclosures about its GHG emissions intensity should it consider the information relevant for its users. Therefore, staff consider no action is needed.

(h) Develop a proforma report to support the implementation of financed-emission disclosures.[32]

Staff analysis

The Board decided in its August 2023 meeting to defer work on developing additional guidance to support the implementation of ASRS Standards until after the Standards have been issued.

Staff recommendation: Staff recommend that the Board adhere to its existing decision to conduct work on developing additional guidance only after the Standards have been issued.

(i) Clarify that paragraph AusB63.1 only applies to loans made by State Treasury Corporations to parties outside of the Total State Sector (e.g. local councils and universities), but not to most loans made by State Treasury Corporations to other Total State Sector agencies in the relevant State jurisdictions.[33] This is because the State Treasury Corporations act as a quasi-agent for the government in such transactions and have no discretion as to where the funding goes and/or how it is used.

Staff analysis

Stakeholder comments on public-sector-specific issues are included for noting only. Staff will present the analysis on public-sector-specific matters raised by stakeholders in ED SR1 at a future meeting.

Question 2 to the Board:

Do Board members agree with staff recommendations in relation to other stakeholder suggestions in paragraphs 27(a)–27(i) above? If not, what alternative approaches would Board members suggest?

32 For example, comment letter: 61.
33 For example, comment letter: 9.

Appendix A – IFRS S2 paragraphs B59–B63

B59 Paragraph 29 (a)(i)(3) requires an entity to disclose its absolute gross Scope 3 greenhouse gas emissions generated during the reporting period, including upstream and downstream emissions. An entity that participates in one or more of the following financial activities is required to disclose additional and specific information about its Category 15 emissions or those emissions associated with its investments which is also known as 'financed emissions':

(a) asset management (see paragraph B61);

(b) commercial banking (see paragraph B62); and

(c) insurance (see paragraph B63).

B60 An entity shall apply the requirements for disclosing greenhouse gas emissions in accordance with paragraph 29(a) when disclosing information about its financed emissions.

Asset management

B61 An entity that participates in asset management activities shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions.

(b) for each of the disaggregated items in paragraph B61(a), the total amount of assets under management (AUM) that is included in the financed emissions disclosure, expressed in the presentation currency of the entity's financial statements.

(c) the percentage of the entity's total AUM included in the financed emissions calculation. If the percentage is less than 100%, the entity shall disclose information that explains the exclusions, including types of assets and associated amount of AUM.

(d) the methodology used to calculate the financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of investments.

Commercial banking

B62 An entity that participates in commercial banking activities shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by:

(i) industry—the entity shall use the *Global Industry Classification Standard* (GICS) 6-digit industry-level code for classifying counterparties, reflecting the latest version of the classification system available at the reporting date.

(ii) asset class—the disclosure shall include loans, project finance, bonds, equity investments and undrawn loan commitments. If the entity calculates and discloses financed emissions for other asset classes, it shall include an explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports.

(b) its gross exposure to each industry by asset class, expressed in the presentation currency of the entity's financial statements. For:

(i) funded amounts—gross exposure shall be calculated as the funded carrying amounts (before subtracting the loss allowance, when applicable), whether prepared in accordance with IFRS Accounting Standards or other GAAP.

(ii) undrawn loan commitments—the entity shall disclose the full amount of the commitment separately from the drawn portion of loan commitments.

(c) the percentage of the entity's gross exposure included in the financed emissions calculation. The entity shall:

(i) if the percentage of the entity's gross exposure included in the financed emissions calculation is less than 100%, disclose information that explains the exclusions, including the type of assets excluded.

(ii) for funded amounts, exclude from gross exposure all impacts of risk mitigants, if applicable.

(iii) disclose separately the percentage of its undrawn loan commitments included in the financed emissions calculation.

(d) the methodology the entity used to calculate its financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of its gross exposure.

Insurance

B63 An entity that participates in financial activities associated with the insurance industry shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by:

(i) industry—the entity shall use the *Global Industry Classification Standard* (GICS) 6-digit industry-level code for classifying counterparties, reflecting the latest version of the classification system available at the reporting date.

(ii) asset class—the disclosure shall include loans, bonds and equity investments, as well as undrawn loan commitments. If the entity calculates and discloses financed emissions for other asset classes, it shall include an explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports.

(b) the gross exposure for each industry by asset class, expressed in the presentation currency of the entity's financial statements. For:

(i) funded amounts—gross exposure shall be calculated as the funded carrying amounts (before subtracting the loss allowance, when applicable), whether prepared in accordance with IFRS Accounting Standards or other GAAP.

(ii) undrawn loan commitments—the entity shall disclose the full amount of the commitment separately from the drawn portion of loan commitments.

(c) the percentage of the entity's gross exposure included in the financed emissions calculation. The entity shall:

(i) if the percentage of the entity's gross exposure included in the financed emissions calculation is less than 100%, disclose information that explains the exclusions, including type of assets excluded.

(ii) disclose separately the percentage of its undrawn loan commitments included in the financed emissions calculation.

(d) the methodology the entity used to calculate its financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of its gross exposure.

Appendix B – [draft] IFRS S2 proposed metrics for financed and facilitated emissions[34]

Table 1. Sustainability Disclosure Topics & Metrics

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Incorporation of Environ-mental, Social, and Governance Factors in Investment Management & Advisory	Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening	Quantitative	Reporting currency	FN-AC-410a.1
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies	Discussion and Analysis	n/a	FN-AC-410a.2
	Description of proxy voting and investee engagement policies and procedures	Discussion and Analysis	n/a	FN-AC-410a.3
Transition Risk Exposure	Percentage of total assets under management (AUM) included in the financed emissions calculation	Quantitative	Percentage (%)	FN-AC-1
	(1) Absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-AC-2
	(1) Gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e per unit of economic output, Presentation currency	FN-AC-3
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-AC-4

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
~~(1)~~ Total ~~registered and (2) total unregistered~~ assets under management (AUM) ~~[19]~~	Quantitative	Presentation currency	FN-AC-000.A
Total assets under custody and supervision	Quantitative	Presentation currency	FN-AC-000.B

34 IFRS Sustainability Disclosure Standard Exposure Draft *[draft] IFRS S2 Climate-related Disclosures Appendix B Industry-based disclosure requirements* (March 2022), Page 134.