



Project:	Climate-related Financial Disclosures	Meeting:	AASB 6–7 June 2024 (M204)
Topic:	The scope of [draft] ASRS 2 <i>Climate-related Financial Disclosures</i> (SMC 9)	Agenda Item:	5.2
		Date:	21 May 2024
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objective of this paper

- 1 In respect to the proposal to add paragraph Aus3.1 to [draft] ASRS 2 *Climate-related Financial Disclosures* to clarify the scope of the Standard, the objectives of this paper are for the AASB to:
 - (a) consider feedback from stakeholders on SMC 9 of ED SR1; and
 - (b) decide on any changes required to be made to that paragraph.

Abbreviations

- 2 The abbreviations used in this paper are outlined in Appendix A of Agenda Paper 5.0.

Executive summary

- 3 Paragraphs 3 and Aus3.1 of [draft] ASRS 2, which are related to the scope of the Standard, are reproduced below.

3	This [draft] Standard applies to:
	(a) climate-related risks to which the entity is exposed, which are:
	(i) <i>climate-related physical risks</i> ; and
	(ii) <i>climate-related transition risks</i> ; and
	(b) climate-related opportunities available to the entity.
Aus3.1	The scope of this [draft] Standard is limited to an entity's climate-related risks and opportunities in relation to climate change. Other climate-related emissions, such as ozone depleting emissions that are not <i>greenhouse gas</i> emissions, are outside the scope of this [draft] Standard.

- 4 Although a majority of stakeholders who responded to this topic agreed with adding the proposed paragraph Aus3.1 to the Standard, some stakeholders raised significant concerns with that paragraph.

- 5 Staff agreed with stakeholders that the proposed paragraph Aus 3.1 is not necessary and, if retained, would cause confusion rather than clarification. Accordingly, staff recommend the Board:
- (a) omit paragraph Aus3.1 from the Standard; and
 - (b) clarify in the Basis for Conclusions how [draft] ASRS 2 interacts with [draft] ASRS 1 and/or IFRS S1.

Structure

- 6 This paper is structured as follows:
- (a) [Section 1](#): Background – The AASB’s decisions when developing ED SR1
 - (b) [Section 2](#): Summary of stakeholder feedback and staff analysis
 - (i) [2.1](#): Overview of stakeholder feedback
 - (ii) [2.2](#): Stakeholders’ reasons for supporting the proposal
 - (iii) [2.3](#): Stakeholders’ reasons for not supporting the proposal and staff analysis
 - (iv) [2.4](#): Staff recommendations
 - (c) [Appendix A](#): Summary of stakeholders’ reasons for supporting the proposal
 - (d) [Appendix B](#): Stakeholders’ drafting suggestions [for the AASB’s consideration if the Board confirms its decision to add an Aus paragraph in [draft] ASRS 2 to clarify the scope of the Standard].

Section 1: Background – The AASB’s decisions when developing ED SR1

- 7 As noted in paragraph BC49 of ED SR1, the AASB decided to add paragraph Aus3.1 to [draft] ASRS 2 because feedback to ED 321 highlighted that there was a significant degree of confusion on what was meant by ‘climate’ and the boundary of [draft] IFRS S2.
- 8 Since IFRS S2 makes no reference to climate-related financial disclosures beyond climate change and GHG emissions, the AASB added paragraph Aus3.1 (quoted in paragraph 3) to clarify the scope of the Standard. Paragraph Aus3.1 was not intended to modify the scope of the Standard as set out in the baseline of IFRS S2.
- 9 During the consultations relating to ED 321, some stakeholders questioned how the ISSB’s Standards would interact with Australian reporting requirements on other sustainability-related topics such as water and biodiversity. Accordingly, the AASB explained in paragraph BC50 of ED SR1 that paragraph Aus3.1 is intended to also clarify that [draft] ASRS 2 does not replace existing legislation or pronouncements prescribing reporting requirements related to other sustainability-related topics.
- 10 Paragraphs BC49 and BC50 are reproduced below.

Clarify the scope of [draft] ASRS 2 (paragraph Aus3.1)

- BC49 IFRS S2 applies to climate-related risks and opportunities within the context of climate change. Feedback to ED 321 highlighted that there was a significant degree of confusion on what was meant by “climate” and the boundary of [draft] IFRS S2. Given that IFRS S2 makes no reference to climate-related financial disclosures beyond climate change or other climate-related emissions, the AASB considered that it would be necessary to clarify the scope of [draft] ASRS 2 by specifying that the Standard:
- (a) is limited to climate-related risks and opportunities related to climate change; and
 - (b) does not apply to other climate-related emissions (e.g. ozone depleting emissions) that are not GHG emissions.
- BC50 Clarifying the scope of [draft] ASRS 2 also has the benefit of clarifying that the [draft] Standard does not replace existing legislation or pronouncements that prescribe reporting requirements related to other sustainability-related topics (e.g. water and biodiversity).

Section 2: Summary of stakeholder feedback and staff analysis

2.1 Overview of stakeholder feedback

11 SMC 9 of ED SR1 asked stakeholders:

“Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard? Please provide reasons to support your view.”

12 Of the 117 comment letters and 289 survey responses received, 50 and 70 respondents, respectively, provided a response to SMC 9.

13 The following table provides an overview of the responses received on SMC 9 (rounded to the nearest %).

	Agree	Partially agree	Disagree	No clear view
Out of the 50 comment letters that commented on SMC 9 ¹	48%	20%	30%	2%
Out of the 70 survey responses that commented on SMC 9 ²	70%	19%	11%	N/A

14 Based on staff’s judgement on the overall comments expressed in the comment letters and responses from survey respondents, a majority of respondents supported the proposed addition of paragraph Aus3.1 to [draft] ASRS 2. However, many other respondents raised concerns with the proposal or explicitly disagreed with the proposal.

15 Roundtable participants also expressed mixed views regarding the proposal. An overview of roundtable discussions has been provided separately for the Board’s reference.

2.2 Stakeholders’ reasons for supporting the proposal

16 Most of the respondents who supported the proposal to add paragraph Aus3.1 to [draft] ASRS 2 did not provide a reason for their support. Some simply indicated that the proposal would provide better clarity of the scope of the Standard, without further explanation.

17 [Appendix A](#) includes a summary of respondents’ reasons for their support of the proposal.

2.3 Stakeholders’ reasons for not supporting the proposal and staff analysis

18 Many respondents raised concerns with the proposal or explicitly disagreed with adding paragraph Aus3.1 to [draft] ASRS 2. The main reasons for their disagreement can broadly be categorised into three views, as described below.

19 The views described in this section are not mutually exclusive. Some stakeholders hold more than one view.

1 In some comment letters, the respondents did not clearly mention whether they agree, disagree, or partially agree with the proposal. In such cases, staff applied judgement to categorise the overall comments expressed in the letters. However, regardless of how staff categorised the feedback, the reasons provided by the respondents for supporting their position were considered as a part of the staff analysis. An overview of stakeholder feedback expressed in the comment letters is presented as Agenda Paper 5.9 for the Board’s reference.

2 The survey responses have been provided separately for the Board’s reference.

Stakeholder View 1: A scope clarification is unnecessary³

- 20 Some stakeholders commented that it is sufficiently clear in the definition of ‘climate-related risks and opportunities’ set out in Appendix A of IFRS S2 (and [draft] ASRS 2) that the scope of the Standard is limited to risks and opportunities in relation to climate change. Therefore, it is unnecessary to add paragraph Aus3.1 to the Standard.
- 21 If the AASB considers that further clarification is required, to maintain a closer alignment with IFRS S2, instead of adding an Aus paragraph in the body of the Standard, it would be better to:
- (a) sign-post the definition set out in Appendix A of the Standard; or
 - (b) develop non-mandatory explanation guidance.

Staff observations regarding View 1

- 22 The definition of ‘climate-related risks and opportunities’ set out in Appendix A of [draft] ASRS 2 states: “Climate-related risks refers to the potential **negative effects of climate change** on an entity... Climate-related opportunities refers to the potential **positive effects arising from climate change** for an entity...” [emphasis added]
- 23 Staff agree with holders of View 1 that the definition of climate-related risks and opportunities clearly refers to climate change, and further clarification on the Standard’s scope may not be necessary. As mentioned in paragraph 7 above, the AASB added paragraph Aus3.1 to [draft] ASRS 2 to address stakeholder feedback received on ED 321 that indicated a significant degree of confusion among stakeholders on what was meant by ‘climate’ and the boundary of [draft] IFRS S2. However, the stakeholders who participated in the consultations related to ED SR1 did not express any major concerns about the scope of [draft] ASRS 2.
- 24 Many stakeholders have expressed their preference for the Standard to remain closely aligned with IFRS S2, with modifications limited to Australian-specific matters. Staff consider that if the AASB decides that further clarification is needed regarding the boundary of [draft] ASRS 2, this can be achieved by adding explanations in the Basis for Conclusions or by developing non-mandatory guidance, rather than adding an Aus paragraph to the Standard.

Stakeholder View 2: Adding paragraph Aus3.1 to [draft] ASRS 2 would be a departure from IFRS S2 and is counterintuitive because climate-related matters outside the scope of [draft] ASRS 2 might fall within the scope of IFRS S1⁴

- 25 Some stakeholders are of the view that the ISSB developed IFRS S2 with a broad perspective on climate-related disclosures, which does not exclude specific types of emissions, such as those affecting the ozone layer. Other gases, such as nitrogen oxide (NO_x) and sulphur dioxide (SO₂), might also contribute to climate change.
- 26 They commented that adding paragraph Aus3.1 to the Standard may:
- (a) undermine an entity’s ability to claim compliance with IFRS S2; and

³ For example, comment letters: 12, 16, 43, 54, 60, 62, 77, 81, 98, 110

⁴ For example, comment letters: 6, 7, 10, 21, 26, 44, 55, 60, 86, 88 and survey respondents: 1, 5, 9, 21, 75, 107, 112, 115, 130, 214, 216, 217, 251

- (b) create potential confusion for global investors and for entities that operate both domestically and internationally, if other countries interpret the scope of IFRS S2 to be broader than how it is described in the proposed paragraph Aus3.1.
- 27 Paragraphs BC24–BC25 of the ISSB’s Basis for Conclusions to IFRS S2 state that the ISSB specifically did not seek to define the full scope of climate-related risks and opportunities that may affect an entity, nor prescribe the scope of ‘climate-related’. Paragraph BC25 notes that there may be indirect impacts of climate-related matters affecting access to fresh water, biodiversity loss, deforestation, etc., that are required to be disclosed if an entity determines it is material for users of GPFR.
- 28 The [educational material](#) published by the staff of the ISSB in December 2023 suggests that an entity is expected to consider the nature and social aspects of climate-related risks and opportunities when applying IFRS S1 and IFRS S2. The Illustrative Examples in the educational material suggest that water and biodiversity are within the scope of IFRS S2, but paragraph BC50 of ED SR1 appears to suggest that they are outside the scope of [draft] ASRS 2.
- 29 Additionally, climate matters outside the scope of IFRS S2 and [draft] ASRS 2 may nonetheless be considered sustainability-related risks and opportunities that fall within the scope of IFRS S1. Respondents commented that adding the proposed paragraph Aus3.1 to [draft] ASRS 2 would:
- (a) create unnecessary confusion for entities electing or being required by their parent entities or a jurisdictional authority to apply IFRS S1. This is because under IFRS S1, they would be required to consider sustainability-related risks and opportunities outside of the IFRS S2-defined scope from the second annual reporting period in which an entity applies IFRS S1 (IFRS S1 paragraph E5);
 - (b) reduce the comparability of disclosures made under [draft] ASRS 2 with disclosures made in accordance with TCFD recommendations or European Sustainability Reporting Standards (ESRS); and
 - (c) necessitate further amendment to the Standard to clarify the Standard’s scope if the range of matters that should be reported changes over time.
- 30 A few respondents commented that readers of annual reports are likely to expect a holistic view of climate reporting and not only focus on climate change or GHG emissions.

Staff observations regarding View 2

- 31 Paragraph Aus3.1 was intended to explain that [draft] ASRS 2 would prescribe the reporting requirements only in relation to risks and opportunities associated with climate change and GHG emissions (per the definition of climate-related risks and opportunities in Appendix A of IFRS S2). Entities would need to refer to other applicable pronouncements for any reporting requirements outside that defined scope.
- 32 Paragraph BC50 of ED SR1, which is quoted in paragraph 10 above, does not say that indirect impacts of climate-related matters affecting access to fresh water and biodiversity are outside the scope of [draft] ASRS 2. It merely states that [draft] ASRS 2, when applied, would not replace other legislation or pronouncements that prescribe reporting requirements related to other sustainability-related topics, including those relating to water and biodiversity.
- 33 However, staff agree with stakeholders’ view that because IFRS S1 applies to sustainability-related risks and opportunities, which is wider than climate-related risks and opportunities, it would be

counterintuitive to specify in [draft] ASRS 2 matters that might be within the scope of IFRS S1 or [draft] ASRS 1.⁵

Stakeholder View 3: *The drafting of paragraph Aus3.1 and paragraphs BC49–BC50 causes confusion rather than clarification*⁶

- 34 Some stakeholders, including those who supported the idea of adding an Aus paragraph in the Standard to clarify the Standard’s boundary, commented that the drafting of paragraph Aus3.1 is confusing because it uses the terms ‘climate change’ and ‘other climate-related emissions’, which are not defined in the Standard.
- 35 Some of those stakeholders also commented that the phrase “climate-related emissions, such as ozone depleting emissions that are not greenhouse gas emissions” in paragraph Aus3.1 creates confusion because ‘climate-related’ implies that they should be within the scope of ASRS 2.
- 36 Some stakeholders provided suggestions on how the drafting of paragraph Aus3.1 could be improved. Those suggestions are summarised in [Appendix B](#), for the AASB’s information.

Staff observations regarding View 4

- 37 Staff concur with the stakeholders’ comments noted in paragraphs 34–35.
- 38 If the AASB decides to retain paragraph Aus3.1 in the Standard, staff agree with stakeholders that the drafting of the paragraph would need to be revised to provide better clarity.

2.4 Staff recommendations

- 39 Based on the comments received in the written submissions, surveys and roundtable discussions, staff have formulated the following viewpoints as described in (a)–(d).
- (a) Although a majority of respondents supported the proposed addition of paragraph Aus3.1 to [draft] ASRS 2, retaining paragraph Aus3.1 in the Standard may lead to unnecessary confusion for entities applying IFRS S1 (or an equivalent Standard), which requires material sustainability-related matters outside climate-related risks and opportunities to be reported from the second annual reporting period in which an entity applies IFRS S1.
- (b) It might not be necessary to provide further clarification about the scope of [draft] ASRS 2. The definition of ‘climate-related risks and opportunities’ set out in Appendix A of the Standard clearly defines the boundary of the Standard. Stakeholders who participated in the consultations related to ED SR1 did not express any major concerns about the scope of [draft] ASRS 2.
- (c) The boundary of [draft] ASRS 2 is expected to be the same as that of IFRS S2. Therefore, if there is significant confusion around the boundary of IFRS S2, it would be a matter for the ISSB and its Transition Implementation Group (TIG) to consider. Based on the [submissions log](#) of the ISSB’s TIG as of 15 February 2024, it appears that no one has raised the boundary of IFRS S2 to the TIG as a significant matter that would require further clarification.

5 In Agenda Paper 5.1, staff are asking the AASB to consider expanding the scope of [draft] ASRS 1 to cover all sustainability-related risks and opportunities, and issue it as a non-mandatory Standard.

6 For example, comment letters: 16, 21, 26, 43 and survey respondent: 114

- (d) Paragraph Aus3.1 of [draft] ASRS 2, if retained, would need to be revised. However, it is unclear how the paragraph could be revised to address the potential confusion noted in point (a).
- 40 Based on the stakeholder feedback received, and in accordance with paragraph 20 of the [AASB Sustainability Reporting Standard-Setting Framework](#), there does not appear to be a justifiable reason for amending the baseline of IFRS S2. Accordingly, staff recommend:
- (a) omitting paragraph Aus3.1 from [draft] ASRS 2; and
- (b) clarifying in the Basis for Conclusions the scope of the Standard and how it interacts with [draft] ASRS 1 and/or IFRS S1.

Questions for Board members

Q1: Do Board members have any comments on the staff views noted in this paper?

Q2: Do Board members agree with the staff recommendation noted in paragraph 40? If not, what alternative approaches would Board members suggest?

Appendix A: Summary of stakeholders' reasons for supporting the proposal

The respondents who provided explanations for their support of the proposal to add paragraph Aus3.1 to [draft] ASRS 2 commented that the proposed paragraph Aus3.1 would:

- (a) be consistent with IFRS S2, which includes climate change in the definition of climate-related risks and opportunities;⁷
- (b) promote consistency in reporting among entities and eliminate any confusion about whether the requirements specified in [draft] ASRS 2 are meant to replace other existing reporting requirements on sustainability-related topics;⁸
- (c) be broadly consistent with how other standards, such as ESRS, have approached their scope – that the other environmental matters mentioned, such as ozone depleting emissions, could be addressed in future topic-specific sustainability standards;⁹
- (d) align with Treasury's reform principle that disclosure requirements should be well-understood by businesses, investors, regulators and other stakeholders (page 4 of Treasury's [Consultation Paper Climate-related financial disclosure](#), June 2023);¹⁰ and
- (e) provide a reasonable blanket understanding to users of annual reports about what is being disclosed in accordance with [draft] ASRS 2.¹¹

7 For example, comment letter: 40

8 For example, comment letters: 4, 97, 104

9 For example, comment letter: 38

10 For example, comment letter: 15

11 For example, survey respondent: 196

Appendix B: Stakeholders' drafting suggestions

Some stakeholders provided suggestions on how the drafting of paragraph Aus3.1 of [draft] ASRS 2 could be improved for better clarity. Those suggestions are provided in (a)–(f) below for the AASB's information.

Staff have not yet analysed those suggestions and will only consider them in detail if the AASB confirms its decision to add an Aus paragraph in [draft] ASRS 2 to clarify its scope. As mentioned in paragraph 40 of the paper, staff recommend the AASB omit paragraph Aus3.1 from the Standard.

- (a) One respondent commented that the Standard does not define the term 'climate change' and the scope of [draft] ASRS 2 could be made clearer if paragraph Aus3.1 is redrafted as: "The scope of this [draft] Standard is limited to an entity's climate-related risks and opportunities arising from greenhouse gas emissions. Other climate-related emissions ...".¹²
- (b) The AASB should explain which other climate-related emissions are outside the scope of the Standard so that preparers can distinguish those emissions from GHG emissions.¹³
- (c) Consistent with the way the scopes of Accounting Standards are typically identified, an Aus paragraph should provide 'positive' clarity on the boundaries of climate-related disclosure to help achieve comparability across entities in each industry.¹⁴
- (d) Include an explicit statement in the Standard to state that "the scope of climate-related physical risks, climate-related transition risks, and climate-related risks and opportunities are explained in the definitions in Appendix A, which is an integral part of the Standard and has the same authority as the other parts of the Standard."¹⁵
- (e) Edit paragraph Aus3.1 to include the underlined text to further clarify the scope of the Standard: "The scope of this [draft] Standard is limited to an entity's climate-related physical and transition risks and opportunities in relation to climate change. Other climate-related emissions, such as ozone depleting emissions that are not greenhouse gas emissions as defined by the Kyoto Protocol, are outside the scope of this [draft] Standard."¹⁶
- (f) To not use the phrase 'climate-related' in describing the other emissions excluded from the scope of the Standard to avoid confusion.¹⁷

12 Comment letter: 9
13 Comment letter: 41
14 Comment letter: 97
15 Comment letter: 26
16 Comment letter: 19
17 Comment letter: 37