Australian Government
Australian Accounting Standards Board

Climate-related risks and opportunities and the disclosure of material information

Educational material

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Introduction

In September 2024, the Australian Accounting Standards Board (AASB) issued its inaugural Australian Sustainability Reporting Standards (ASRS), AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and AASB S2 *Climate-related Disclosures*.

- AASB S1 is a voluntary Standard that entities can elect to apply.
- AASB S2 is a mandatory Standard that certain entities may be required to apply under the *Corporations Act 2001* (Cth).

Objective of this Educational Material

This educational material explains and illustrates how entities might apply requirements in AASB S2 to provide material climate-related financial information to users of general purpose financial reports. The examples focus on particular requirements and therefore are not intended to explain or illustrate how the entity would apply all of the core content requirements in AASB S2.

> This document is not part of AASB S2 *Climate-related Disclosures* and does not add to or change the requirements in the Standard. It was developed to aid stakeholders' understanding of the Standard. This document has been developed in accordance with the requirements set out in AASB S2.
>
> Some Australian entities may also wish to understand how the ISSB Sustainability Disclosure Standards—IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*—describe and apply the concept of material information. Further guidance is available in the IFRS Foundation's educational material on *Sustainability-related risks and opportunities and the disclosure of material information*.

Contents

Overview

AASB S2 requires that an entity disclose *material information* about the climate-related risks and opportunities that could reasonably be expected to affect its cash flows, its access to finance or cost of capital over the short, medium or long term.[1] These risks and opportunities are collectively referred to as '*climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects*'.

In AASB S2, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users. Primary users are existing and potential investors, lenders and other creditors.

This educational material describes the characteristics of material information and the concept of climate-related risks and opportunities. It also explains the requirements related to identifying and disclosing material information about climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

Connectivity considerations

When applying AASB S2, an entity is required to provide information in a manner that enables primary users to understand the connections between disclosures provided across its climate-related financial disclosures and its related financial statements (for the purposes of this document, this is referred to as part of 'connectivity considerations').

Therefore, it might be helpful to also consider materiality in AASB S2 in the context of connectivity considerations, which are highlighted throughout this educational material.

Connectivity considerations

Connectivity considerations are expected to be helpful because climate-related financial disclosures accompany an entity's financial statements. Further, these considerations might be helpful to preparers with a financial reporting background who are applying AASB S2.

- AASB S2 requires climate-related financial information to be provided in a way that allows users to understand connections both between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports.
- Connectivity between climate-related financial information and the related financial statements is an important consideration for the AASB's work because climate-related financial disclosures are intended to be provided alongside an entity's financial statements.

1 Throughout this educational material, the term 'entity' refers to the reporting entity.

Interaction with Australian legislation

The *Corporations Act 2001* (Cth) establishes mandatory climate-related financial disclosure requirements for some Australian entities (referred to as the CRFD mandate). For those entities that fall within the CRFD mandate, the *Corporations Act 2001* (Cth) layers on additional obligations that must be complied with when applying AASB S2.

This educational material highlights some key areas where entities should be aware of additional obligations that may be created by the *Corporations Act 2001* (Cth). The material in this publication does not constitute legal, accounting or other professional advice.

For further detail on interactions between AASB S2 and requirements in the *Corporations Act 2001* (Cth), including which entities fall within the CRFD mandate, see Regulatory Guide 280 *Sustainability Reporting*.

Chapter 1—Definition and application of material information in AASB S2

Definition of material information

Paragraph 18 of Appendix D to AASB S2 defines ‘material information’:

> In the context of climate-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and climate-related financial disclosures and which provide information about a specific reporting entity.

AASB S2 is designed to help meet the information needs of primary users by requiring entities to provide material information about an entity’s climate-related risks and opportunities. The application of AASB S2 is intended to result in an entity producing decision-useful information about its climate-related risks and opportunities for primary users. Part of the process requires an entity to determine the information about a climate-related risk or opportunity that is material.

An entity uses the definition of material information to assess information to be disclosed in its climate-related financial disclosures, so that general purpose financial reports include material information. Material information is that information which, if omitted, misstated or obscured could reasonably be expected to influence primary users’ decisions. An entity must ensure that material information is not obscured by other information, such as disclosures to meet the information needs of stakeholders other than primary users.

An entity is required to provide information to enable users of general purpose financial reports to understand the effects of climate-related risks and opportunities on the entity’s prospects, if it is material. This is the case even if that information is *not* specified as a disclosure requirement in AASB S2. Conversely, an entity need not disclose information that is required by AASB S2 if that information is not material (see paragraphs B25–B26 of Appendix D to AASB S2).

Connectivity considerations	
AASB S2 and Australian Accounting Standards use aligned definitions of 'material information'. This facilitates connectivity in an entity's general purpose financial reports. Using this aligned definition in an entity's climate-related financial disclosures and its financial statements—with a common focus on meeting the information needs of primary users—facilitates a closer connection than if the entity's climate-related information were provided using another definition of material information. Both Australian Accounting Standards and AASB S2 define 'material information' in terms of the information needs of primary users and whether omitting, misstating or obscuring that information could reasonably be expected to influence primary users' decisions. However, the distinct scopes of the reported information—including differences in relevant time horizons, and the types of information required to meet the respective objectives of climate-related financial disclosures and the related financial statements—mean that distinct materiality judgements are necessary for those disclosures and for the related financial statements.	
Australian Accounting Standards Definition of 'material information'	**AASB S2 Definition of 'material information'**
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of **general purpose financial statements** make on the basis of those financial statements, which provide **financial** information about a specific reporting entity.	**In the context of climate-related financial disclosures**, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of **general purpose financial reports** make on the basis of those reports, **which include financial statements and climate-related financial disclosures** and which provide information about a specific reporting entity.

Other uses of the terms 'material information' and 'materiality' in sustainability reporting

AASB S2 refers to 'material information' about climate-related risks and opportunities. When explaining how the term 'material' is used in AASB S2, this educational material uses it in a manner that is consistent with its use in AASB S2—to refer to *material information*.

Separate from consideration of 'material information', GRI Standards refer to 'material topics' in relation to the significance of impacts on the economy, environment and people, including impacts on their human rights. AASB S2 does not use the terms 'material risks' or 'material opportunities'.

The absence of references to material risks or material opportunities does *not* mean that AASB S2 requires disclosure of information about every conceivable climate-related risk or opportunity regardless of its significance or importance to the entity. AASB S2 requires that an entity provide *material information* about climate-related risks and opportunities to the extent that these risks and opportunities *could reasonably be expected to affect the entity's prospects*.

In broader sustainability-related reporting, the term 'materiality' is also commonly used in the context of a 'materiality assessment'. This is the process an entity undertakes to identify which sustainability-related topics to report on. In other sustainability standards, entities are required to undertake such a materiality assessment. However, AASB S2 does not refer to a 'materiality assessment' in this manner.

Main components of the definition of 'material information'

This section examines the main components of the definition of 'material information'. Specifically, this section explains:

- the information needs of primary users and the decisions they make based on general purpose financial reports;
- the meaning of 'in the context of climate-related financial disclosures'; and
- the meaning of 'omitting, misstating or obscuring' information.

The information needs of primary users and the decisions they make based on general purpose financial reports

Primary users are existing and potential investors, lenders and other creditors (see Appendix A of AASB S2).[2]

Materiality judgements involve considerations related to both who the primary users are and what decisions they make based on general purpose financial reports. General purpose financial reports do not, and cannot, provide all the information that all primary users need. Therefore, the entity aims to meet the common information needs of primary users. These information needs are explained in Table 1.1. As the definition of material information within AASB S2 is aligned with the

2 Throughout this educational material, the terms 'primary users' and 'users' are used interchangeably, with the same meaning.

definition within Australian Accounting Standards, some of the guidance contained within Practice Statement 2 *Making Materiality Judgements* can be helpful in understanding primary users and their information needs.

Table 1.1—Primary users and their information needs

Information primary users are assumed to know	Primary users are those that have a reasonable knowledge of business and economic activities. Many primary users cannot require entities to provide information directly to them; they therefore rely on information in general purpose financial reports.
Common information needs of primary users	An entity considers the information needs that are common to each of the three types of primary users. That is, it considers the information needs of investors (existing and potential), lenders (existing and potential), and other creditors (existing and potential). An entity does not aim to satisfy specialised information needs that are unique to a specific subset of users within each of the three types of primary users. For example, in considering the information needs of existing and potential investors, an entity does not single out and only consider the information needs of 'impact investors' who may have specific climate goals, which might be in addition to more general information needs about the amount, timing and uncertainty of cashflows and management's stewardship. Instead, it considers information needs that are common among existing and potential investors. Some information needs will be common among the three types of primary users, but others might be specific to only one or two types of primary users. If an entity focuses only on information needs that are common to all types of primary users, it might exclude information that meets the needs of one type. For example, an entity should not restrict itself to reporting on short-term risks and opportunities because its lenders have provided only short-term funding, as the information needs of equity investors about long-term climate-related risks and opportunities would also need to be considered.
Consideration of both 'existing and potential'	Because primary users include both existing and potential investors, lenders and other creditors, an entity *cannot focus* on *only* the needs of, for example, *existing* investors, lenders and other creditors when determining the information it provides.

An entity assesses whether information is material based on whether that information could reasonably be expected to influence decisions of primary users. Although the entity itself makes this assessment, it is based on the perspective of primary users and their information needs.

This means that, for example:

- information about a climate-related risk or opportunity that management determines *could not reasonably be expected* to influence primary users' decisions would not be considered to be material;
- information cannot be assumed to be immaterial simply because users have not asked for it; and
- information about a climate-related risk or opportunity that an entity considers to have a low likelihood of occurring and a low impact might still be material if an entity considers that primary users could reasonably be expected to take a different view. For example, if primary users expect that there is a high likelihood or high impact of the risk occurring, information about the risk would need to be provided.

In addition to primary users, other parties—such as the entity's management, regulators and members of the public—might be interested in climate-related financial disclosures and might find this information useful. However, climate-related financial disclosures prepared in accordance with AASB S2 are not primarily designed to meet these other parties' information needs and the disclosures are not directed at these other parties.

AASB S2 focuses on the information needs of primary users—existing and potential investors, lenders and other creditors. This focus distinguishes climate-related financial information from broader, multi-stakeholder reporting focused on, for example, an entity's contribution to sustainable development.

The decisions primary users make based on general purpose financial reports

When identifying material information, an entity considers:

- the type of decisions primary users make based on general purpose financial reports, which include financial statements and climate-related financial disclosures; and
- the information primary users need to make those decisions.

Primary users do not make decisions based on one form of general purpose financial report published by an entity.

Assessing whether information could reasonably be expected to influence primary users' decisions about providing resources to the entity requires the entity to consider the characteristics of primary users while also considering the entity's own circumstances (for example, the entity's own industry).

When making materiality judgements, an entity considers whether the information could influence primary users' decisions about providing resources to the entity. Those decisions involve decisions about:

- buying, selling or holding equity and debt instruments;
- providing or settling loans and other forms of credit; and
- exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources (see paragraph B14–AusB14.1 of Appendix D to AASB S2).

These decisions depend on primary users' expectations about returns—for example, dividends, principal and interest payments, or market price increases. These expectations depend on primary users' assessments of:

- the amount, timing and uncertainty of future net cash inflows to the entity; and
- stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s) (see paragraph B15–AusB15.1 of Appendix D to AASB S2).

In the context of climate-related financial disclosures

Climate-related financial disclosures serve a specified objective: they aim to provide information about an entity's climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions about providing resources to the entity.

Other reports provided as part of an entity's general purpose financial reports, such as the financial statements, serve their specified objectives and provide particular information about an entity. In accordance with AASB S2, an entity considers whether information is material in the context of the specified objective of climate-related financial disclosures. Therefore, information that is material for climate-related financial disclosures might not be material for financial statements, or the other way around. For example, materiality judgements in the context of the financial statements, as compared to in the context of the climate-related financial disclosures, could result in different disaggregated information being provided about the entity's revenue, since these reports serve different objectives. For example, applying paragraph 16(a) of AASB S2—which requires an entity to disclose information about how a climate-related risk or opportunity has affected the financial performance for the reporting period—might result in disclosure of material information about the revenue attributable to the effects of a climate-related risk or opportunity, but that information may not be material for financial statements.

The assessment of whether information is material when applying AASB S2 is anchored to and bound by the specified objective of climate-related financial disclosures.

Connectivity Considerations

Climate-related financial disclosures:

- complement information in an entity's financial statements;
- are likely to include more qualitative information and forward-looking information than financial statements;
- provide information about climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, whereas financial statements provide information about an entity's assets, liabilities, equity, income and expenses. Therefore, climate-related financial disclosures that provide information about climate-related risks and opportunities are not limited to information about whether those risks and opportunities have affected or relate to an entity's assets, liabilities, equity, income or expenses. For example, climate-related financial disclosures include information about:
  - other aspects of the entity—such as its governance, strategy and risk management processes in relation to a climate-related risk or opportunity; and
  - anticipated financial effects.

In preparing climate-related financial disclosures, entities will more often have to:

- consider implications over longer time periods than those used in preparing financial statements (although in the preparation of financial statements judgement about the long term can also be required); and
- consider implications of interactions throughout their value chain.

Omitting, misstating or obscuring information

In assessing whether information is material, an entity considers the effect of omitting, misstating or obscuring that information on primary users' decisions. An entity is required to identify its climate-related financial disclosures clearly and ensure they are not obscured by other information the entity provides (see paragraph B27 of Appendix D to AASB S2). This is important in the context of climate-related financial disclosures because:

- **the location of climate-related financial disclosures within general purpose financial reports might vary between entities**. AASB S2 states that there are various possible locations in general purpose financial reports in which to disclose climate-related financial information. These reports might also provide information to meet other requirements. In such cases, AASB S2 requires that an entity make its climate-related financial disclosures clearly identifiable and not obscured by additional information (see paragraph 62 of Appendix D to AASB S2).
- **information might be provided alongside information to meet the needs of other stakeholders in addition to primary users**. An entity's climate reporting might include information intended for a broader range of stakeholders beyond primary users or to meet particular needs of primary users that are not common information needs. In such cases, AASB S2 requires that climate-related financial disclosures be clearly identifiable and not obscured by that additional information.

Interaction with Australian legislation
Entities captured by the climate-reporting mandate in the *Corporations Act 2001* (Cth) may be required to locate climate-related financial disclosures within a particular section of their general purpose financial report. See Regulatory Guide 280 *Sustainability Reporting* for further detail.

Part of the assessment of whether information is misstated includes an entity considering the accuracy of information disclosed. Accurate information does not have to be perfectly precise. For example, accuracy requires that factual information is free from material error (see paragraph D15 of Appendix D to AASB S2).

Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information (see paragraph B27 of Appendix D to AASB S2).

Chapter 2—Climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects and its application in AASB S2

AASB S2 requires that an entity disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or its cost of capital over the short, medium or long term. These risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects' (see paragraph 2 of AASB S2).

What are climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects?

AASB S2 specifies that climate-related risks and opportunities arise out of the interactions between an entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. This description is intentionally broad (see paragraph B2 of Appendix D to AASB S2).

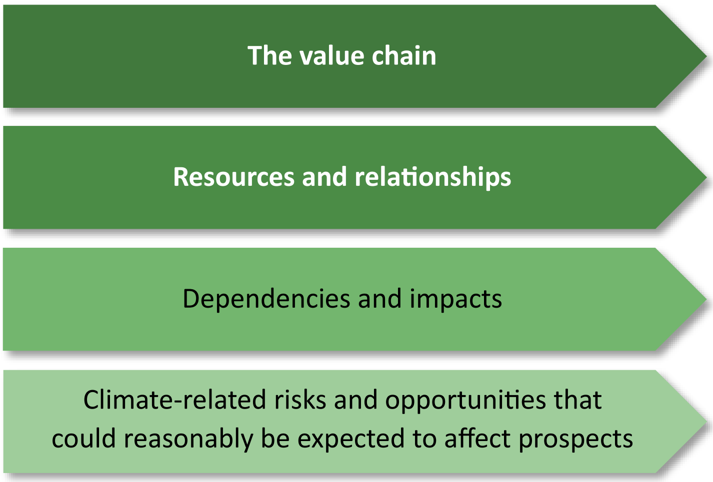
AASB S2 explains that an entity both depends on resources and relationships throughout its value chain and affects those resources and relationships, which can contribute to their preservation, regeneration and development, or to their degradation and depletion. It is the entity's dependencies and impacts on those resources and relationships that might give rise to climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraph B2 of Appendix D to AASB S2).

The risks and opportunities that could reasonably be expected to affect the entity's prospects—its cash flows, its access to finance or cost of capital—might change over time. Thus, an entity needs to reconsider this assessment over time.

> An entity's climate-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. These interactions—which can be direct and indirect—result from operating an entity's business model in pursuit of the entity's strategic purposes and from the external environment in which the entity operates. These interactions take place within an interdependent system in which an entity both depends on resources and relationships throughout its value chain to generate cash flows and affects those resources and relationships through its activities and outputs—contributing to the preservation, regeneration and development of those resources and relationships or to their degradation and depletion. These dependencies and impacts might give rise to climate-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, its access to finance and cost of capital over the short, medium and long term (see paragraph B2 of Appendix D to AASB S2).

This section explains these concepts—the value chain, resources and relationships, dependencies and impacts (see Figure 2.1)—to build an understanding of what climate-related risks and opportunities are and how they could affect an entity's prospects.

Figure 2.1—The concepts underlying climate-related risks and opportunities



These concepts are explained sequentially—that is, this section works through each part of the description of climate-related risks and opportunities in AASB S2 and explains what an entity might consider in identifying climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

This is a possible way to identify climate-related risks and opportunities incorporating the various requirements an entity needs to apply to make a statement of compliance with AASB S2. However, an entity does not need to use this sequential approach to identify such risks and opportunities. An entity may take an alternative approach to identifying climate-related risks and opportunities. For example, the entity might look at its contractual arrangements (that is, a relationship it depends on) as a starting point in identifying climate-related risks and opportunities.

The definition of value chain

Understanding the value chain—which includes the entity's operations—is critical to identifying an entity's climate-related risks and opportunities that could reasonably be expected to affect its prospects. An entity needs to understand the term value chain to identify climate-related risks and opportunities.

AASB S2 defines 'value chain':

> The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates.
>
> A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

The first sentence of the definition of a value chain emphasises that an entity determining the scope of its value chain considers both:

- its business model, that is, aspects of the entity's operations associated with creating value and generating cash flows; and
- its external environment, that is, the external conditions and events that affect the entity's operations.

The second part of the definition of a value chain emphasises the breadth and composition of the value chain. It explains that, in determining the scope of its value chain, an entity looks at what it uses and depends on throughout the full lifecycle of a product or service, from conception to delivery, consumption and end-of-life. It also explains that an entity looks at those interactions, resources and relationships—including those along its supply, marketing and distribution channels—as well as the financing, geographical, geopolitical and regulatory environments in which the entity operates.[3] For example, an entity that manufactures electronic devices considers the scope of its value chain throughout its product lifecycle, as illustrated in Figure 2.2.

3 The definition of value chain refers to some of the interactions, resources and relationships an entity uses and depends on including those along its supply, marketing and distribution channels. This educational material sometimes uses the term 'chain' instead of 'channel'. In those circumstances, no difference is intended. For example, this educational material refers to 'supply chain', which is intended to have the same meaning as 'supply channel'.

Figure 2.2—Possible considerations for an electronics manufacturer when determining the scope of its value chain in order to identify climate-related risks and opportunities

Considerations related to the **lifecycle to 'create'** a product	**Conception and manufacture** Design and produce electronic devices	**Delivery** Transport electronic devices to customers	**Consumption** Continuously operate electronic devices	**End-of-life** Decommission electronic devices

Considerations related to **resources and relationships** throughout the entity's **value chain**	**Entity's operations** that are needed to support the design, manufacture and marketing of the electronic devices—for example, human resources	**The channels** to procure materials for, market and distribute electronic devices—for example, sources of parts (or 'materials') used to make the electronic devices	**The environments** to provide conditions for the entity to operate—for example, financing to facilitate customer purchases of electronic devices

Example—The entity, its business model, the external environment and distribution channels

An entity that manufactures electronic devices considers both its business model and the external environment in which it operates when determining the scope of its value chain. For example, when considering its distribution channels, the entity considers its:

- **business model**—as part of its activities, the entity depends on third-party vendors to sell its products to customers. These third-party vendors represent aspects of the entity's operations associated with generating cash flows and so reflect part of the entity's business model and value chain.
- **external environment**—changes in the regulatory environment in a jurisdiction in which the entity sells its products might affect which products the entity sells to its customers. The regulatory environment relates to those regulatory conditions and events outside of the entity that can affect its operations. For example, a regulation that affects the entity's industry by standardising and limiting the types of charging devices permitted to be manufactured, in an effort to reduce electronic waste, could affect the entity's operations. The regulatory environment that an entity operates in is, therefore, part of the entity's value chain.

Interactions throughout the entity's value chain

An entity's climate-related risks and opportunities arise out of the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout its value chain (see paragraph B2 of Appendix D to AASB S2). These interactions occur as the entity operates its business model and from the external environment in which the entity operates.

An entity's ability to generate cash flows is inextricably linked to these interactions. That is, an entity cannot generate cash flows without interacting with stakeholders, society, the economy and/or the natural environment throughout its value chain.

An entity's interactions can be both direct and indirect. For example, an entity might interact directly with the natural environment through its use of timber as a raw material to create its products. Another entity might interact indirectly with the natural environment through its suppliers; its suppliers might use timber as a raw material to create a product the entity uses. When an entity considers its value chain (including the breadth and composition of the value chain), the entity considers both its direct and indirect interactions with its stakeholders, society, the economy and the natural environment when identifying climate-related risks and opportunities.

Example—Interactions with stakeholders, society, the economy and the natural environment

An entity operating in the Containers and Packaging industry depends on suppliers in three jurisdictions for raw materials. These suppliers are part of its value chain because the entity uses and depends on each supplier to operate its business and create its products. The entity considers its interactions—both direct and indirect—with stakeholders, society, the economy and the natural environment throughout its value chain. The entity notes that:

- Jurisdiction A's local communities are protesting against the entity's deforestation practices, which could affect the ability of the entity's suppliers in Jurisdiction A to do business with the entity (interactions with society);
- Jurisdiction B's government has introduced a tax incentive for entities to reduce greenhouse gas emissions, which could influence how the entity's suppliers operate (interactions with the economy); and
- Jurisdiction C is experiencing a drought, which could affect the ability of the entity's suppliers in Jurisdiction C to produce the raw materials needed by the entity (interactions with the natural environment).

The entity considers these factors in identifying climate-related risks and opportunities. For example, the entity might determine that tax incentives in Jurisdiction B represent a climate-related opportunity that could reasonably be expected to affect the entity's prospects.

This example shows that if the entity's business partners in its value chain face climate-related risks and opportunities, the entity could be exposed to climate-related risks and opportunities as a consequence.

Determining the scope of an entity's value chain—proportionality mechanism

The potential scope of an entity's value chain, including its breadth and composition, is significant. Recognising the potential challenges for application, AASB S2 limits the extent of the effort needed when determining the scope of an entity's value chain. AASB S2 includes a proportionality mechanism[4] that states that an entity is not required to undertake an exhaustive search when assessing the scope of its value chain to identify climate-related risks and opportunities; instead, the entity is required to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' (see paragraph B36 of AASB S2). It is also noted that AASB S2 only requires that material information be provided about climate-related risks and opportunities to inform primary users' decisions, so the analysis of the value chain and the identification of material information is made within that context.

This requirement to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' assists entities by establishing parameters for the type of information they consider when identifying climate-related risks and opportunities arising from their value chains, and the effort required to obtain such information. This requirement also clarifies that an entity:

- is required to use all information available to it at the reporting date without undue cost or effort;
- is not required to carry out an exhaustive search for information associated with its value chain that would require undue cost or effort; and
- is required to determine the scope of its value chain using information that is reasonable and supportable (see paragraphs B8–B10 of Appendix D to AASB S2).

This concept also provides relief to entities that face challenges associated with obtaining information from entities throughout their value chains.

4 AASB S2 includes several proportionality mechanisms, that is, mechanisms intended to assist entities in applying AASB S2.

Resources and relationships

The resources and relationships which an entity depends on and affects exist throughout its value chain. AASB S2 explains that in identifying climate-related risks and opportunities that could reasonably be expected to affect its prospects, an entity considers resources and relationships that it depends on to generate cash flows and that it affects through its activities and outputs (see paragraph B2 of Appendix D to AASB S2).

Resources and relationships can take many forms. For example, an entity might interact with the natural environment through its use of minerals (as a raw material) to create its products. That is, the entity depends on this resource to generate cash flows. Other forms and examples of resources and relationships are illustrated in Figure 2.3. Figure 2.3 is not intended to represent a classification system for such resources and relationships.

Figure 2.3—Forms and examples of resources and relationships

Human	Intellectual	Financial	Natural	Manufactured	Social
• Entity's workforce • Workers in supply chains	• Patents • Copyrights • Trademarks	• Cash • Investments • Access to financial resources	• Land • Water • Minerals • Raw materials	• Machinery • Equipment • Buildings • Infrastructure	• Stakeholder relationships • Customers • Indigenous communities

Resources and relationships can:

- be internal, such as the entity's workforce, its know-how or its organisational processes;
- be external, such as the materials and services the entity needs to access or the relationships it has with suppliers, distributors and customers; and
- include (but are not limited to) the resources and relationships recognised as assets in the entity's financial statements.

To identify climate-related risks and opportunities, an entity needs to understand the resources and relationships it depends on and affects.

Example—Climate-related risk arising from an entity's dependency on a resource

- Relationship that the entity is dependent on: water.
- An entity operates in the agricultural products industry. It grows wheat itself in two regions: Region 1 and Region 2. The entity also buys wheat from a supplier who grows the crop in Region 1. The entity mills the wheat and sells it to customers.
- The entity's business model depends on water because growing wheat relies on rainfall and on irrigation from other water sources. Region 1 currently has high baseline water stress and the entity expects the water stress to become worse over the medium term.
- The entity identifies water scarcity as a climate-related risk to which it is exposed. Climate change drives water scarcity in Region 1 through increasing temperatures and changing precipitation patterns. As a result, there is likely to be a significant reduction in water available in the region. Water scarcity can affect the entity's prospects because, for example, reduced water availability can disrupt its own wheat production and can increase the price it pays to purchase the crop from its supplier.

Dependencies and impacts

An entity considers how it—directly and indirectly—depends on and affects resources and relationships. AASB S2 explains that an entity:

- depends on resources and relationships to generate cash flows; and
- affects resources and relationships through its activities and outputs.

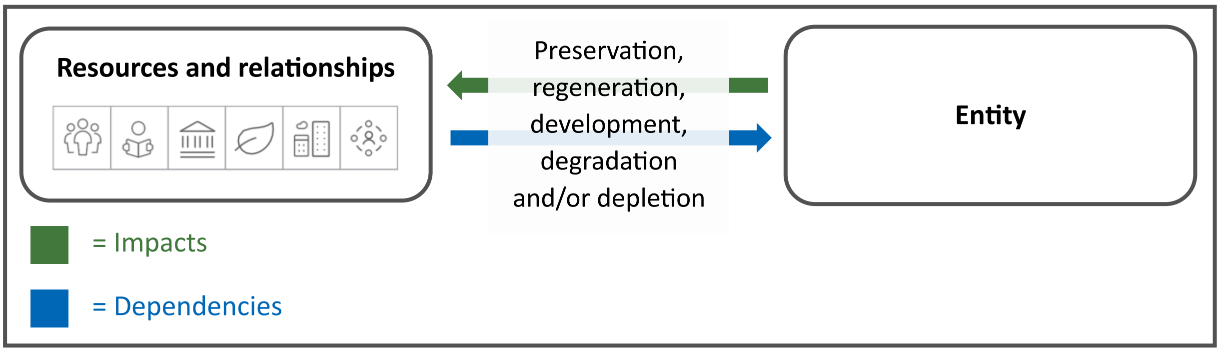
These dependencies and impacts contribute to the preservation, regeneration and development of resources and relationships, or to their degradation and depletion (see paragraph B2 of Appendix D to AASB S2). This concept is explained further in Table 2.1.

Table 2.1—An entity's dependencies and impacts on resources and relationships as a result of the entity's activities and outputs.

Entity's activities and outputs	Entity's **dependency** on a resource and relationship to generate cash flows	Entity's **impact** on a resource and relationship through its activities and outputs
The entity **extracts** groundwater for irrigation.	The entity depends on **water** to operate its business model.	The entity's activities might **deplete** the water source because of its dependency on water and its activities impacting the water.
The entity **invests** in reskilling its manufacturing workforce as it transitions to a lower-carbon manufacturing process.	The entity operates in a highly competitive market and depends on a **highly specialised workforce** to operate its business model.	The entity's investment in training can help to **reskill** its workforce because of its dependency on a highly specialised workforce and its activities which impact the workforce.

As illustrated, an entity's activities and outputs can affect resources and relationships on which it depends. In such circumstances, the entity is affected by its own impact on the resource or relationship. This interdependent system, in which the entity both depends on and affects its resources and relationships, is depicted in Figure 2.4.

Figure 2.4—The interdependent system, in which the entity both depends on and affects resources and relationships



However, an entity’s dependencies and impacts might not always be closely related. That is, an entity can depend on something it does not impact, and can impact something it does not depend on. Yet, in both cases—the dependency and impact—might give rise to climate-related risks and opportunities that could reasonably be expected to affect an entity’s prospects.

Climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects

AASB S2 explains that an entity's dependencies and impacts on resources and relationships might give rise to climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects. For example, if an entity's access to a resource—that is, its ability to depend on a relationship that it uses to generate cash flows—is at risk, the entity's prospects might be affected. In such circumstances an entity should assess whether this is a climate-related risk that **could reasonably be expected** to affect its **prospects**.

'Could reasonably be expected'

AASB S2 requires disclosure of information about climate-related risks and opportunities that *could reasonably be expected* to affect the entity's prospects. This means, when identifying such climate-related risks and opportunities, the entity considers an external perspective. An entity might judge that a climate-related risk or opportunity *could reasonably be expected* to affect its prospects (based on the expectations of an external party), even though the entity itself might not have that expectation. In particular, the entity needs to consider matters about which information, if misstated, omitted or obscured, could reasonably be expected to influence a decision by primary users. Thus, the perspective of primary users is a particular consideration for the entity.

Example—Entity determines it could reasonably be expected to be affected by a climate-related risk to which it does not believe itself to be exposed

An entity is a clothing manufacturer. The entity's industry peers have disclosed risks of suppliers throughout their supply chains being exposed to flood-related damages in their climate-related financial disclosures. The entity sources its supplies from a jurisdiction that has no risk exposure to flood-related damages.

When assessing its climate-related risks, the entity considers both entity-specific factors and external factors, including that:

- it does not expect the risk of flood-related damages throughout its supply chain to affect the entity's prospects (entity-specific factor); and
- the industry in which the entity operates is known to be exposed to risks of flood-related damages throughout the supply chain (external factor).

Due to its concentration of suppliers in a jurisdiction that is not exposed to flood-related damages, the entity does not believe itself to be exposed to such risk. However, the entity determines that *it could reasonably be expected* that it is exposed to the risk of flood-related damages in its supply chain, because primary users expect this to be a risk for an entity in this industry.

In such circumstances, an entity discloses associated material information. For example, the entity could disclose that it is not exposed to the risk of flood-related damages throughout its supply chain and explain why this is the case.

'Entity's prospects'

In AASB S2, an entity's prospects refers to the entity's *cash flows, its access to finance or cost of capital over the short, medium or long term.*

An entity assesses whether a climate-related risk or opportunity could reasonably be expected to affect its cash flows, its access to finance or cost of capital—this assessment does not require that the climate-related risk or opportunity affect all three, though, in practice, they are often interrelated.

The effects of climate-related risks and opportunities on the entity's *cash flows, its access to finance and cost of capital* include:

- the amount, timing and uncertainty of the entity's incoming and outgoing cash flows;
- the entity's ability to obtain funding; and
- the cost incurred by the entity to secure funding for its operations and investments.

The effect of a climate-related risk or opportunity on an entity's *access to finance and cost of capital* brings in an assessment of how other market participants might interact with the entity. For example, if an entity has a negative reputation associated with its management of a climate-related risk, some lenders might not want to be associated with this entity because of the reputational risk that could arise from lending to the entity. As a result, the entity might find access to capital to be constrained, forcing it to seek capital elsewhere, perhaps on less favourable terms (such as with higher interest rates, lower borrowing amounts, or with more covenant restrictions than its peers). If the entity determines that a climate-related risk could reasonably be expected to affect its access to finance or cost of capital, the entity would need to determine what information is material about this climate-related risk and disclose that information when applying AASB S2.

The effects on an entity's cash flows, access to finance and cost of capital are assessed over the *short, medium and long term* to evaluate the potential implications of climate-related risks and opportunities for an entity. Short-, medium- and long-term time horizons can vary among entities and depend on many factors, for example:

- industry-specific characteristics, such as cash flow, investment and business cycles;
- the planning horizons typically used in an entity's industry for strategic decision-making and capital-allocation plans; and
- the time horizons over which primary users assess entities in that industry (see paragraph 31 of Appendix D to AASB S2).

Sometimes shorthand references are made about AASB S2, such as AASB S2 requiring information to be provided when climate-related risks and opportunities give rise to 'financial effects'.

That shorthand reference to 'financial effects' could be misunderstood to imply that AASB S2 focuses only, for example, on whether cash flows are affected, rather than considering the broader factors specifically referenced as an entity's prospects in AASB S2.

The focus on climate-related risks and opportunities that ‘could reasonably be expected to affect an entity’s prospects’ is intended to ensure that it is clear that entities do not need to identify every possible climate-related risk or opportunity. That is, without this focus, the focus could be on *any climate-related risk or opportunity* identified.

For example, an entity depends on clean air (a resource) to generate cash flows (just as every entity does). This is because clean air is essential for the entity’s employees, customers, etc. Therefore, the entity might identify a climate-related risk related to the resulting disruption to business continuity if the entity were unable to access clean air. However, this is a risk that might not be reasonably expected to affect the entity’s prospects, nor would identifying this possible but not reasonably expected risk likely result in the provision of material information. Every entity depends on clean air to operate.

However, in some circumstances, an entity might identify a climate-related risk related to its access to clean air and it might therefore be appropriate for an entity to disclose information about the risks arising from its dependence on clean air. For example, an entity might operate in a region in which the air quality is susceptible to an increasing risk of bushfires. This leads to a risk that the air becomes of such poor quality that the entity is affected—or could reasonably be expected to be affected—because its employees are unable to commute to the entity’s workplace or live in the region. In such a case, the entity would identify a climate-related risk related to its access to clean air that could reasonably be expected to affect its prospects, and would therefore disclose the material information about this risk.

Therefore, an entity will not disclose information about every climate-related risk or opportunity. Even though an entity might depend on and affect many resources and relationships throughout its value chain, AASB S2 requires that it disclose *material information* about climate-related risks and opportunities that could reasonably be expected to *affect its prospects*.

Identifying climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects

An entity determines what constitutes a climate-related risk or opportunity based on its facts and circumstances. Entities often have well-established processes for identifying, assessing and responding to climate-related risks and opportunities as part of the management of their businesses.

For the purposes of preparing climate-related financial disclosures, AASB S2 sets out requirements related to the identification of climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects. AASB S2 requires an entity:

- to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort; and
- to reassess the scope of climate-related risks and opportunities throughout its value chain if a significant event or significant change in circumstances occurs.

AASB S2 and its related materials contain requirements, guidance and examples that help an entity to identify its climate-related risks and opportunities (see Appendix A of this educational material).

AASB S2 does not require an entity to use a specific approach or method to identify climate-related risks and opportunities.

The explanation of 'climate-related risks and opportunities' provided in this chapter can help an entity to identify climate-related risks and opportunities (see Figure 2.5).

Figure 2.5—Example of using underlying concepts to assist in identifying climate-related risks and opportunities

Concepts underlying climate-related risks and opportunities	Identifying climate-related risks and opportunities by using the concepts	Example
The value chain	An entity assesses the scope of its value chain and considers its interactions with stakeholders, society, the economy and the natural environment.	A clothing brand company considers its interactions with the natural environment in its supply channels.
Resources and relationships	The entity considers the resources and relationships throughout its value chain.	The clothing brand company considers its use of water in its production process.
Dependencies and impacts	The entity identifies the dependencies and impacts it has on resources and relationships.	The clothing brand company considers its dependency on high amounts of water to produce its products.
Climate-related risks and opportunities that could reasonably be expected to affect prospects	The entity identifies climate-related risks and opportunities that could reasonably be expected to affect its prospects, which arise from the dependencies and impacts it has on resources and relationships.	The clothing brand company identifies a climate-related opportunity to use new technology that would reduce the water-intensive processes in its production. This would significantly reduce production costs incurred by the entity.

An entity can use the description in AASB S2 of climate-related risks and opportunities both to identify its climate-related risks and opportunities and to assess the completeness of identified climate-related risks and opportunities. For example, an entity might consider whether it has:

- assessed the scope of its value chain, including its breadth and composition, when considering its interactions—that is, interactions between the entity and stakeholders, society, the economy and the natural environment;
- considered resources and relationships throughout its value chain; and
- identified and considered whether dependencies and impacts give rise to climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

The assessment of whether such risks and opportunities could reasonably be expected to affect the entity's prospects—its cash flows, its access to finance or cost of capital—explicitly requires assessing the effects over the short, medium and long term.

Climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects—proportionality mechanism

An entity is not required to undertake an exhaustive search for information to identify the climate-related risks and opportunities that could reasonably be expected to affect its prospects. Instead, it uses all reasonable and supportable information that is available to it at the reporting date, subject to that information being available without undue cost or effort (see paragraphs 11 and B36 of AASB S2). Reasonable and supportable information might be both internal and external, such as:

- the entity's risk-management processes;
- industry and peer group experience;
- external ratings, reports and statistics; and
- information that the entity uses:
    - to prepare its financial statements;
    - to operate its business model;
    - to set its strategy; and
    - to manage its climate-related risks and opportunities (see paragraph B9 of Appendix D to AASB S2).

Using 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' is helpful because of the wide range of information that could be relevant in identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects. This requirement to use all reasonable and supportable information is intended to set parameters and provide guidance to an entity in determining the information to consider and the effort it makes to obtain such information.

This requirement clarifies that an entity is:

- prohibited from overstating or understating opportunities (or risks) on the basis of information that is unsupportable or unreasonable;
- required to use all information that it has at the reporting date (including information about past events, current conditions and forecasts of future conditions); and
- not expected to carry out an exhaustive search for information to identify every climate-related risk or opportunity, because such an exhaustive search would represent 'undue cost or effort'.

Reassessment of the scope of climate-related risks and opportunities throughout the value chain

Changes might occur that affect an entity's value chain. To ease application, an entity is only *required* to reassess the scope of the affected climate-related risks and opportunities in its value chain on the occurrence of a significant event or significant change in circumstances (see paragraph B34 of AASB S2). So, an entity is not required to reperform this assessment at each reporting date. See Appendix B of this educational material for more information.

Chapter 3—Identifying and disclosing material information

This Chapter explains how to apply the requirements in AASB S2 to identify and disclose information about climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

An entity might find it helpful to follow a process to identify and disclose material information about those climate-related risks and opportunities. The four-step process described in this chapter is an example of such a process and is designed as a guide to help an entity efficiently and effectively apply judgement.

Connectivity considerations
This educational material uses a four-step process as an example approach an entity can take to assess whether information is material when preparing its climate-related financial disclosures. This approach is similar to the 'four-step materiality process' explained in AASB Practice Statement 2 *Making Materiality Judgements*.

Step 1—Identify information about climate-related risks and opportunities that has the potential to be material

In Step 1, an entity identifies information about its climate-related risks and opportunities that primary users might need to understand to make decisions relating to providing resources to the entity.

As a starting point to identifying this information, an entity considers the requirements in AASB S2. AASB S2 identifies the information it is expected will meet the needs of primary users for a wide variety of entities in a range of circumstances.

Additionally, AASB S2 requires that an entity disclose additional information when that information is necessary to enable primary users to understand the effects of climate-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term (see paragraph 15(b) of Appendix D to AASB S2), even if AASB S2 does not specifically require the disclosure of that particular information.

Step 2—Assess whether the potentially material information identified in Step 1 is material

In Step 2, an entity assesses whether the potentially material information identified in Step 1 is, in fact, material. This assessment requires the entity to apply judgement, taking into consideration its facts and circumstances.

Materiality judgements

Materiality judgements are specific to an entity. AASB S2 does not specify any thresholds for material information or predetermine what information would be material in a particular situation (see paragraph B19 of Appendix D to AASB S2).

When making materiality judgements, an entity considers whether the item of information could reasonably be expected to affect primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and their assessment of stewardship of the entity's economic resources sufficiently to influence their decisions (see paragraph B15–AusB15.1 of Appendix D to AASB S2).

In assessing whether information could influence primary users' decisions, an entity is required to consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a climate-related risk or opportunity on the entity (see paragraph B21 of Appendix D to AASB S2).

Consideration of quantitative factors

An entity ordinarily assesses whether information is quantitatively material by considering the size of the effect of the climate-related risk or opportunity against other related measures. The entity needs to assess whether the effect is of such a size that information about the climate-related risk or opportunity could reasonably be expected to influence primary users' decisions about providing resources to the entity. Examples of quantitative factors might include impact on cash flows, amount of resource consumption, return on investment or market share.

Identifying the measures against which an entity makes this quantitative assessment is a matter of judgement. That judgement depends on the measures related to the climate-related risk or opportunity and the information that is relevant to the primary users of the entity's general purpose financial reports. For example, when considering the materiality of information about:

- a climate-related risk affecting a group of employees, an entity might consider the number of employees affected relative to the total number of employees; or
- a particular category of Scope 3 greenhouse gas (GHG) emissions, an entity might consider the size of those emissions relative to other aspects of the entity's GHG footprint, such as the GHG emissions associated with other categories of Scope 3 GHG emissions or the entity's total Scope 3 GHG emissions.

A quantitative factor can be used to assess both the materiality of quantitative information, such as GHG emissions, and also qualitative information, such as about an entity's resilience to a specific climate-related risk. For example, information about the resilience of an entity's strategy and business model is more likely to be material for climate-related risks that have a greater potential effect on the amount, timing and uncertainty of future cash flows than information about risks that have a lower potential effect on future cash flows.

Consideration of qualitative factors

Qualitative factors an entity considers in making materiality judgements are characteristics of the entity, such as its governance, and its interactions with its stakeholders, society, the economy and the natural environment throughout the entity's value chain, that ultimately give rise to climate-related risks or opportunities. If present, those factors make information more likely to influence the decisions of primary users of the entity's general purpose financial reports. The mere presence of a qualitative factor will not necessarily make the information material, but is likely to increase primary users' interest in that information. However, by its nature, some information required by AASB S2 is likely to be material because of the presence of a qualitative factor. For example, information about how an entity structures its governance function to manage the topic of climate risk is, by its nature, likely to be material for all entities exposed to a climate-related risk that could reasonably be expected to affect their prospects.

When making materiality judgements, an entity considers both entity-specific and external qualitative factors. In practice, an entity might need to consider them together. Table 3.1 introduces some of these entity-specific and external qualitative factors, but is not meant to provide an exhaustive list.

Table 3.1—Examples of entity-specific qualitative factors and external qualitative factors

Entity-specific qualitative factors	External qualitative factors
Examples include: • the nature of the risk or opportunity; • the extent to which the entity's business model and strategy depend on particular resources or relationships—for example, relationships with important suppliers or customers; and • unexpected variation or change in trends. In some circumstances, the entity might decide that a quantitatively immaterial amount is material, for example, because of an unexpected variation compared to the prior-period amount provided in the climate-related financial disclosures.	Examples include: • the entity's geographical location; • the entity's industry or sector; and • the state of the economy or economies in which the entity operates. Entities operating in the same industry or region might share a number of external qualitative factors. External qualitative factors could remain constant over time or could change. Lack of exposure to a risk or opportunity could also reasonably be expected to influence primary users' decisions. That is, if an entity is not exposed to a risk or opportunity to which others in its industry are exposed, information about the lack of exposure to that particular risk or opportunity could be material.

Example—Consideration of qualitative factors

An entity that manufactures packaging products has a significant portion of its suppliers of raw materials (wood) located in a jurisdiction where government officials have recently announced plans to introduce a carbon trading scheme. The suppliers create substantial levels of greenhouse gas emissions in the production of the raw materials and are likely to be captured by the carbon trading scheme.

Qualitatively, the information about the new government regulations might be material information because it could reasonably be expected to affect the entity's cash flows.

Consideration of quantitative and qualitative factors

An entity could identify information as material based on one or more quantitative or qualitative factors. In general, the more factors that apply to a particular climate-related risk or opportunity, or the more significant the possible effect of those factors, the more likely it is that information about that risk or opportunity is material.

Such factors have no hierarchy: neither quantitative factors nor qualitative factors are more important than the other. As an entity assesses the materiality of information by considering both quantitative and qualitative factors, it would be inappropriate for the entity to rely on purely numerical guidelines or to apply a uniform quantitative threshold for all materiality judgements.

Although an entity cannot rely on a quantitative or qualitative assessment alone for all materiality judgements, it might be appropriate for the entity to assess specific information from a quantitative or qualitative perspective first. For example:

- *assessing information from a quantitative perspective first* could be an efficient approach if an entity concludes the information is material solely based on its size. If the entity concludes that the information is material based on this quantitative threshold—a specified level, rate or amount of one of the measures used in assessing size—the entity might not need to assess that information using other factors.
- *assessing information from a qualitative perspective first* could be an efficient approach if an entity concludes the information is material solely based on the interest primary users have in the topic. If the entity concludes that the information is material based on this qualitative threshold—for example, given the importance of the topic to primary users—the entity might not need to assess that information using other factors.

Because an entity considers both quantitative and qualitative factors when determining whether information is material, the presence of a qualitative factor is likely to lower the threshold for a quantitative assessment. The more significant the qualitative factors, the more likely it is that lower quantitative thresholds will apply. However, an entity might decide that, despite the presence of qualitative factors, information is not material because its effect is so small that it could not reasonably be expected to influence primary users' decisions.

In some circumstances, information could reasonably be expected to influence primary users' decisions such that a quantitative threshold could be reduced to zero and the information would still be material. For example, specific types of information about a climate-related risk or opportunity might be highly scrutinised by primary users.

For the avoidance of doubt, an entity is not required to model the effects of qualitative or quantitative factors on its future cash flows to make materiality judgements.

Consideration of possible future events with uncertain outcomes

In some cases, AASB S2 requires that an entity disclose information about possible future events with uncertain outcomes. When assessing whether information about such events is material, an entity is required to consider the range of possible outcomes and the likelihood of the possible outcomes within that range (see paragraph B22 of Appendix D to AASB S2).

In this context, 'possible outcome' refers to the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term. When considering possible outcomes, an entity is required to consider all pertinent facts and circumstances (see paragraphs B22(a) and B23 of Appendix D to AASB S2).

An entity is more likely to conclude that information about a possible future event is material if the potential outcomes are significant and the event is likely to occur. However, AASB S2 requires that an entity consider whether information about low-probability and high-impact outcomes might be material, either individually or in combination with information about other low-probability and high-impact outcomes (see paragraph B23 of Appendix D to AASB S2).

Example—Material information about climate-related risks in the aggregate

An entity might be exposed to several climate-related risks, each of which could cause the same type of disruption, such as disruption to the entity's supply chain.

Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

Information about a possible future event that is expected to affect an entity's cash flows many years in the future is less likely to be material than information about a possible future event with similar effects that has the possibility of occurring sooner. However, some information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event (see paragraph B24 of Appendix D to AASB S2).

Consideration of changed circumstances and assumptions

An entity makes new, and reassesses old, materiality judgements at each reporting date, considering changed circumstances and assumptions (see paragraph B28 of Appendix D to AASB S2). Such changes can relate to changes in the entity's individual circumstances or in the external environment. For example, the entity's circumstances might change because it has expanded its operations into new jurisdictions, and therefore its materiality judgements will take into account its operations in these new jurisdictions.

Changed circumstances and assumptions might cause some information an entity included in its climate-related financial disclosures in prior periods to no longer be material. Conversely, some information an entity did not previously disclose might become material. For example, an unexpected change in an entity's external environment—the emergence of a new technology—

might mean that additional information about a climate-related risk or opportunity becomes material.

An entity is required to reassess its materiality judgements at each reporting date to consider any such changes. An entity identifies climate-related risks and opportunities and provides material information about those climate-related risks or opportunities based on facts and circumstances at the reporting date, including providing information that is forward-looking. If an entity is exposed to a climate-related risk or opportunity that might have consequences in the long term, the entity would disclose the material information about this climate-related risk or opportunity. For example, if at the reporting date an entity anticipates it will be subject to a potential change in climate-related legislation in the future, information about this long-term risk might be material, even though the consequences of that change in legislation would only crystallise in the future.

Example—Making materiality judgements

An entity makes materiality judgements at each reporting date, based on its assessment at that time of the information that could reasonably be expected to influence primary users' decisions. This means that, for example, if the entity:

- previously assessed and concluded information about a climate-related risk was not material, but at the current reporting date it assesses and concludes that the climate-related risk could reasonably be expected to affect its prospects, then the entity would now be required to provide material information about that matter.
- has information about a climate-related risk that it assessed and concluded is effectively managed, but it concludes that primary users might take a different view, then information about the risk might be material.
- has information about a climate-related risk that it assessed and concluded is effectively managed, but it reasonably concludes that primary users might not be aware of the entity's mitigation activities, then information about the risk and mitigation activities might be material.
- has information about a climate-related risk that primary users have not identified as a concern, that information might still be material if the information could reasonably be expected to influence primary users' decisions. For example, if the information would resolve primary users' misunderstanding about whether the entity is exposed to a climate-related risk, that information might be material if the information could reasonably be expected to influence primary users' decisions.
- has announced an intention to meet a climate-related target related to a climate-related risk or opportunity, but has not yet developed a plan to achieve this target, that information might be material.

The output of Step 2 is a preliminary set of material information.

Step 3—Organise the information within the draft climate-related financial disclosures

In Step 3, an entity organises the preliminary set of material information in the draft climate-related financial disclosures in a way that communicates information clearly and concisely to primary users. For example, climate-related financial disclosures should:

- avoid generic information, sometimes called 'boilerplate', that is not specific to the entity;
- avoid duplication of information in general purpose financial reports, including unnecessary duplication of information provided in the related financial statements; and
- use clear language and clearly structured sentences and paragraphs (see paragraph D26 of Appendix D to AASB S2).

An entity exercises judgement when deciding how to communicate information clearly and concisely.

Aggregating and disaggregating information

An entity is required to consider all facts and circumstances and decide how to aggregate and disaggregate information in its climate-related financial disclosures. The understandability of climate-related financial disclosures cannot be reduced by obscuring material information with immaterial information or by aggregating material items of information that are dissimilar to each other (see paragraph B29 of Appendix D to AASB S2).

An entity cannot aggregate information if doing so would obscure information that is material. Information is required to be aggregated if items of information have shared characteristics and cannot be aggregated if they do not have shared characteristics. The entity might need to disaggregate information about climate-related risks and opportunities. For example, to ensure that material information is not obscured, an entity might disaggregate information by geographical location, in consideration of the geopolitical environment or to distinguish between water drawn from abundant sources and water drawn from water-stressed areas (see paragraph B30 of Appendix D to AASB S2).

Example—Disclosing disaggregated information about a climate-related risk

An entity identifies water scarcity as a climate-related risk to which it is exposed. Climate change drives water scarcity in Region 1 through increasing temperatures and changing precipitation patterns. As a result, there is likely to be a significant reduction in water available in the region. Water scarcity can affect the entity's prospects because, for example, reduced water availability can disrupt its own wheat production and can increase the price it pays to purchase the crop from its supplier.

In accordance with paragraph 10 of AASB S2, the entity discloses information that enables users of general purpose financial reports to understand water scarcity in Region 1 as a climate-related risk that the entity has determined could reasonably be expected to affect its prospects.

Water scarcity is a location-specific risk. Therefore, the entity decides that disclosing information about the amount of wheat exposed to this risk by region will provide material information to users of general purpose financial reports. Accordingly, applying paragraph 13(b) of AASB S2 and the principles of aggregation and disaggregation in paragraphs B29–B30 of Appendix D to AASB S2, the entity disaggregates its total amount of wheat (grown and purchased, in metric tonnes) between the region that has high baseline water stress (Region 1) and the region that does not (Region 2). Table 3.2 illustrates this disaggregation.

Table 3.2—Disaggregation of crop by region (in metric tonnes)

	Region with high baseline water stress (Region 1)			Other region (Region 2)		
Total	*grown*	*purchased*	*total*	*grown*	*purchased*	*total*
E = C + D	A	B	C = A + B	D	–	D

Obscuring information

As explained in Chapter 1, AASB S2 requires that an entity clearly identify its climate-related financial disclosures and distinguish these disclosures from other information. An entity cannot obscure material information. Information is obscured if it is communicated in a way that would have a similar effect on primary users as omitting or misstating that information (see paragraph B27 of Appendix D to AASB S2).

Circumstances that might result in material information being obscured include:

- not clearly distinguishing material information from additional information that is not material;
- disclosing material information in the climate-related financial disclosures, but using vague or unclear language;
- scattering material information about a climate-related risk or opportunity throughout the climate-related financial disclosures;
- inappropriately aggregating dissimilar items of information;
- inappropriately disaggregating similar items of information; and
- reducing the understandability of the climate-related financial disclosures by hiding material information among immaterial information to the extent that a primary user is unable to discern what information is material (see paragraph B27 of Appendix D to AASB S2).

Entities applying AASB S2 alongside other sustainability-related standards, such as GRI Standards, must not obscure information that is material for primary users with other information intended for a broader range of stakeholders.

Disclosing material information

If an entity concludes that particular information that is necessary to enable primary users to understand the effects of a climate-related risk or opportunity on the entity's prospects is material, then AASB S2 requires that the entity disclose this information, regardless of whether it is specifically required by AASB S2 (see paragraph B26 of Appendix D to AASB S2).

For example, the objective of AASB S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users. However, as explained in Chapter 2, an entity's dependencies and impacts on resources and relationships give rise to climate-related risks and opportunities (see paragraph B2 of Appendix D to AASB S2).

Therefore, information about both dependencies and impacts could be necessary to enable a primary user's understanding of the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. An entity makes judgements about whether this information is material in the same way it makes judgements about other types of information—that is, based on the expectation of whether the information could reasonably be expected to influence primary users' decisions.

Conversely, even if AASB S2 requires that an entity disclose specific information, an entity is not required to disclose that information if it is not material (see paragraph B25 of Appendix D to AASB S2).

Other considerations—Interaction of AASB S2 with law or regulation and commercially sensitive information

To state compliance with AASB S2 when providing climate-related financial disclosures, an entity must apply all the requirements in AASB S2, including requirements related to material information. However, there are some exceptions, including:

- if local laws and regulations specify requirements that affect what information an entity provides in its climate-related financial disclosures; and
- if an entity assesses that information about a climate-related *opportunity* is commercially sensitive, the entity is permitted to omit that information from its climate-related financial disclosures, in limited circumstances set out in AASB S2. Such an omission is permitted even if an entity is required to disclose the information by AASB S2 and the information is material. AASB S2 requires that the entity disclose that it used this exemption (see paragraphs B34–B37 of Appendix D to AASB S2).

Interaction with Australian legislation
Entities that fall under the climate-related financial disclosure mandate in the *Corporations Act 2001* (Cth) should be aware of potential obligations created by Australian legislation.

The output of Step 3 is the draft climate-related financial disclosures.

Step 4—Review the draft climate-related financial disclosures

In Step 4, an entity assesses whether information is material both individually and in combination with other information in the context of its whole climate-related financial disclosures. For example, even if the entity judges that information is not material on its own, it might be material when considered in combination with other information in the complete set of climate-related financial disclosures.

An entity prepares its climate-related financial disclosures using the draft climate-related financial disclosures from Step 3. In Step 4, the entity 'steps back' and considers its climate-related financial disclosures as a whole. For example, an entity might step back and consider whether it has complied with the requirements related to connected information, such as whether primary users will understand connections between the disclosures in its climate-related financial disclosures and other disclosures that are part of general purpose financial reports (see paragraphs 21–24 of Appendix D to AASB S2).

Figure 3.1—Review of draft climate-related financial disclosures to determine whether all material information has been identified

In performing this review, the entity considers whether:	This review might lead to:
All relevant relationships between different items of information have been identified. Identifying new relationships between information might lead to that information being identified as material for the first time.	Additional information being provided in the climate-related financial disclosures.
Items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users' decisions.	Greater aggregation or disaggregation of information.
The information in the climate-related financial disclosures is communicated in an effective and understandable way, and organised to avoid obscuring material information.	Information that is identified as immaterial being removed from the climate-related financial disclosures to avoid obscuring material information.
The climate-related financial disclosures provide a fair presentation of the entity's climate-related risks and opportunities.	Information being reorganised within the climate-related financial disclosures.

The review in Step 4 might lead an entity to reconsider its assessment in Step 2 and decide to reassess some information presented in its draft climate-related financial disclosures. After reassessing the information, the entity might conclude that information previously identified as material is, in fact, immaterial and remove it from its climate-related financial disclosures.

The output of Step 4 is the final climate-related financial disclosures.

Appendix A—Using AASB S2 to identify climate-related risks and opportunities

AASB S2 requires that an entity disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or its cost of capital.

AASB S2 contains requirements, guidance and examples that help an entity to identify its climate-related risks and opportunities.

Guidance contained within the *Basis for Conclusions on IFRS S2* can also be used as a resource to aid an entity in identifying climate-related risks and opportunities for the purposes of reporting under AASB S2.

Table A.1—Examples of applying AASB S2 and related materials to identify climate-related risks and opportunities

Topic	Location	Excerpt	Considerations in identifying climate-related risks and opportunities
Climate-related physical risks (acute and chronic)	Appendix A of AASB S2	Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, droughts or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. The entity's financial performance could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.	The entity considers whether and how these climate-related events could affect the resources and relationships that it depends on, and whether these effects give rise to climate-related risks that could reasonably be expected to affect the entity's prospects. Examples of effects on resources might include damage to manufactured assets that could affect future cash flows through disruption to operations and the need to repair the asset.

Topic	Location	Excerpt	Considerations in identifying climate-related risks and opportunities
	Paragraph BC19 of the Basis for Conclusions on IFRS S2	For example, extreme temperatures or severe storms can affect an entity's premises, supply chain, transportation needs or employee safety, with resulting effects on the entity's cash flows, its access to finance or cost of capital.	
	Paragraph BC19 of the Basis for Conclusions on IFRS S2	Chronic risks could also have longer-term financial consequences for entities. For example, rising sea levels might affect an entity's premises or operations.	
Climate-related opportunities	Paragraph BC22 of the Basis for Conclusions on IFRS S2	An entity might also take advantage of climate-related opportunities—for example, developing new products and services that meet shifting consumer needs or preferences and enhance the entity's brand reputation.	The entity considers whether and how changes in consumer needs or preferences might affect resources and relationships that the entity depends on, and whether these effects give rise to climate-related opportunities that could reasonably be expected to affect the entity's prospects. Examples of opportunities might include potential for developing new products to meet shifting consumer preferences and enhance the entity's brand and reputation, which could affect future cash flows due to new revenue streams or improvements in other revenue streams as a result of an enhanced brand.

Topic	Location	Excerpt	Considerations in identifying climate-related risks and opportunities
Climate-related transition risks	Appendix A of AASB S2	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. The entity's financial performance could also be affected by shifting consumer demands and the development and deployment of new technology.	The entity considers whether and how a transition to a lower-carbon economy could: • affect resources and relationships that the entity depends on, and whether these effects give rise to climate-related risks or opportunities that could reasonably be expected to affect the entity's prospects. For example, a shift in consumer preferences could affect future cash flows due to reduced demand for the entity's products. • affect resources and relationships that the entity affects, and whether these effects give rise to climate-related risks or opportunities that could reasonably be expected to affect the entity's prospects. For example, a jurisdiction where the entity operates imposes a carbon tax that could affect future cash flows.
	Paragraph BC20 of the Basis for Conclusions on IFRS S2	Transition risks are associated with policy, legal, technology and market changes resulting from efforts to limit global warming and move to a lower-carbon economy. Such changes could include new regulations to minimise greenhouse gas emissions, or a shift in market preferences towards lower-carbon products and services. For example, the move to a lower-carbon economy could include the movement away from fossil fuel energy and related physical assets, as well as efforts to reduce costs and increase or accelerate the deployment of cleaner and more energy-efficient technologies. Transition risks might affect an entity to varying extents depending on the nature, speed and focus of the changes that occur.	

Topic	Location	Excerpt	Considerations in identifying climate-related risks and opportunities
Climate-related scenario analysis	Paragraph 25(a)(ii) of AASB S2	An entity shall disclose information about the processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related risks.	The entity can use its resilience assessment, which includes climate-related scenario analysis, to help identify climate-related risks and opportunities. For example, through performing a scenario analysis an entity might identify effects on a resource or relationship that it depends on. The scenario analysis might provide an understanding of how that risk could result in changes to future cash flows or access to finance.
Climate-related risks and opportunities	Paragraph BC22 of the Basis for Conclusions on IFRS S2	Climate-related risks and opportunities will vary depending on the region, market and industry in which an entity operates.	The entity considers particular climate-related risks and opportunities in the region, market or industry in which it operates.
	Paragraph BC23 of the Basis for Conclusions on IFRS S2	Climate-related risks and opportunities are distinct but are not always mutually exclusive. For example, changing consumer preferences towards lower-carbon products might pose a risk to the demand for an entity's products and, at the same time, present an opportunity for the entity to develop an alternative, lower-carbon product line or gain market share if it has such a product line.	The entity considers the relationship between the climate-related risks and opportunities it has identified, including how a risk could also provide an opportunity.

Topic	Location	Excerpt	Considerations in identifying climate-related risks and opportunities
	Paragraph BC24 of the Basis for Conclusions on IFRS S2	The impacts of climate change are wide ranging, interrelated and have varied effects on an entity. Therefore, it is impossible to precisely define the full scope of climate-related risks and opportunities that might affect an entity. Consequently, IFRS S2 does not explicitly prescribe what is 'climate-related'.	In the absence of a definition of the term 'climate-related' in IFRS S2, the examples provided as part of the *Basis for Conclusions on IFRS S2* might assist the entity in determining the scope of climate-related risks and opportunities.
	Paragraph BC25 of the Basis for Conclusions on IFRS S2	Although the requirements in IFRS S2 do not explicitly reference some climate-related matters such as reduced access to fresh water, biodiversity loss, deforestation and climate-related social impacts, disclosures about these and other such matters are required if an entity determines that the information is material for investors. For example, if a beverage manufacturer determines it is exposed to short-, medium- or long-term effects of climate on water availability—especially in water-stressed regions—the entity might determine that information about the implications of reduced water availability for its strategy, operations, capital planning and asset values is material. Therefore, this information would be required by IFRS S2.	

In identifying the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, an entity might also consider educational material published by the IFRS Foundation on the nature and social aspects of climate-related risks and opportunities. For example, the educational material *Nature and social aspects of climate-related risks and opportunities* explains assessments an entity might make when identifying climate-related risks and opportunities at the nexus of climate and nature (for example, those related to water or deforestation) and risk and opportunities closely associated with socioeconomic aspects (for example, making the transition to a lower-carbon economy for those applying AASB S2).

Appendix B—Reassessment of the scope of climate-related risks and opportunities throughout the value chain

An entity is only *required* to reassess the scope of its affected climate-related risks and opportunities in its value chain on the occurrence of a significant event or significant change in circumstances (see paragraph B34 of AASB S2). Table B.1 gives some examples.

Table B.1—Examples of reasons to reassess the scope of climate-related risks and opportunities in the value chain

General type of event or change	Example of change in risk or opportunity
Significant change in the entity's value chain	A supplier in the entity's value chain makes a change that significantly alters its GHG emissions
Significant change in the entity's business model, activities or corporate structure	A business combination or acquisition that changes the entity's value chain, introducing different climate-related risk exposures
Significant change in an entity's exposure to climate-related risks and opportunities	A supplier in the entity's value chain is affected by the introduction of a new regulation that the entity had not anticipated

Example—Reassessment of the scope of climate-related risks and opportunities throughout the value chain

A jurisdictional authority introduces a regulation for GHG emissions associated with business travel (Scope 3 Category 6) that an entity had not anticipated. The entity might be required by AASB S2 to reassess which categories to include in the measurement of its Scope 3 GHG emissions. However, if this regulation has no effect on the entity's other climate-related risks and opportunities—for example, the entity's identified risk of water scarcity in its supply chain—then the entity would not be required to reassess the scope of those other climate-related risks and opportunities.

An entity considers such significant events or significant changes in circumstances and whether they affect its climate-related risks and opportunities. It is noted that significant events or significant changes in circumstances:

- can occur without the entity being involved in that event or change in circumstances;
- can occur as a result of a change in what the entity assesses to be important to primary users; and
- might not necessarily arise from a change in an entity's value chain, and therefore the scope of the entity's climate-related risks or opportunities might change even if the entity's value chain has not changed.

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