Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	AASB 6–7 June 2024 (M204)
Topic:	**Cross-industry metric disclosures (SMC 12)**	**Agenda Item:**	5.3
		Date:	21 May 2024
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objectives of this paper

1 In respect to the proposed requirement to disclose information relevant to the cross-industry metric categories set out in paragraphs 29(b)–29(f) of [draft] ASRS 2, the objectives of this paper are for the AASB to:

(a) consider feedback from stakeholders on SMC 12 of ED SR1; and

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

Abbreviations

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

Executive summary

3 Paragraphs 29(b)–29(f) of [draft] ASRS 2, which are related to cross-industry metric disclosures, are reproduced below.[1, 2]

> **Climate-related metrics**
>
> 29 An entity shall disclose information relevant to the cross-industry metric categories of:
>
> (a) [Deleted by the AASB—see paragraph Aus31.1]
>
> (b) climate-related transition risks—the amount and percentage of assets or business activities

1 The Board replaced the cross-industry greenhouse gas metric disclosures set out in paragraph 29(a) of IFRS S2 with the proposed paragraph Aus31.1 in [draft] ASRS 2. That topic is the subject of SMCs 14–20 and SMC22. SMCs 14–17 and SMC 19 are discussed in Agenda Papers 5.4–5.8 for this meeting. Staff will present analysis of other SMCs for Board deliberation at a future meeting.

2 Paragraph 29(g) of [draft] ASRS 2 proposes disclosure requirements relating to the cross-industry remuneration metric. That topic is the subject of SMC 13. Staff will present analysis of that topic for Board deliberation at a future meeting.

> vulnerable to climate-related transition risks;
>
> (c) climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks;
>
> (d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;
>
> (e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;
>
> (f) *internal carbon prices*—the entity shall disclose:
>
> (i) an explanation of whether and how the entity is applying a carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); and
>
> (ii) the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emissions; and
>
> (g) …

4 A large majority of stakeholders who responded to this topic considered the proposed disclosures set out in paragraphs 29(b)–29(f) of [draft] ASRS 2 would provide useful information to users. However, some requested additional guidance to assist their application of the disclosure requirements.

5 Staff recommend the Board to:

(a) confirm its decision to incorporate paragraphs 29(b)–29(f) of IFRS S2 in [draft] ASRS 2;

(b) monitor the activities and discussions of the ISSB and its Transition Implementation Group (TIG); and

(c) in due course, consider whether Australian guidance is needed to be developed to assist the application of the requirements.

Structure

6 The paper is structured as follows:

(a) Section 1: Background – The AASB's decisions when developing ED SR1

(b) Section 2: Summary of stakeholder feedback and staff analysis

(i) 2.1: Overview of stakeholder feedback

(ii) 2.2: Stakeholders' reasons for supporting the proposal

(iii) 2.3: Stakeholders' concerns and staff analysis

(iv) 2.4: Other comments from stakeholders

(v) 2.5: Staff recommendation

(c) Appendix: Summary of stakeholders' reasons for supporting the proposal.

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

7 The cross-industry metric disclosure requirements set out in paragraphs 29(b)–29(f) of IFRS S2 are derived from the *Guidance on Metrics, Targets, and Transition Plans* (October 2021) published by the TCFD (see pages 16–17).

8 When developing ED SR1, the AASB:

(a) observed that, in paragraph BC107 of the Basis for Conclusions to [draft] IFRS S2, the ISSB cited a TCFD-led public consultation in June 2021, which indicated that only 42% of respondents found internal carbon price-related metrics to be very useful for their decision making. That is, the ISSB acknowledged that internal carbon price-related metrics are not as useful to investors as the other cross-industry metrics for GHG emissions, physical or transition risk, climate-related opportunities and capital deployment (ED SR1 paragraph BC97); and

(b) received mixed feedback from respondents to ED 321. Although most stakeholders were supportive of disclosing internal carbon prices, some stakeholders disagreed with it because they consider internal carbon prices to be internal transfer prices, which an entity is not required to disclose under IFRS Accounting Standards or Australian Accounting Standards (ED SR1 paragraph BC98).

9 In the absence of adequate evidence that supports removing the disclosure requirement, the AASB decided to maintain alignment with the baseline of IFRS S2 in this respect and incorporated in [draft] ASRS 2 the cross-industry carbon prices disclosure requirement.

10 Although the main concerns raised by respondents to ED 321 were related to internal carbon prices, the AASB added SMC 12 to ED SR1 to gather feedback on all cross-industry metric disclosures set out in paragraphs 29(b)–29(f) of [draft] ASRS 2.

Section 2: Summary of stakeholder feedback and staff analysis

2.1 Overview of stakeholder feedback

11 SMC 12 of ED SR1 asked stakeholders:

"Do you consider the cross-industry metric disclosures set out in paragraphs 29(b)–29(g) of IFRS S2 (and [draft] ASRS 2) would provide useful information to users about an entity's performance in relation to its climate-related risks and opportunities? Please provide reasons to support your view."

12 Of the 117 comment letters and 289 survey responses received, 52 and 50 respondents, respectively, provided a response to SMC 12.

13 The following table provides an overview of the responses received on SMC 12 (rounded to the nearest %).

	Agree	Partially agree	Disagree	No clear view
Out of the 52 comment letters that commented on SMC 12[3]	71%	15%	10%	4%
Out of the 50 survey responses that commented on SMC 12[4]	72%	0%	28%	N/A

14 Based on staff's judgement on the overall comments expressed in the comment letters and responses from survey respondents, a large majority of respondents support the proposal to incorporate in [draft] ASRS 2 the cross-industry metric disclosures set out in paragraphs 29(b)–29(f) of IFRS S2. However, some respondents have raised concerns or explicitly disagreed with the proposed disclosures.

15 Only a few respondents commented on the proposed internal carbon price disclosures.

16 The majority of participants who attended an in-person roundtable discussion showed their support for the proposed disclosures. However, feedback received from the virtual roundtable discussions was mixed. The supportive comments from roundtable participants were largely consistent with the written submissions. Most virtual roundtable participants did not provide a reason for their views. An overview of roundtable discussions has been provided separately for the Board's reference.

2.2 Stakeholders' reasons for supporting the proposal

17 A significant majority of respondents supported incorporating in [draft] ASRS 2 the cross-industry metric disclosures as set out in paragraphs 29(b)–29(f) of IFRS S2.

18 The Appendix includes a summary of respondents' reasons for their support of the proposal.

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

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

2.3 Stakeholders' concerns and staff analysis

19 Some stakeholders raised significant concerns relating to specific metrics. This section summarises those concerns and staff's analysis thereof.

Concerns regarding the disclosure of the amount and percentage of assets or business activities vulnerable to transition and physical risks, and aligned with climate-related opportunities (paragraphs 29(b)–29(d) of [draft] ASRS 2)

20 Some stakeholders commented that:

(a) it is unclear what is meant by 'vulnerable' and 'aligned'. Without clear explanation or guidance, entities may interpret these terms differently and define materiality at different levels, rendering the metrics produced incomparable;[5]

(b) these disclosures are subjective and may be interpreted differently by individuals. Without clear guidance and defined expectations, there may be varying interpretations across different industries and entities within the same industry. This could make cross-industry comparisons difficult and potentially misleading;[6]

(c) it is unclear whether the term 'vulnerable' is meant as an additional filter mechanism for 'significant' risks or if it is meant to include every climate-related risk. The stakeholder considers that as this is the only instance in the Standard where the term 'vulnerable' is used, there is a likelihood of confusion and inconsistent application;[7] and

(d) it might be misleading to define the amount and percentage of assets or business activities that are vulnerable to transition and physical risks and aligned with climate-related opportunities because not all climate-related risks and opportunities are of equal potential severity, importance and/or value and may differ in inherent and residual risk ratings. Requiring metrics which quantify only the aggregated total risk or opportunity may result in misleading comparisons between entities.[8]

21 Staff observed that the comments noted in points (a)–(c) of paragraph 20 relate to an issue discussed by the ISSB's TIG on 15 March 2024. The TIG received a submission asking what the terms 'business activities' and 'vulnerable' mean in the absence of a definition in IFRS S2, and how these terms can be applied to meet the requirements of paragraph 29(b)–(c) of IFRS S2.

22 A summary of the TIG's discussion was presented to the ISSB at its 16 May 2024 meeting.[9] Based on that summary, it appears that the TIG is of the view that there is sufficient guidance in IFRS S1 and IFRS S2 to help the application of the requirements in paragraph 29(b)–(c) of IFRS S2. Paragraph 15 of that summary mentioned that TIG members are of the view that understanding the specific disclosure objective of cross-industry metrics—and the overall objective of IFRS S2—can help guide the application of the requirements in paragraph 29(b)–(c) of IFRS S2.

5 For example, comment letters: 70, 73 and survey respondent: 128
6 For example, comment letter: 48
7 For example, comment letter: 37
8 For example, comment letter: 38
9 The ISSB was not asked to make any decision regarding this matter at its meeting on 16 May 2024.

23 Regarding the stakeholder concern noted in point (d) of paragraph 20 that these disclosures could be misleading, staff observed that:

(a) these disclosures are consistent with TCFD recommendations and have been tested by some Australian entities, and a significant majority of stakeholders responding to ED SR1 have expressed that these disclosures are useful to users of annual reports (see Appendix for a summary of stakeholders' reasons for supporting the proposal); and

(b) further discussions with users would be needed to understand if / how these disclosures would result in misleading information and how they can be improved (if required). It would be more appropriate to have such discussions with stakeholders after the Standard has been implemented and users have a chance to consider the cross-industry metric disclosures.

Concerns regarding disclosure of capital deployment (paragraph 29(e) of [draft] ASRS 2)

24 One respondent commented that since there is no clear definition of what qualifies as capital invested in climate-related risks and opportunities, it may become challenging to differentiate such investments from regular business spending. This will become more complicated as businesses integrate management of climate-related risks and opportunities along with their overall response to climate change into their routine planning, strategy and commercial decision-making. Further context-specific guidance is needed in relation to this disclosure requirement.[10]

25 Another respondent commented that the Standard should explicitly note that disclosure on capital deployment toward climate-related risks and opportunities should include expenditure on decarbonisation targets, strategy and action plans to manage them. [11]

26 In respect to the stakeholder comment noted in paragraph 24, staff consider that, if climate-specific investments are integrated with an entity's regular business spending, disclosing this fact and how climate-related risks and opportunities are considered in the entity's business operations might provide useful information to users. Consistent with the views of the ISSB's TIG, staff consider that judgement would need to be applied in deciding what information to disclose to provide relevant information to users about the entity's expenditure and investment deployed towards climate-related risks and opportunities.

27 In respect to the suggestion noted in paragraph 25—to explicitly require disclosures of expenditure on decarbonisation targets, strategy and related action plans, staff consider that including such specific requirements would be against the AASB's objective of setting principle-based Standards. Moreover, it would be difficult to list out every type of expenditure relating to climate, and including a few types of expenditure (such as those suggested by the respondent) could inadvertently mislead readers of [draft] ASRS 2 that only those expenditure types listed in the Standard would be required to be considered.

Concerns regarding disclosure of internal carbon prices (paragraph 29(f) of [draft] ASRS 2)

28 Some stakeholders commented that the internal carbon price adopted by an entity is commercially sensitive. In the energy sector, mandatory disclosure of this information could give competitors valuable insight into the cost structures, operational efficiencies and strategic decision making (including risk management) of the entity.[12]

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10 For example, comment letter: 38

11 For example, comment letter: 103

12 For example, comment letters: 12, 41, 48 and survey respondents: 20, 21, 22

29 Staff observed that paragraphs 73 and B34–B37 of IFRS S1 (and [draft] ASRS 1) relieve an entity from disclosing information that is commercially sensitive.

2.4 Other comments from stakeholders

30 The table below provides a summary of stakeholder comments not discussed in this paper. Staff consider that the Board's deliberation of those comments can be deferred to a later time.

Stakeholders' comments	Staff's view
(a) Some respondents raised concerns regarding the cost and capacity of smaller entities, especially Group 3 entities, in preparing cross-industry metrics.[13]	(i) Staff observed that the concerns on the cost and capacity for smaller entities to comply with the proposals in ED SR 1 were not limited to cross-industry metric disclosures. Staff plan to present comments relating to cost concerns for smaller entities for the Board's deliberation at a future meeting.
(b) Guidance is needed to explain how the proposed disclosures would be applied in a public sector context, including local governments. For example, governments hold assets for the delivery of public services and therefore climate-related risk and opportunities and related capital deployment would be assessed differently to the private sector.[14]	(ii) Staff plan to present public-sector-specific issues for the Board's deliberation at a future meeting.
(c) Cross-industry metrics should be supplemented by industry-based metrics, which is a requirement in IFRS S2 that has been excluded in [draft] ASRS 2. Industry-based metrics better allow users to understand and differentiate between the performance of entities within the same industry.[15]	(iii) As noted in paragraphs BC39–BC42 of ED SR1, one of the reasons why the AASB decided not to incorporate in [draft] ASRS 1 and [draft] ASRS 2 the requirements in IFRS S1 and IFRS S2 relating to Sustainability Accounting Standards Board (SASB) Standards and the industry-based metrics adapted from SASB Standards was because the ISSB's consultation period was too short for AASB to appropriately apply its due process. (iv) At its 16 May 2024 meeting, the ISSB decided that its work plan for 2024–2026 will include enhancing the SASB Standards and related industry-based disclosures. (v) Staff plan to present any updates on the ISSB's work on SASB Standards and industry-based metrics for the Board's deliberation at a future meeting.

13 For example, comment letters: 83, 106 and survey respondents: 28, 156

14 For example, comment letter: 9 and survey respondents: 14, 31

15 For example, comment letter: 104

Stakeholders' comments	Staff's view
(d) One respondent suggested adding to the Standard the following disclosure requirements:[16] • climate-related workforce risks—the size and percentage of the workforce vulnerable to climate-related physical risks; and • climate-related workforce opportunities—the size and percentage of the workforce aligned with climate-related opportunities. The respondent commented that the objective of [draft] ASRS 2 is to provide information that is useful to primary users of GPFRs in making decisions relating to **providing resources** to the entity. However, the proposed disclosures do not appear to contemplate the workforce as a key input to transportation, production, distribution or consumption (creating both supply, and demand for an entity's products or services), and the effect on the workforce from climate change.	(vi) Staff observed that the respondent's comment relates to the objective and scope of the baseline of IFRS S2. Staff recommend no action at this stage and continue monitoring whether there is any stakeholder feedback that would be required to be submitted to the ISSB's TIG.

2.5 Staff recommendations

31 Since a significant majority of stakeholders agreed with the proposed cross-industry metrics set out in paragraphs 29(b)–29(f) of [draft] ASRS 2, and based on the staff views noted in Sections 2.3 and 2.4, staff recommend the Board to:

(a) confirm its decision to incorporate the requirements in the final Standard;

(b) monitor the activities and discussions of the ISSB and its TIG—at its 16 May 2024 meeting, the ISSB decided that its work plan for 2024–2026 will include a high-level focus on supporting the implementation of IFRS S1 and IFRS S2; and

(c) in due course, consider whether Australian guidance is needed to be developed to assist the application of the requirements.

Questions for Board members
Q1: Do Board members have any comments on the staff views noted in Sections 2.3 and 2.4?
Q2: Do Board members agree with the staff recommendations in paragraph 31? If not, what alternative approaches would you recommend?

16 For example, comment letter: 14

Appendix: Summary of stakeholders' reasons for supporting the proposal

1 A significant majority of respondents supported incorporating in [draft] ASRS 2 the cross-industry metric disclosures as set out in paragraphs 29(b)–29(f) of IFRS S2. Some of those respondents commented that the proposed disclosures would:

(a) ensure consistency with ISSB's Standards. There is no compelling reason for ASRS Standards to deviate from ISSB Standards regarding these disclosures;[17]

(b) maintain consistency with TCFD recommendations;[18]

(c) provide insights into an entity's performance and level of exposure to climate-related risks and opportunities, which is crucial for assessing its vulnerability and resilience;[19]

(d) assist users in understanding how an entity is responding to climate-related risks and opportunities (especially, the disclosure regarding capital deployment);[20]

(e) provide a standardised approach to reporting on climate-related risks and opportunities, which is crucial for stakeholders, including investors focused on renewable energy and sustainability. Standardised metrics would enhance comparability and consistency across different industries, aiding in better assessment and understanding of how different entities perform in relation to their climate-related risks and opportunities;[21]

(f) assist in developing government policies that support entities making climate-related investments;[22]

(g) be aligned with the requirements in Aotearoa New Zealand Climate Standards;[23]

(h) not substantially increase the compliance burden on entities. This is because some of the cross-industry metrics (e.g. those set out in paragraphs 29(b)–(d)) will be part of the disclosures in relation to the entity's strategy; and[24]

(d) be consistent with the metrics considered by the Bank for International Settlements as part of their current Basel Committee consultation on Pillar 3 disclosure of climate-related financial risks.[25]

2 A few respondents provided supporting comments specific to the proposed requirement in paragraph 29(f) of [draft] ASRS 2 to disclose internal carbon prices, as summarised below.

(a) Reporting an internal carbon price will establish industry data and enable a transition to the use of more standardised carbon pricing. This will help to shift the industry more quickly into appropriately valuing carbon.[26]

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17 For example, comment letters: 7, 11, 12, 21, 27, 55, 64 and survey respondent: 136
18 For example, comment letters: 77, 101, 104, 105
19 For example, comment letters: 14, 42, 88, 97, 103, 105
20 For example, comment letters: 74, 88, 103, 104, 105
21 For example, comment letters: 1, 11, 15, 20, 37, 63, 68, 74, 77, 103, 105, 110 and survey respondents: 25, 217
22 For example, comment letter: 4
23 For example, comment letter: 6
24 For example, comment letter: 104
25 For example, comment letter: 12
26 For example, comment letter: 42

(b) Since entities may apply varying internal carbon prices—often influenced by the market prices of carbon credits they utilise—having specific disclosures as set out in paragraph 29(f) of [draft] ASRS 2 is essential to facilitate users in gauging and comparing the efficacy of entities' strategic decisions.[27]

(c) Investors need information on internal carbon prices to assess an entity’s internal management of climate-related risks and opportunities.[28]

27 For example, comment letter: 88

28 For example, comment letter: 103