Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	AASB 26 June 2024 (M205)
Topic:	**Scope 3 greenhouse gas emissions relief (SMC 18)**	**Agenda Item:**	4.3
		Date:	11 June 2024
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objectives of this paper

1 In respect to the requirement in IFRS S2 that allows an entity to measure their GHG emissions using information obtained from its value chain for reporting periods that are different from its own reporting period, the objectives of this paper are for the AASB to:

(a) consider feedback on the AASB's proposed modification to the baseline of IFRS S2 to permit an entity to disclose its current reporting period Scope 3 GHG emissions using data for the immediately preceding reporting period if reasonable and supportable data related to the current reporting period is unavailable (SMC 18); and

(b) decide on any changes required to be made to the proposed requirement in [draft] ASRS 2 paragraph AusB39.1 for the purposes of finalising the Standard.

Abbreviations

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

Background

3 Many preparers who responded to the [draft] IFRS S2 expressed concerns about the challenges related to the availability of data, use of estimates, calculation methodologies and other sources of uncertainty relating to Scope 3 GHG emissions. The ISSB confirmed the inclusion of Scope 3 GHG emissions disclosure requirements following feedback from investors that they cannot fully understand an entity's transition risk without information about its absolute gross Scope 1, 2 and 3 GHG emissions. The ISSB made a number of decisions that are designed to help companies embed and improve their processes for measurement and disclosure of Scope 3 GHG emissions, including introducing:[1]

1 IFRS S2 paragraphs BC112–BC121.

(a) a framework for the measurement of Scope 3 GHG emissions that will require the use of reasonable and supportable information that is available without undue cost or effort and incorporates the use of estimation. An entity's use of this framework would be accompanied by disclosures to enable investors to understand the basis for measurement of Scope 3 GHG emissions;[2]

(b) a temporary exemption from disclosing Scope 3 GHG emissions in the first year of reporting, designed to give time for companies to implement their processes[3]. The AASB incorporated this exemption into [Draft] ASRS 2 paragraph AusC4.1; and

(c) ongoing relief to allow an entity to include information that is not aligned with its reporting period, when that information is obtained from companies in its value chain with a different reporting cycle, subject to some restrictions (i.e. IFRS S2 paragraph B19, cited below);

> B19 An entity might have a different reporting period from some or all of the entities in its value chain. Such a difference would mean that greenhouse gas emissions information from these entities in its value chain for the entity's reporting period might not be readily available for the entity to use for its own disclosure. In such circumstances, the entity is permitted to measure its greenhouse gas emissions in accordance with paragraph 29(a)(i) using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period, on the condition that:
>
> (a) the entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose its greenhouse gas emissions;
>
> (b) the length of the reporting periods is the same; and
>
> (c) the entity discloses the effects of significant events and changes in circumstances (relevant to its greenhouse gas emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reports.

4 When developing ED SR1, the AASB noted in the Treasury's *Climate-related financial disclosure: Second consultation* issued in June 2023 (page 16) that:

(a) it is expected that in the immediate term, most Scope 3 GHG emissions disclosures will be estimates, reflecting information that is accessible to the reporting entity at the time of disclosure. As some reporting entities may lack the internal capability to undertake Scope 3 estimation to a high level of sophistication, the requirements would take a proportional approach, in line with what has been indicated by the ISSB. As entities become more practised in Scope 3 GHG emissions estimation and as available methodologies and data improve over time, disclosures would be expected to improve;

(b) consistent with the relief in IFRS S2, the Australian Government would support relief in the form of a temporary one-year exemption from reporting Scope 3 GHG emissions, following the commencement of mandatory disclosure requirements for that entity; and

(c) the Scope 3 GHG emissions disclosed could have accrued in any one-year period that ended up to 12 months prior to the current reporting period. For example, Scope 3 emissions reported in the 2027–28 financial year could be those incurred (either actual or estimated) in the entity's supply chain in the 2026–27 financial year. This recognises that other reporting entities' Scope 1 and Scope 2 GHG emissions may form inputs for the reporting entity's Scope 3 GHG emissions estimation. This is particularly important for financed Scope 3 GHG emissions where banks,

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2 IFRS S2 paragraphs B38–B57.

3 IFRS S2 paragraph C4(b).

superannuation funds and insurers are likely to need to model or estimate a significant proportion of the economy.

5 In light of the above information from the Treasury second consultation paper, particularly paragraph 4(c) above, the AASB added paragraph AusB39.1 (cited below) to [draft] ASRS 2, with the intention to clarify that an entity is permitted to use data for the immediately preceding reporting period in measuring and disclosing its Scope 3 GHG emissions if reasonable and supportable data related to the current period is unavailable.

> AusB39.1 An entity shall measure its Scope 3 greenhouse gas emissions using data for the same reporting period as its related financial statements, unless reasonable and supportable data related to that reporting period (i.e. the current reporting period) is not available to the entity at the reporting date without undue cost or effort. Notwithstanding paragraph B19, if reasonable and supportable data related to the current reporting period is unavailable, an entity is permitted to disclose in the current reporting period its Scope 3 greenhouse gas emissions using data for the immediately preceding reporting period. An entity measuring and disclosing Scope 3 greenhouse gas emissions using data for the immediately preceding reporting period shall disclose that fact.

6 The Board used SMC 18 of ED SR 1 as an opportunity to seek input from Australian stakeholders on the proposed Scope 3 relief which allows an entity to include information that is not aligned with its reporting period in certain circumstances, particularly whether the additional clarification (e.g. [draft] ASRS 2 paragraph AusB39.1) would effectively assist the application of [draft] ASRS Standards, noting that the baseline guidance in IFRS S2 paragraphs B19 and B38–B57 was not consulted as part of [draft] IFRS S1 and S2 (and ED 321) and was added to the final IFRS Sustainability Disclosure Standards as a result of ISSB's redeliberated proposals and stakeholder feedback.

7 The Treasury Policy Statement *Mandatory climate-related financial disclosures* issued in January 2024 (page 3) expects that ASRS Standards will provide additional relief to allow entities to disclose estimates of their Scope 3 emissions relating to any one-year period, up to 12 months prior to the relevant reporting period (for example, 2027–28 financial year reporting requirements could be met by disclosing Scope 3 emissions incurred in the 2027 calendar year or 2026–27 financial year).

8 The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (the Bill) issued on 27 March 2024 proposed that entities within the scope of the Bill shall report Scope 3 GHG emissions (including financed emissions) (s296D(1)(b)(iii)).

Overview of staff recommendation

9 Staff recommend the Board make no changes to the baseline of IFRS S2 with respect to the requirements in IFRS S2 paragraphs B19 and B38–B57. That is, staff recommend removing paragraph AusB39.1 from [draft] ASRS 2 on the basis that it is unnecessary and may result in a more stringent application compared to the IFRS S2 baseline, which could pose implementation challenges.

Structure

10 The rest of the paper is structured as follows:

(a) Section 1: Summary of stakeholder feedback

(b) Section 2: Staff analysis and recommendations

(c) Section 3: Other comments from stakeholders

Section 1: Summary of stakeholder feedback on SMC 18

11 SMC 18 of ED SR1 asked stakeholders: "Do you agree with the proposals in paragraph AusB39.1 of [draft] ASRS 2? Please provide reasons to support your view." An identical question was included in the survey.

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

(a) 68 comment letters responded to SMC 18, with two of them not clearly stating a view; and

(b) 66 survey submissions responded to SMC 18.

13 The following table provides a high-level overview of the responses received in relation to the proposal in paragraph AusB39.1:

	Agree	Partially agree	Disagree
Out of 66 comment letters that expressed a view on SMC 18[4]	53%	24%	23%
Out of 66 survey responses that commented on SMC 18[5]	74%	20%	6%

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

<u>Stakeholders' reasons for supporting the proposal</u>

15 The majority of respondents who supported the proposal to add paragraph AusB39.1 to [draft] ASRS 2 did not provide a reason for their support.

16 The respondents who elaborated on their reasons for supporting the proposal commented that the proposal in paragraph AusB39.1 allows flexibility and sufficient time for entities to report Scope 3 GHG emission data more effectively and accurately, particularly given the lag in the availability of Scope 3 data that can occur due to different reporting periods of an entity's suppliers and customers.[6]

17 Despite their support, a few stakeholders suggest the Board consider clarifying the term "immediately preceding period", considering the following:

(a) some entities could have a different financial reporting period from their NGER reporting period, whether the immediately preceding period refers to the financial reporting period or NGER reporting, or it could be either one;[7]

(b) sometimes, the age of the input data may extend beyond the "immediately preceding reporting period", necessitating greater allowance and flexibility;[8]

4 Some respondents did not expressly state in their comment letters whether they agree, disagree or partially agree with a proposal. Staff applied judgement in categorising the overall comments expressed in the comment letters. Some of these comment letters commented on the proposed reporting requirements for Scope 3 GHG emissions in the draft legislation and Treasury Policy Statement, which is beyond the scope of this project.

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

6 Comment letters: 1, 7, 11, 12, 20, 37, 38, 40, 50, 51, 53, 66, 77, 101 and 103; and survey responses: 4, 10, 136, 196 and 214.

7 Comment letter: 12.

8 Comment letters: 18, 60 and 62; and survey response: 53.

(c) it is not clear whether the one-year-lag in Scope 3 GHG emissions aims to reflect (i) the current reporting period, with the methodology based on older data, or (ii) the emissions of the immediately preceding period;[9] and

(d) it is not clear whether there is an expectation of restating historical positions if and when data quality or availability improves.[10]

Stakeholders' reasons for not supporting the proposal

18 Some respondents expressly stated that they disagreed with adding the proposed paragraph AusB39.1 to the Standard. The reasons for their disagreement can be broadly grouped into three views:

(a) **View 1** – A few stakeholders considered that Scope 3 GHG emissions information from previous periods may not be as useful compared to data from the current year.[11] These stakeholders consider that:

(i) current-period data enhances timeliness and accuracy, enabling investors to make more informed decisions. Requiring current data will also drive the development and implementation of more efficient data collection systems;[12]

(ii) where data is not available due to timing, instead of reporting lagged data, a reasonable estimation methodology should be used to estimate current-year Scope 3 GHG emissions;[13] and

(iii) allowing flexibility for entities to select different reporting periods introduces confusion. It could diminish the quality and comparability of disclosures that one entity could disclose Scope 1, 2 and 3 GHG emissions for different reporting periods or entities report Scope 3 GHG emissions on different periods.[14]

(b) **View 2** – A few stakeholders commented that, rather than permitting the use of value chain data from the immediately preceding period, the challenges in reporting Scope 3 emissions could be better addressed by deferring the mandatory reporting of Scope 3 GHG emissions or having a longer transition period rather than adding paragraph AusB39.1.[15]

(c) **View 3** – Some stakeholders considered the proposed relief in paragraph AusB39.1 unnecessary as IFRS S2 paragraph B19 already allows an entity to measure their GHG emissions using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period.[16] Further, IFRS S2 paragraphs B38–B57 have already set out a Scope 3 measurement framework, which enables an entity to apply judgement in determining the measurement approach (e.g. direct or estimation method), the sources and the age of data inputs used to calculate emissions. These stakeholders were concerned that [draft] ASRS 2 paragraph AusB39.1 is more restrictive than the IFRS S2 baseline and could be challenging to

9 Comment letters: 60 and 62.
10 Comment letters: 60 and 62.
11 For example, comment letters: 6, 15, 43, 94 and 106.
12 For example, comment letters: 43 and 94.
13 For example, comment letter: 73.
14 For example, comment letters: 15 and 73; survey response: 25.
15 For example, comment letters: 6, 104 and 116; and survey response: 21.
16 For example, comment letters: 18, 21, 24, 26, 27, 41, 55, 65, 81 and 86.

apply, particularly when there is limited or no data from value chain partners in the immediately preceding period.

Section 2: Staff analysis and recommendations

19 Although stakeholders expressed mixed views on the proposal in [draft] ASRS 2 paragraph Aus39.1, staff observed general support for the flexibility to allow entities to use Scope 3 GHG emissions information obtained from its value chain partners for a period that differs from its reporting period in certain circumstances.

20 Stakeholders' comments highlighted the following circumstances where, under [draft] ASRS 2, entities may not be able to apply paragraph B19 using information from a reporting period that is different from the entity's reporting period:

(a) there is limited or no data from value chain partners in the immediately preceding period, and entities may need to rely on data older than the immediately preceding period (see paragraph 18(c) above); or

(b) where entities obtain data from NGER reports, which would be prepared for the NGER reporting period that could differ from some entities' financial reporting period (see paragraph 17(a) above).

21 This is because paragraph AusB39.1 limits an entity to disclosing in the current reporting period its Scope 3 GHG emissions using data for the immediately preceding period if reasonable and supportable data related to the current reporting period is unavailable.

22 Although the majority of the stakeholders supported the proposal in paragraph AusB39.1, indicating that the relief of the "immediately preceding period" to the current reporting should provide sufficient time for entities to collect necessary data from their value chain to measure and disclose their Scope 3 GHG emissions for the current period (see paragraph 16 above), staff consider it important to recognise the potential challenges for entities needing longer time to collect data from their value chain partners, particularly for entities with complex value chain arrangements or for smaller entities that are less resourceful.

23 With reference to the *AASB Sustainability Reporting Standard-setting Framework*, which prioritises international alignment with amendments to the baseline of IFRS Sustainability Disclosure Standards made only where it is necessary to do so to meet the needs of Australian stakeholders, staff consider that the addition of paragraph AusB39.1 to the baseline may not be necessary, considering that:

(a) IFRS S2 paragraph B19 allows entities to use information from a reporting period that is different from the entity's reporting period, which is not inconsistent with the Treasury policy statement expectation that ASRS Standards will provide additional relief to allow entities to disclose estimates of their Scope 3 emissions relating to any one-year period, up to 12 months prior to the relevant reporting period (see paragraph 7 above); and

(b) the proposal in paragraph AusB39.1 may result in a more stringent application compared to the baseline and may be challenging to implement (see paragraph 18(c) above).

24 Therefore, staff recommend no changes to the baseline of IFRS S2 with respect to the requirements in IFRS S2 paragraphs B19 and B38–B57. That is, staff recommend removing paragraph AusB39.1 from the [draft] ASRS 2.

25 The staff recommendation is supported by stakeholder feedback that [draft] ASRS 2 should:

(a) be consistent with the IFRS S2 baseline requirements, which require entities to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 GHG emissions (i.e. IFRS S2 paragraph B36) (see paragraph 18(c) above); and

(b) allow flexibility for an entity to measure its GHG emissions using information for reporting periods, which could be beyond the immediately preceding period, that is different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period (see paragraphs 17(b) and 18(c) above).

> **Question 1 to the Board:**
>
> Do Board members agree with staff recommendation in paragraph 24 that no changes should be made to the baseline of IFRS S2 with respect to the requirements in IFRS S2 paragraphs B38–B57 (i.e. removing paragraph AusB39.1 from the final Standard)?
>
> If not, what other approaches would the Board members suggest?

Section 3: Other comments from stakeholders

26 Stakeholders also made the following additional suggestions for the Board's consideration:

(a) Entities should explicitly state and explain their use of the relief proposed in paragraph AusB39.1, particularly regarding the entities' inability to capture or represent data in the relevant reporting period.[17]

> **Staff analysis**
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> [Draft] ASRS 2 paragraph B55 (verbatim of IFRS S2 paragraph 55) states that:
>
> B55 An entity shall disclose information about the measurement approach, inputs and assumptions it uses to measure its Scope 3 GHG emissions… This disclosure shall include information about the characteristics of the data inputs as described in paragraph B40. The purpose of this disclosure is to provide users of general purpose financial reports with information about how the entity has prioritised the highest quality data available, which faithfully represents the value chain activity and its Scope 3 GHG emissions. This disclosure also helps users of general purpose financial reports to understand why the measurement approach, inputs and assumptions the entity uses to estimate its Scope 3 GHG emissions are relevant.
>
> Staff consider that the existing requirements are sufficient to address stakeholders' requests.
>
> **Staff recommendation:** Staff recommend no action.

17 Comment letters: 10, 74 and 103.

(b) The proposed relief in paragraph Aus39.1 should only be applied if certain criteria are met, for example, when there is no material change to the entity's business model.[18]

> **Staff analysis**
>
> [Draft] ASRS 2 paragraph B19 listed conditions that entities need to meet in order to use information from a reporting period that is different from the entity's reporting period. One of the conditions outlined in paragraph B19(c) is that the entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates.
>
> Staff consider that the existing requirements are sufficient to address stakeholders' requests.
>
> **Staff recommendation:** Staff recommend no action.

(c) Paragraph AusB39.1 should explicitly state that the proposed relief for the Scope 3 GHG emissions also applies to financed emissions.[19]

> **Staff analysis**
>
> With respect to the stakeholder comment noted in paragraph 26(c), staff consider that no action is needed at this stage. This is because, as noted in paragraph 24, staff are recommending removing paragraph AusB39.1 proposed in ED SR1.
>
> As noted in IFRS S2 paragraph BC115, the ongoing relief prescribed in IFRS S2 paragraph B19, allowing an entity to use GHG emissions information from a reporting period that is not aligned with its own reporting period, is available to Scope 1, 2 and/or 3 GHG emissions where relevant.
>
> Also, staff consider that [draft] ASRS 2 (and IFRS S2) is sufficiently clear that financed emissions are part of Scope 3 GHG emissions, and therefore are covered by the Scope 3-related reliefs.
>
> **Staff recommendation:** Staff recommend no action.

(d) Further guidance/clarification is required to assist entities applying the concept of "without undue cost or effort"[20] and "reasonable and supportable information"[21] in the context of climate-related financial disclosure.

> **Staff analysis**
>
> Staff observed that the terms "without undue cost or effort" and "reasonable and supportable information" are commonly used in Australian Accounting Standards. However, staff acknowledge that additional guidance may be helpful, given that climate-related financial report preparation may involve professionals beyond traditional financial reporting who may not necessarily be familiar with these terms. The AASB Research Centre is currently

18 Survey response: 211.
19 Comment letter: 18.
20 Comment letters: 54 and 88.
21 Comment letters: 60 and 62.

undertaking a project to explore the understanding and application of the "undue cost or effort" concept among Australian entities.

The IFRS Foundation issued FAQs to provide further clarity on the IFRS Sustainability Disclosure Standards, including an explanation on what is meant by "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort".

Staff recommendation: Staff recommend no action.

27 A few stakeholders raised the following comments specific to public sector entities:[22]

(a) In addition to the common challenges shared with other entities (e.g. data availability and how to apply materiality judgements), public sector entities face these specific challenges in reporting Scope 3 GHG emissions:

(i) complexity of defining "value chain" within a public sector context;

(ii) difficulty in obtaining data from external sources, especially for services outsourced to third parties; and

(iii) lack of standardised methodologies and guidelines tailored for public sector emissions reporting. This includes challenges such as determining Scope 3 GHG emissions boundaries for public sector entities or identifying of Scope 3 GHG emissions for entities with shared service arrangements;

(b) Scope 3 GHG emissions reporting in the public sector should be deferred until the definition "value chain" in a public sector context is appropriately clarified; and

(c) A longer relief period for Scope 3 GHG reporting for public sector entities should be considered due to the varying degrees of maturity and capacity in relation to emissions reporting. Preparing information to a standard of reliability that can be audited to a level of reasonable assurance will require significant investment if the relief is limited to one year.

Staff analysis

Stakeholder comments on public-sector-specific challenges for Scope 3 GHG emissions are included for noting only. Staff will present an analysis of public-sector-specific matters raised by stakeholders in ED SR1 at a future meeting.

Question 2 to the Board:

Do Board members agree with staff recommendations in relation to other stakeholder suggestions presented in paragraphs 26–27 above? If not, what other approaches would the Board members suggest?

22 Comment letters: 9, 19 and 80.