



<b>Project:</b>	<b>Climate-related Financial Disclosures</b>	<b>Meeting:</b>	AASB 6–7 June 2024 (M204)
<b>Topic:</b>	<b>Scope 3 greenhouse gas emissions categories (SMC 19)</b>	<b>Agenda Item:</b>	5.8
		<b>Date:</b>	21 May 2024
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider ED feedback

## Objectives of this paper

- IFRS S2 requires an entity to categorise the sources of its Scope 3 GHG emissions in accordance with the 15 categories described in the GHG Protocol. The objectives of this paper are for the AASB to:
  - consider stakeholder feedback on the AASB’s proposed amendment to the baseline of IFRS S2 to not require an entity to categorise its Scope 3 GHG emissions in accordance with those categories; and
  - decide on any changes required to be made to the proposed requirement in [draft] ASRS 2 paragraph AusB33.1.

## Abbreviations

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

## Background

- IFRS S2 paragraphs B32–B33 require an entity to categorise the sources of its Scope 3 GHG emissions under the 15 categories described in the GHG Protocol. When developing ED SR1, the AASB observed that:
  - it decided to propose requiring an entity to prioritise applying relevant methodologies in NGER Scheme legislation as the default methodologies in measuring its GHG emissions before referring to other GHG measurement methods or frameworks (paragraph Aus31.1(b) of [draft] ASRS 2). Therefore, it may not be appropriate to require an entity to categorise its Scope 3 GHG emissions using categories in the GHG Protocol; and
  - the 15 categories in the GHG Protocol are not referenced in IPCC guidelines or the Paris Agreement. The AASB was unsure whether requiring categorising Scope 3 GHG emissions using categories different to those used in the reporting under the Paris Agreement would achieve

international alignment. Particularly if entities in other jurisdictions that are parties to the Paris Agreement might disclose different categories ([draft] ASRS 2 paragraphs BC82–BC85).

- 4 Accordingly, the AASB decided not to require an entity to categorise its Scope 3 GHG emissions in accordance with the 15 GHG Protocol categories, and instead added those categories in [draft] ASRS 2 as examples of categories that an entity could consider when measuring its Scope 3 GHG emissions, ([Draft] ASRS 2 paragraph AusB33.1).
- 5 It is important to note that [draft] ASRS 2 retained the IFRS S2 requirement for an entity to disclose the categories of the sources of its Scope 3 GHG emissions, but [draft] ASRS 2 did not prescribe the specific “label” an entity shall use for its Scope 3 GHG emissions categories disclosure.
- 6 The AASB added paragraph AusB33.1 to [draft] ASRS 2, which is reproduced below.

AusB33.1 In accordance with paragraph Aus31.1(g), an entity shall disclose information about its Scope 3 greenhouse gas emissions to enable users of general purpose financial reports to understand the source of these emissions. The entity shall consider its entire value chain (upstream and downstream) and identify and disclose the categories it has included in its Scope 3 greenhouse gas emissions disclosures. For example, the entity may consider categorising the sources of its Scope 3 greenhouse gas emissions under the following categories:

- (a) purchased goods and services;
- (b) capital goods;
- (c) fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions;
- (d) upstream transportation and distribution;
- (e) waste generated in operations;
- (f) business travel;
- (g) employee commuting;
- (h) upstream leased assets;
- (i) downstream transportation and distribution;
- (j) processing of sold products;
- (k) use of sold products;
- (l) end-of-life treatment of sold products;
- (m) downstream leased assets;
- (n) franchises; and
- (o) investments.

### Overview of staff recommendations

- 7 Staff recommend the Board consider:
  - (a) adopting the requirement in IFRS S2 paragraph B32 to require an entity to disclose the categories of sources of its Scope 3 GHG emissions using the 15 categories in GHG Protocol; but also
  - (b) allowing an entity to use other labels to categorise its Scope 3 GHG emissions where none of the 15 categories in the GHG Protocol adequately describes the source of its emissions. Entities using categories outside of the categories in the GHG Protocol should be required to explain why the alternative category is more appropriate.
- 8 Staff are of the view that the proposed modification to the baseline of IFRS S2 described in paragraph 7(b) is appropriate for public sector or not-for-profit entities because some entities in

those sectors may have value chains that do not fit into the descriptions of the 15 categories in the GHG Protocol. Furthermore, staff consider that the proposed modification may also be justified for other entities under paragraph 20 of the [AASB Sustainability Reporting Standard-Setting Framework](#).

## Structure

- 9 The rest of the paper is structured as follows:
- (a) Section 1: Summary of stakeholder feedback
  - (b) Section 2: Staff analysis and recommendations
  - (c) Section 3: Other comments from stakeholders
  - (d) Appendix: Comparison of GHG Protocol scopes and categories with ISO 14064-1:2018 categories and sub-categories

### Section 1: Summary of stakeholder feedback

- 10 SMC 19 of ED SR1 asked stakeholders: “Do you agree with the AASB’s approach in [draft] ASRS 2 paragraph AusB33.1 to include the Scope 3 GHG emission categories in IFRS S2 as examples of categories that an entity could consider when disclosing the sources of its Scope 3 GHG emissions, rather than requiring an entity to categorise the sources of emissions in accordance with the categories of the GHG Protocol Standards? Please provide reasons to support your view.” An identical question was included in the survey.
- 11 A total of 117 comment letters and 289 survey responses were submitted during the comment period:
- (a) 68 comment letters responded to SMC 19, with 6 of them not providing a clear view.
  - (b) 63 survey submissions responded to SMC 19.
- 12 The following table provides a high-level overview of the responses received in relation to the proposal in paragraph AusB33.1:

	Agree	Partially agree	Disagree
Out of the 62 comment letters expressed a view on SMC 19 <sup>1</sup>	34%	6%	60%
Out of 63 survey responses commented on SMC 19 <sup>2</sup>	51%	24%	25%

- 13 Based on staff judgement of the overall comments expressed in the comment letters and responses from survey respondents, stakeholders expressed mixed views on the proposed paragraph AusB33.1.
- 14 Comments from roundtables broadly align with the views expressed in comment letters and survey responses. An overview of roundtable discussions has been provided separately for the Board’s reference.

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1 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. An overview of stakeholder feedback expressed in the comment letters is presented as Agenda Paper 5.9 for the Board’s reference.

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

### Stakeholders' reasons for supporting the proposal

- 15 Many respondents did not provide a reason for their support for the proposal to not require an entity to categorise its Scope 3 GHG emissions in accordance with the 15 categories in the GHG Protocol.
- 16 The respondents who elaborated on their reasons for supporting the proposal commented that:
- (a) the proposal is a reasonable approach that ensures there is sufficient flexibility for entities to continue this approach whilst disclosing only what is relevant to their circumstances and business operations;<sup>3</sup>
  - (b) the proposal would support international alignment since the same 15 categories in GHG Protocol and IFRS S2 are listed in [draft] ASRS 2, albeit as examples;<sup>4</sup>
  - (c) although the categories in GHG Protocol are considered by some as sufficiently broad for entities (including public sector entities) to report their Scope 3 GHG emissions, they are not listed in the IPCC, Paris Agreement or other GHG measurement frameworks (e.g. ISO 14064-1).<sup>5</sup> A requirement to disclose using those categories would not necessarily lead to international alignment, given entities in other jurisdictions that are parties to the Paris Agreement might disclose different categories;<sup>6</sup> and
  - (d) the proposal aligns with *Aotearoa New Zealand Climate Standard 1 Climate-related Disclosures* (NZ CS 1), which does not require an entity to break down Scope 3 GHG emissions by the 15 categories from the GHG Protocol.<sup>7</sup>
- 17 Two respondents suggested a transitional approach in which a framework of categories is suggested for entities to consider, rather than mandated, at the initial stage. When data and methodologies are more developed, mandate standardised categories to promote consistency and comparability.<sup>8</sup>
- 18 One respondent suggested that if an entity uses categories that are different to the 15 categories in GHG Portal, it should be required to disclose the source of the alternate category, its rationale for the selected category, and its intent on consistently applying this practice over a reasonable period of time to ensure consistency in longer-term reporting.<sup>9</sup>
- 19 One respondent commented that while providing flexibility in disclosing the categories of sources of Scope 3 emissions is important, it would also be crucial to monitor such flexibility to ensure that it doesn't compromise the quality of the information provided.<sup>10</sup>

### Stakeholders' reasons for not supporting the proposal

- 20 Fifty-one respondents expressly stated that they disagreed with the proposed paragraph AusB33.1. There is a strong preference among these respondents for full adoption of the IFRS S2 approach—to

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3 For example, comment letters: 1, 3, 9, 12, 48, 49, 50, 53, 64, 80, 83, 97, 101 and 113; and survey responses: 19, 20, 21, 22, 25, 100 and 196.

4 For example, comment letters: 35 and 80; survey response: 53.

5 See Appendix for Comparison of GHG Protocol scopes and categories with ISO 14064-1:2018 categories and sub-categories.

6 For example, comment letters: 6 and 64.

7 For example, comment letter: 6.

8 For example, comment letters: 9 and 92.

9 For example, comment letter: 9.

10 For example, comment letter: 74.

require an entity to consider all 15 categories in the GHG Protocol. This approach is preferred for global consistency and comparability.<sup>11</sup>

- 21 The 15 categories in the GHG Protocol are widely used and generally accepted global standards for Scope 3 GHG emissions measurement:<sup>12</sup>
- (a) A recent analysis by Carbon Disclosure Project (CDP) on Scope 3 Categories by sector demonstrates that the GHG Protocol is an accepted and commonly used protocol for Scope 3 categorisation with over 24,000 companies globally disclosing environmental data.<sup>13</sup>
  - (b) The 15 categories are referenced in the World Resources Institute & World Business Council for Sustainable Development 2011 and the Climate Active program for calculating Scope 3 GHG emissions.<sup>14</sup>
- 22 While acknowledging the need for flexibility in reporting Scope 3 GHG emissions, departing from standardised categorisation would:
- (a) pose significant risks to the reliability, transparency and effectiveness of sustainability reporting;<sup>15</sup>
  - (b) create uncertainties for both preparers and users as it allows discretion for non-disclosure of material categories;<sup>16</sup> and
  - (c) increase the risk of greenwashing if entities are allowed to 'decide' their own Scope 3 categories.<sup>17</sup>

## Section 2: Staff analysis and recommendations

- 23 Despite mixed views from stakeholders to SMC 19 (see paragraphs 10 – 22 above) on whether the 15 categories in the GHG Protocol should be mandated or included in the Standard as examples, there is a consensus that these 15 categories are well understood, sufficiently broad and widely applied by entities in Australia and internationally.
- 24 Staff consider that it would be important to balance the following:
- (a) the need for flexibility for entities with unique sources of emissions to “label” their emissions to provide relevant information for their users;
  - (b) to promote consistency and comparability of disclosures; and
  - (c) to avoid affecting an entity’s ability to claim compliance with IFRS S2.

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11 For example, comment letters: 5, 11, 20, 21, 24, 26, 27, 30, 34, 38, 40, 41, 43, 54, 55, 58, 60, 65, 66, 104 and 108; and survey responses: 1, 4, 13, 38, 75, 91, 107, 112, 130, 190 and 211.

12 For example, comment letter: 20, 34, 54, 77 and 78; survey response: 91.

13 For example, comment letter: 77 and 78.

CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. [CDP Technical Note: Relevance of Scope 3 Categories by Sector - CDP Climate Change Questionnaire](#)

14 For example, comment letters: 41 and 75.

15 For example, comment letter: 69.

16 For example, comment letters: 20, 27 and 60.

17 For example, comment letter: 41.

- 25 Staff recommend:
- (a) adopting the requirement in IFRS S2 paragraph B32 to require an entity to disclose the categories of sources of its Scope 3 GHG emissions using the 15 categories in GHG Protocol; but also
  - (b) allowing an entity to use other labels to categorise its Scope 3 GHG emissions where none of the 15 categories in the GHG Protocol adequately describes the source of its emissions. Entities using categories outside of the categories in the GHG Protocol should be required to disclose:
    - (i) the framework from which the category was drawn; and
    - (ii) how it came to the conclusion that the chosen category would enable users of general purpose financial reports to understand the source of its Scope 3 greenhouse gas emissions.
- 26 Staff are of the view that the proposed modification to the baseline of IFRS S2 described in paragraph 25(b) is appropriate for public sector entities or not-for-profit entities. This is because the Board has an objective to develop [draft] ASRS 2 to be a sector-neutral Standard that could be applied by entities in all sectors, and there may be some public sector entities or not-for-profit entities whose value chains do not fit into the descriptions of the 15 categories in the GHG Protocol.
- 27 Furthermore, staff consider that the proposed modification to the baseline of IFRS S2 described in paragraph 25(b) may also be justified for other entities under paragraph 20 of the [AASB Sustainability Reporting Standard-Setting Framework](#), because:
- (a) many stakeholders who support the proposed approach commented that flexibility is needed for entities to disclose information that is relevant to their circumstances and business operations, especially for the agriculture and land sectors;
  - (b) disclosing the 15 categories in the GHG Protocol may not achieve international alignment as they are not categories listed in the IPCC and Paris Agreement; and
  - (c) entities are only allowed to use other labels to categorise their Scope 3 GHG emissions where none of the 15 categories in the GHG Protocol adequately describes the source of its emissions. Hence, alignment with the baseline is prioritised as far as possible.

**Question 1 to the Board:**

Do Board members agree with the staff recommendations in paragraph 25 to:

- (a) adopt the requirement in IFRS S2 paragraph B32 to require an entity to disclose the categories of sources of its Scope 3 GHG emissions using the 15 categories in GHG Protocol; but also
- (b) allowing an entity to use other labels to categorise its Scope 3 GHG emissions where none of the 15 categories in the GHG Protocol adequately describes the source of its emissions?

If not, what alternative approaches would Board members suggest?

**Question 2 to the Board:**

If the Board agrees with the staff recommendation in Question 1, do Board members consider that the proposed provision described in (b) of Question 1 (and paragraph 25(b)) should be provided:

- (a) only to entities in the not-for-profit or the public sector; or
- (b) to all entities?

**Section 3: Other comments from stakeholders**

28 Respondents also made the following comments for the Board’s consideration:

- (a) A reminder about the materiality principle should be added in the relevant section to remind entities that only material category Scope 3 GHG emissions need to be reported.<sup>18</sup>
- (b) The AASB could consider including a quantitative materiality threshold to assist entities in determining which Scope 3 GHG emissions are relevant and should be reported.<sup>19</sup>
- (c) Consider including a clear definition for each of the 15 categories in [draft] ASRS 2 to support consistent application.<sup>20</sup>

29 Staff noted that the GHG Protocol [Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard](#) (GHG Protocol (Scope 3) Standard) includes a detailed description of each of the 15 categories. Entities could refer to the GHG Protocol (Scope 3) Standard directly for further guidance if needed.

30 The issue regarding the application of materiality in the context of climate-related financial disclosures is not a matter that is specific to Australia. The ISSB, at its [16 May 2024 meeting](#), decided that its work plan for 2024–2026 will include a high-level focus on supporting the implementation of IFRS S1 and IFRS S2.

31 In respect of Australian-specific guidance, the Board has anticipated that, in the near future, it would need to consider whether Australian guidance needs to be developed to assist Australian entities in applying ASRS Standards. The Board decided at its [August 2023 meeting](#) to defer work on developing additional guidance until after the Standards have been issued.

32 Accordingly, staff consider that no action is needed at present regarding the stakeholder comments noted in paragraph 28.

**Question 3 to the Board:**

Do Board members have any comments on the stakeholder comments noted in paragraph 28 and the staff views noted in paragraphs 29–32?

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18 For example, survey responses: 109, 116 and 136.

19 For example, survey response: 116.

20 For example, survey response: 214.

**Appendix: Comparison GHG Protocol scopes and categories with ISO 14064-1:2018 categories and sub-categories**

The table below is cited from the [XRB Climate-related Disclosures Staff Guidance: Guidance for All Sectors](#) (pages 68-69)

GHG Protocol Scope	ISO Inventory Category	ISO example sub-category (Annex B)	GHG Protocol
1	Direct GHG emissions	Stationary combustion Mobile combustion Process Fugitive Land use, land use change, and forestry (LULUCF)	Stationary combustion Mobile combustion Process Fugitive Land use, land use change, and forestry (LULUCF)
1	Direct GHG removals	Process Land use, land use change, and forestry (LULUCF)	Process Land use, land use change, and forestry (LULUCF)
2	Indirect GHG emissions from imported energy	Electricity Energy	Electricity Energy
3	Indirect GHG emissions from transportation	Upstream transport and distribution for goods Downstream transport and distribution for goods Client and visitor transport Business travel	4. Upstream transportation and distribution 9. Downstream transportation and distribution 7. Employee commuting 6. Business travel 3. Fuel- and energy-related activities
3	Indirect GHG emissions from products used by the organisation	Purchased goods Capital goods Waste disposal (liquid and solid) Equipment leased by reporting organisation Services not described above	1. Purchased goods and services 2. Capital goods 5. Waste generated in operations 8. Upstream leased assets 1. Purchased goods and services
3	Indirect GHG emissions associated with use of products from the organisation	Use stage of product Downstream leased assets End-of-life stage of product  Investments	11. Use of sold product 13. Downstream leased assets 12. End-of-life treatment of sold products 15. Investments 10. Processing of sold products
3	Indirect GHG emissions from other sources		14. Franchises