



Project:	Climate-related Financial Disclosures	Meeting:	AASB 6–7 June 2024 (M204)
Topic:	Market-based scope 2 greenhouse gas emissions (SMC 16)	Agenda Item:	5.7
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		Decision-Making:	High
		Project Status:	Consider ED feedback

Objectives of this paper

- 1 In respect to the AASB’s proposal to require an entity to disclose its market-based Scope 2 GHG emissions from the fourth year of applying [draft] ASRS 2, which is an additional requirement to the baseline of IFRS S2, the objectives of this paper are for the AASB to:
 - (a) consider feedback from stakeholders on SMC 16; and
 - (b) decide on any changes required to be made to the proposed requirement in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2.

Abbreviations

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

Background

- 3 IFRS S2 requires an entity to disclose its absolute gross Scope 2 GHG emissions using a location-based approach. It does not require an entity to measure its Scope 2 GHG emissions using a market-based approach.
- 4 When developing ED SR 1, the AASB observed that the Treasury’s second consultation paper indicated that the Australian Government is considering a phased-in approach to requiring an entity to disclose its market-based Scope 2 GHG emissions.
- 5 Consistent with Treasury’s second consultation paper, the AASB added paragraphs Aus31.1(f) and AusC4.2 in [draft] ASRS 2. Those paragraphs have been reproduced below:

Aus31.1 An entity shall disclose information relevant to *greenhouse gases*. An entity shall:

- (a) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of *CO₂ equivalent* (see paragraphs B19–AusB22.2), classified as:
 - (i) *Scope 1 greenhouse gas emissions*;

- (ii) *Scope 2 greenhouse gas emissions*; and
 - (iii) *Scope 3 greenhouse gas emissions*; ...
- (e) for Scope 2 greenhouse gas emissions disclosed in accordance with paragraph (a)(ii), disclose its location-based Scope 2 greenhouse gas emissions, and provide information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions (see paragraphs AusB31.1–AusB31.2);
- (f) further to paragraph (e), for an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures, disclose its market-based Scope 2 greenhouse gas emissions; and...

AusC4.2 Notwithstanding paragraph Aus31.1(f), in the first three annual reporting periods in which an entity applies this [draft] Standard, the entity is not required to disclose its market-based Scope 2 greenhouse gas emissions. In the second and subsequent reporting periods, the entity is permitted to not disclose its market-based Scope 2 greenhouse gas emissions relating to those three reporting periods as comparative information.

- 6 The Treasury Policy Statement, [Mandatory climate-related financial disclosures](#), issued in January 2024 states that the Australian Government expects that ASRS Standards will require the disclosure of market-based (in addition to location-based) Scope 2 GHG emissions if required under the NGER legislation and no later than financial years commencing on or after 1 July 2027.

Staff interpretation of the baseline

- 7 The [GHG Protocol Scope 2 Guidance](#) (page 8) states:

- (a) The location-based method reflects the average emissions intensity of the grid on which energy consumption occurs, using mostly grid-average emission factor data. Contractual instruments are, therefore, not required to calculate location-based Scope 2 GHG emissions.
- (b) A market-based method reflects emissions from the electricity that the entities have purposefully chosen. Accordingly, the market-based approach derives emission factors from contractual instruments, including any type of contract between two parties for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled attribute claims.

- 8 Staff observed that one respondent¹ and a few roundtable participants are of the view that IFRS S2 requires an entity to disclose market-based Scope 2 GHG emissions and therefore questioned whether the proposed paragraph Aus31.1(f) is necessary.

- 9 Because they are of the view that market-based Scope 2 GHG emissions are only relevant when there are contractual instruments, they have interpreted paragraph 29(a)(v) of IFRS S2 (see bold text below) as requiring an entity to disclose market-based Scope 2 GHG emission. That paragraph states:

“... for Scope 2 greenhouse gas emissions disclosed in accordance with paragraph 29(a)(i)(2) of IFRS S2, disclose its location-based Scope 2 greenhouse gas emissions, and **provide information about any contractual instruments** that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions ...”

- 10 Staff have a different view from those stakeholders on what is required in IFRS S2. Staff consider that “providing information about any contractual instruments” (required under paragraph 29(a)(v) of IFRS S2) is different from requiring an entity to measure absolute gross Scope 2 GHG emissions using a market-based approach. This staff view is supported by paragraphs B30–B31 of IFRS S2, which state that:

1 Comment letter: 6.

B30 ... For the avoidance of doubt, an entity is required to disclose its Scope 2 greenhouse gas emissions using a location-based approach and is required to provide information about contractual instruments only if such instruments exist ...

B31 ... Various types of contractual instruments are available in different markets and the entity **might disclose information** about its market-based Scope 2 greenhouse gas emissions as part of its disclosure. [**emphasise added**]

That is, under IFRS S2, an entity is required to disclose Scope 2 GHG emissions using only a location-based approach, and also to provide market-based information only if an entity has a contractual instrument. Entities might, but are not required to, disclose their absolute gross Scope 2 GHG emissions using a market-based approach.

- 11 The proposal in ED SR1 is to add to the requirement of IFRS S2 to also require an entity to measure its absolute gross Scope 2 GHG emissions using a market-based approach (in addition to using a location-based approach) irrespective of whether an entity has any contractual instruments.
- 12 In contrast to the stakeholder view described in paragraph 9—that market-based Scope 2 GHG emissions are only relevant when there are contractual instruments, staff observed that under the market-based approaches in GHG Protocol Scope 2 Guidance,² an entity would be able to estimate its absolute gross Scope 2 GHG emissions using a market-based approach even if it does not have available contractual instrument data. The market-based approach under those frameworks can be applied by using alternative emission factors such as residual mix factors (RMF) and other grid-average emission factors.
- 13 This paper has been developed based on the following assumptions:
 - (a) IFRS S2 does not require an entity to measure its absolute gross Scope 2 GHG emissions using a market-based approach;
 - (b) an entity would be able to measure its absolute gross Scope 2 GHG emissions using a market-based approach even if it does not have any contractual instruments under the GHG Protocol.
- 14 Staff are in the process of seeking confirmation from the CSIRO on whether the assumptions in paragraph 13(b) also hold for the NGER optional supplementary market-based method.

Overview of staff conclusions

- 15 Based on the feedback received, staff are of the view that the Board's proposal set out in paragraphs Aus31.1(f) and AusC4.2 of [draft] ASRS 2 may be appropriate. However, modifying the baseline of IFRS S2 might not be necessary because:
 - (a) under the baseline of IFRS S2, an NGER reporter would be permitted to report its market-based Scope 2 GHG emissions if NGER Scheme legislation requires reporting of Scope 2 GHG emissions using the market-based method (in addition to the location-based method) in the future;³ and
 - (b) entities may choose to disclose market-based scope 2 GHG emissions (in addition to location-based emissions) if they consider it would be useful to the users of their climate-related

2 [Climate Active](#) is an ongoing partnership between the Australian Government and Australian businesses to drive voluntary climate action. Climate Active certification is awarded to businesses that measure, reduce and offset their carbon emissions to achieve the state of carbon neutrality. Climate Active members must report their Scope 2 GHG emissions using location- and market-based approaches.

3 See discussion about SMC 17 GHG measurement methods in Agenda paper 5.4.

financial disclosures, even if it is not a requirement in [draft] ASRS 2 or in NGER Scheme legislation.

Structure

- 16 The rest of the paper is structured as follows:
- (a) Section 1: Summary of stakeholder feedback
 - (b) Section 2: Staff analysis

Section 1: Summary of stakeholder feedback

- 17 SMC 16 of ED SR1 asked stakeholders: “Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2? Please provide reasons to support your view.” The survey included an identical question. As SMC 16 consulted stakeholders' views on two matters, staff separated their response into two parts:
- (a) Part A: proposed paragraph Aus31.1(f) – reporting both location- and market-based Scope 2 GHG emissions; and
 - (b) Part B: proposed paragraph AusC4.2 – 3-year transition relief
- 18 A total of 117 comment letters and 289 survey responses were submitted during the comment period. 54 comment letters (of which 5 did not express a clear view) and 63 survey submissions commented on proposed paragraph Aus31.1(f).
- 19 The following table provides a high-level overview of the responses received in relation to the proposal in Aus31.1(f):⁴

	Agree	Partially agree	Disagree
Out of the 49 comment letters that expressed a view on the proposal in Aus31.1(f) ⁵	84%	12%	4%
Out of 63 survey responses that expressed a view on the proposal in Aus31.1(f) ⁶	62%	17%	21%

- 20 38 comment letters and 47 survey submissions commented on proposed paragraph AusC4.2.

- 21 The following table provides a high-level overview of the responses that explicitly commented on the proposal in AusC4.2:

	Agree	Partially agree	Disagree
Out of the 38 comment letters that expressed a view on the proposal in AusC4.2 ⁷	69%	5%	26%
Out of 47 survey responses that expressed a view on the proposal in AusC4.2 ⁸	67%	11%	22%

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- 4 Staff separated responses to SMC 16 into two parts, each addressing the proposal in paragraphs Aus31.1(f) and AusC4.2, respectively.
- 5 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.
- 6 The survey responses have been provided separately for the Board's reference.
- 7 See footnote 5 above.
- 8 See footnote 6 above.

- 22 Based on the staff judgement on the overall comments expressed in the comment letters and responses from survey respondents, the majority of the respondents support the ED SR 1 proposal related to market-based Scope 2 GHG emissions:
- (a) most of the respondents who commented on the proposed paragraph Aus31.1(f) in [draft] ASRS 2 support the proposal to disclose market-based Scope 2 GHG emissions in addition to location-based Scope 2 GHG emissions; and
 - (b) many of the respondents who expressly commented on proposed paragraph AusC4.2 support the proposed relief from reporting market-based Scope 2 GHG emissions for the first three annual reporting periods in which such an entity applies [draft] ASRS 2.
- 23 Comments from roundtable participants 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.

Stakeholders' feedback to proposed paragraph Aus31.1(f) – reporting both location- and market-based Scope 2 GHG emissions

Stakeholders' reasons for supporting the proposal

- 24 Many of the 96 respondents who **supported** the proposed paragraph Aus31.1(f) in [draft] ASRS 2 did not provide a reason for their support.
- 25 The respondents who provided their reasons for supporting the proposal commented that the proposal would:
- (a) improve information usefulness.⁹ Disclosing both market-based and location-based Scope 2 GHG emissions:
 - (i) provides a more accurate representation of an entity's environmental footprint;
 - (ii) allows entities to demonstrate their commitment to environmental stewardship;
 - (iii) provides users with a comprehensive understanding of the reporting entities' carbon footprint; and
 - (iv) promotes better transparency on the entity's energy purchases, offset decisions, and associated risks and opportunities;
 - (b) align with the proposal contained in the DCCEE's consultation paper on updates to the NGER Scheme legislation that would introduce an optional supplementary 'market-based method' for determining Scope 2 emissions associated with the consumption of electricity;¹⁰
 - (c) not affect an entity's ability to claim compliance with IFRS S2 and support interoperability with other international reporting frameworks (e.g. ISO 16064 and GHG Protocol);¹¹ and
 - (d) drive positive change towards a greener and more sustainable future.¹²

9 For example, comment letters: 4, 12, 40, 43, 45, 50, 54, 55, 69, 74, 77 and 110; and survey response: 4.

10 For example, comment letters: 3 and 49; and Survey response: 21. See [2023 NGER consultation outcomes paper](#) for more details.

11 For example, comment letters: 7, 42 and 49.

12 For example, comment letters: 9 and 69.

- 26 Two respondents observed that entities already commonly report both market-based and location-based Scope 2 emissions in disclosures for Climate Active¹³, RE 100¹⁴ and the CDP¹⁵ annual benchmarking survey.¹⁶

Stakeholders' reasons for not supporting the proposal

- 27 Respondents who **disagreed** with the proposal mostly considered the dual-reporting location and market-based Scope 2 GHG emissions as unnecessary, it would add complexity and reporting burden for some entities (e.g. smaller entities and local government).¹⁷
- 28 Some respondents suggest the Board consider not requiring dual reporting of Scope 2 GHG emissions. They suggested the following options:
- (a) Option 1 - mandating a single approach, either location-based or market-based approach,¹⁸
 - (b) Option 2 - prioritise market-based Scope 2 GHG emissions as it accurately accounts for the energy mix that is consumed and allows entities to disclose location-based Scope 2 GHG emissions only when market-based data is unavailable;¹⁹ and
 - (c) Option 3 - allow entities to elect either the location- or market-based approach for reporting Scope 2 GHG emissions, accompanied by a rationale for their choice;²⁰

Stakeholders' feedback to the proposed paragraph AusC4.2 – 3-year transition relief

- 29 The majority of the stakeholders explicitly supported the proposal in AusC4.2. They commented that the 3-year relief would provide entities with sufficient time to develop relevant data collection and reporting processes.²¹
- 30 A few respondents disagreed with the 3-year transition relief because they think entities should be required to report market-based information as early as possible. They considered the three-year transition relief is unnecessary since reporting market-based Scope 2 GHG emissions is common in practice and reporting such information is not complex. A shorter transition would encourage faster action on emissions reduction. These respondents suggest:
- (a) mandating market-based Scope 2 GHG emissions from the first reporting period;²² or
 - (b) shortening the 3-year transition relief to 1-2 years.²³

13 [Climate Active](#) is an ongoing partnership between the Australian Government and Australian businesses to drive voluntary climate action. Climate Active certification is awarded to businesses that measure, reduce and offset their carbon emissions to achieve the state of carbon neutrality. Climate Active members must report their Scope 2 GHG emissions using location- and market-based approaches.

14 [RE100](#) is the global corporate renewable energy initiative bringing together hundreds of large and ambitious businesses committed to 100% renewable electricity.

15 The [CDP](#) collects data on companies' environmental practices and performance, and gives a score that confers a total ESG rating for the subject enterprises to assess their environmental impact.

16 For example, comment letters: 12, 50 and 68.

17 For example, comment letters: 21 and 37; and survey responses: 1, 9, 14, 25, 28, 109, 172, 190 and 264.

18 For example, survey response: 172

19 For example, survey responses: 23 and 130.

20 For example, survey responses: 25 and 190.

21 For example, comment letters: 1, 7, 9, 11, 12, 40, 41, 54, 74 and 103; and survey responses: 4, 13, 21, 136, 172 and 214.

22 For example, comment letters: 38, 42, 43, 78 and 104; and survey responses: 3 and 128.

23 For example, comment letters: 20; and survey responses: 205 and 217.

Section 2: Staff analysis

- 31 Staff acknowledge that additional effort would be required to report market- and location-based Scope 2 GHG emissions. However, staff consider that the additional cost may be justified by the benefits of reporting both location and market-based Scope 2 GHG emissions. As noted in paragraph 25 above, a majority of stakeholders supported dual reporting on the basis that it promotes information accuracy, transparency and completeness.
- 32 DCCEEW has also received similar feedback from its stakeholders through their consultation for the introduction of an optional supplementary market-based method for determining emissions associated with the consumption of electricity. The initiative of introducing a supplementary market-based method was supported by a majority of submissions who considered it would increase transparency and allow NGER reports to reflect investments in renewable electricity.²⁴ DCCEEW further acknowledges that location-based and market-based accounting are different but complementary approaches to estimating entities' indirect emissions from electricity consumption. Together, they provide a fuller assessment of risks, opportunities and changes to emissions from electricity use over time.
- 33 Regarding stakeholders' concerns about the potential high compliance burden of measuring Scope 2 GHG emissions using two methods, staff observed that under the measurement frameworks noted in paragraph 12, an entity is permitted to use residual mix factors (RMF) and other grid-average emission factors (i.e. location-based data) when applying a market-based approach. Staff expect the cost to measure emissions using a market-based approach in addition to a location-based approach might not be onerous on the basis that:
- (a) RMF is readily available as DCCEEW calculates RMF annually and publishes it within the NGER Measurement Determination;²⁵ and
 - (b) entities should have location-based data readily available, which can be applied in a market-based approach.
- 34 In addition, the initial compliance cost could be further eased by the proposed transitional relief in paragraph AusC4.2, which states that the entity is not required to disclose its market-based Scope 2

24 DCCEEW conducted a [public consultation](#) in April 2023 for updates to the NGER Scheme, including the introduction of an optional supplementary market-based method for determining emissions associated with the consumption of electricity (i.e. Scope 2 emissions). The consultation outcome is included in the [Consultation Outcomes Paper](#). The NGER method draws on the GHG Protocol Scope 2 Guidance, as well as the approach used by Climate Active and Corporate Emissions Reduction Transparency (CERT) reports that have been in operation and refined through consultation since 2021. [CERT](#) report is a voluntary reporting framework that allows eligible NGER scheme reporters to publish information about their commitments, progress, eligible unit surrenders, net emissions, and renewable electricity consumption. The CER will prepare and publish a CERT report annually, using its data holdings and data submitted voluntarily by participants.

25 NGER supplementary optional market-based method is subject to continuous improvement as improved data and experience with implementation evolves. Some of the possible improvements include (a) disaggregation of RMF to the state level to better reflect the electricity generation emissions intensity within each state; (b) creation of temporal residual mix factors – such as time of day or season to better reflect changes in grid emission intensity during times of higher renewable energy creation; and (c) allow the use of supplier-specific emission factors instead of the national residual mix factor when the facility is on a mini-grid or directly supplied and the Scope 2 grid emission factor is known. Comment letter 94 suggests the Board encourage DCCEEW and CER to provide a state-specific residual mix factor to support the reporting of market-based Scope 2 emissions data. Staff observed that DCCEEW published [NGER Scheme 2024 Proposed Amendments](#) on 29th April 2024, with a comment period closing on 24th May 2024. Amendments proposed include introducing state and territory-specific residual mix factors in the market-based method for estimating Scope 2 emissions; and introducing an additional 'matter to be identified' requiring reporters to identify the names of relevant generating and consuming facilities where an entity reports Scope 1 emissions from the generation of electricity which is then consumed by facilities within the entity's operation control.

GHG emissions in the first three annual reporting periods in which an entity applies [draft] ASRS 2. As noted in paragraph 29, the majority of stakeholders supported the proposed transition relief.

- 35 The proposal in ED SR1 may be justified under paragraph 20 of the [AASB Sustainability Reporting Standard-Setting Framework](#), because it would address Australian-specific matters by:
- (a) supporting the Treasury policy position (see paragraph 6 above) and Government programs (e.g. Climate Active and CERT report), allowing entities to present progress towards their climate-related commitments and net emissions position clearly and consistently; and
 - (b) meeting the information needs of Australian stakeholders to provide accurate, transparent and complete Scope 2 GHG emissions information.
- 36 Accordingly, staff are of the view that the Board’s proposal set out in paragraphs Aus31.1(f) and AusC4.2 of [draft] ASRS 2 may be appropriate.
- 37 Notwithstanding the staff view noted in paragraph 36, staff observed that modifying the baseline of IFRS S2 might not be necessary. This is because:
- (a) the most recent [Treasury policy position \(January 2024\)](#) published by the Treasury (page 3) states that the Australian Government expects that “Market-based (in addition to location-based) Scope 2 emissions should be disclosed if required under the NGER legislation and no later than financial years commencing on or after 1 July 2027.”²⁶ IFRS S2 paragraphs 29(a)(ii) and B24 permit an entity to use a different method to the GHG Protocol for measuring its GHG emissions when required to do so by a jurisdictional authority or an exchange on which the entity is listed. That is, under the baseline of IFRS S2, an NGER reporter would be permitted to report its market-based Scope 2 GHG emissions if NGER Scheme legislation requires reporting of Scope 2 GHG emissions using the market-based method (in addition to the location-based method) in the future.
 - (b) for non-NGER reporters, feedback from stakeholders, both preparers and users, indicated that there is a general consensus that the market-based approach provides a more accurate representation of an entity's environmental footprint and commitment to offsetting emissions and, therefore, enhances information usefulness to users. Entities may choose to disclose market-based scope 2 GHG emissions (in addition to location-based emissions) if they consider it would be useful to the users of their climate-related financial disclosures, even if it is not explicitly required by [draft] ASRS 2 or NGER Scheme legislation.
- 38 Accordingly, staff consider that there are two options the Board could proceed with in finalising the Standard:
- (a) Option 1 – confirm its decision to modify the IFRS S2 baseline to require an entity to disclose its market-based Scope 2 GHG emissions (in addition to its location-based) from the fourth year of applying [draft] ASRS 2, as set out in paragraph Aus31.1(f) to [draft] ASRS 2 (quoted in paragraph 5); or
 - (b) Option 2 – make no modifications to the baseline of IFRS S2. Under this option, entities might provide information about their market-based Scope 2 GHG emissions if they consider it would be useful to the users of their climate-related financial disclosures, and / or for NGER reporters

26 Staff understand that the anticipated date of 1 July 2027 may be subject to further change as it was set on the expectation that the first annual reporting periods would start on or after 1 July 2024 in the *Treasury policy statement – Mandatory climate-related financial disclosures* (January 2024). Given that the commencement date for climate reporting is now proposed to be extended to 1 January 2025, the commencing date for market-based scope 2 GHG emissions could also be extended to financial years commencing on or after 1 January 2028.

if NGER Scheme legislation requires reporting of Scope 2 GHG emissions using the market-based method in the future.

Question 1 to the Board:

Do Board members have any comments on the staff analysis in paragraphs 31–37?

Question 2 to the Board:

For the purposes of identifying the option to proceed with in finalising the Standard, do Board members prefer Option 1 or Option 2 set out in paragraph 38, or do Board members prefer an alternative option?

Additional comments

- 39 In addition to the comments discussed in this paper, some stakeholders suggest the Board to consider:
- (a) providing clear definitions of the terminology “location-based”, “market-based”, “gross” and “net” emissions to support consistent interpretation and application of the requirements.²⁷
 - (b) clarifying the reference to ‘contractual instruments’ in paragraph AusB31.2 to require that they meet the Scope 2 Quality Criteria outlined in the GHG Protocol;²⁸
 - (c) clarifying in [draft] ASRS 2 that emissions using the location-based method and market-based method should not be aggregated;²⁹
 - (d) clarifying the differences between the voluntary NGER measurement methodologies for market-based Scope 2 emissions and respective methodologies in the GHG Protocol;³⁰
 - (e) providing guidance as there are some differences between requirements across current initiatives that require or request a market-based calculation of Scope 2 GHG emissions; and³¹
 - (f) adding a quantitative materiality criterion to allow entities to estimate Scope 2 emissions if, for example, an entity’s Scope 2 GHG emissions are lower than 5% of total emissions.³²
- 40 Staff will present the analysis of matters listed in paragraph 39 for the Board’s deliberation at a future meeting.

27 For example, comment letters: 4 and 113.

28 For example, comment letter: 9.

[Draft] ASRS 2 paragraph AusB31.2 states that “Additionally, an entity is required to provide information about contractual instruments if such instruments exist and information about them informs users’ understanding of the entity’s Scope 2 greenhouse gas emissions. Contractual instruments are any type of contract between an entity and another party for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims (unbundled energy attribute claims relate to the sale and purchase of energy that is separate and distinct from the greenhouse gas attribute contractual instruments).”

29 For example, comment letter: 101.

30 For example, comment letter: 44.

31 For example, comment letter 12 noted that, for example, the approach required by Climate Active varies slightly from RE100.

32 For example, comment letter: 48.