OLG Matters for Comment Summary Paper

Australian Accounting Standards Board Sustainability Reporting Exposure Draft (AASB ED SR1)

The AASB has called for feedback on several specific matters, and the Office of Local Government recognises that questions 23-29 are particularly pertinent for Councils, as they directly address modifications relevant to Not-for-Profit (NFP) entities in Australia.

This document comprehensively lists all the queries posed by the AASB but arranges them in an order that prioritises the areas most relevant for Council consideration. The sequence is as follows:

1. Questions 23 to 29 - which relate to modifications from the international standards for NFPs in Australia.
2. Questions 10 to 22 - which are technical questions e.g. reporting emissions (Scope 1, 2 and 3) and climate resilience.
3. Questions 1 to 9 - relating to the structure of the standards.
4. General questions 30 to 34 - relating to general feedback.

Contents

Background

The AASB has released Exposure Draft [ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information] to propose climate-related financial disclosure requirements. ED SR1 is available for comment until Friday, 1 March 2024.

ED SR1 includes three draft Australian Sustainability Reporting Standards (ASRS Standards):

- [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using IFRS S1 as the baseline but with a scope limitation to climate-related financial disclosures;
- [draft] ASRS 2 *Climate-related Financial Disclosures*, developed using IFRS S2 as the baseline; and
- [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service standard that would be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.

ED SR1 is based on international standards issued by the International Sustainability Standards Board, although the Australian proposals in ED SR1 are specifically limited to climate related financial information. These international standards were subject to a public consultation process, including in Australia. There is also commitment in Australia from the Commonwealth Government (of which the AASB is an agency) to international alignment as much as possible.

Within ED SR1 there are Australian specific requirements that are amendments for the not-for-profit sector – these are marked with 'Aus'. Given the commitment to international alignment, we think that the parts of the ED not marked with *Aus* are less likely to change and therefore Councils should specifically consider *Aus* paragraphs in forming their opinion on the ED. These paragraphs include:

- Relief from the main requirements, mainly for not-for-profit entities.
  e.g. ASRS 2 para Aus4.1 allows a not-for-profit entity not to undertake an exhaustive search for information to identify climate-related risks and opportunities.
- Adaptations for the not-for-profit sector.
  e.g. ASRS1 para Aus3.1 requires '…a not-for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term…' (emphasis added).

Other resources which may be helpful to Councils to gain an understanding of the requirements include the following:

- Two videos issued by the ISSB (on which the AASB exposure draft is based) providing an overview and key features of IFRS S1 and IFRS S2.
  - IFRS S1 Overview https://www.ifrs.org/content/ifrs/home/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s1/an-in-depth-explainer-ifrs-s1.html
  - IFRS S2 High level features https://www.ifrs.org/content/ifrs/home/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s2/an-in-depth-explainer--ifrs-s2-climate-related-disclosures.html

How to read and use this document

This document contains the following information:

Specific matters that the AASB have requested comment on in ED SR1

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

Questions asked by AASB in ED SR1.

Questions specific to not-for-profit entities

Specific matters that the AASB have requested comment on in ED SR1

As noted in paragraphs BC28–BC30, the AASB is proposing to specify the objective of [draft] ASRS 1 and [draft] ASRS 2 in respect to a not-for-profit entity. Paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 state that the objective would be for a not-for-profit entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC28 Using IFRS S1 and IFRS S2 as the baseline for developing Australian climate-related financial disclosure requirements includes aligning to the whole-of-value-chain concept. Under the whole-of-value-chain concept, it is possible that for-profit entities might require not-for-profit entities in the private and public sectors to provide data consistent with the requirements in [draft] ASRS Standards to comply with those Standards.

BC29 Since IFRS Sustainability Disclosure Standards are developed for for-profit entities, the AASB decided to modify certain aspects of IFRS Sustainability Disclosure Standards to better support sector-neutral Australian climate-related financial disclosure requirements and assist not-for-profit entities in the private and public sectors to apply the requirements voluntarily. The AASB considered:

a) the information needs of users of not-for-profit entity's GPFR – paragraph AusOB3.1 of the *Framework for the Preparation and Presentation of Financial Statements* states that the common information needs of users of not-for-profit entities' GPFR are generally not concerned with obtaining a financial return on an investment in the entity, but rather the ability of the entity to achieve its objectives; and

b) the scalability of climate-related financial disclosure requirements for not-for-profit entities and cost-benefit concerns – feedback to ED 321 highlighted the lack of proportionality of IFRS Sustainability Disclosure Standards as a significant barrier to implementation for small-to-medium sized entities and not-for-profit private and public sector entities. It also indicated that the significant skill and resource gap in the domestic and international markets for preparing climate-related financial information is an issue that would be exacerbated in the not-for-profit sector due to entities' more limited resources.

BC30 Consequently, the AASB decided to:

a) clarify the concepts of "the entity's prospects" and "business model" so that not-for-profit entities would be required to consider the effect of climate-related risks and opportunities on "the entity's ability to further its objectives" in addition to considering the effect on the entity's cash flows and its access to finance or cost of capital over the short, medium and long term (see [draft] ASRS 1 paragraph Aus3.1(b) and Appendix A and [draft] ASRS 2 paragraph Aus2.2(b) and Appendix A);

b) modify the definitions of "climate-related physical risks" and "climate-related transition risks" in [draft] ASRS 2 to clarify that those risks could also affect a not-for-profit entity's ability to further its objectives (see [draft] ASRS 2 Appendix A); and

c) address the stakeholder concern noted in paragraph BC29(b), consistent with the concept in paragraph B10 of IFRS S1, by clarifying that a not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, but is required to prepare material climate-related financial information for which reasonable and supportable information is available to the entity at the reporting date without undue cost or effort (see [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1).

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 1

3 [Deleted by the AASB]

Aus3.1 This [draft] Standard requires:

(a) a for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and

(b) a not-for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Aus6.1 A not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. A not-for-profit entity shall use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by this [draft] Standard and other applicable Australian Sustainability Reporting Standards.

Appendix A - Defined terms
Australian-specific definitions

business model In respect of a for-profit entity, an entity's business model is the system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term.

In respect of a not-for-profit entity, an entity's business model is the system of transforming inputs through its activities into outputs and outcomes that aims to further the entity's objectives over the short, medium and long term.

[Draft] ASRS 2

2 [Deleted by the AASB]

Aus2.2 This [draft] Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect:

a) in respect of a for-profit entity, the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and

b) in respect of a not-for-profit entity, the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Aus4.1 For the purposes of this [draft] Standard, a not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. A not-for-profit entity shall use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by this [draft] Standard.

Appendix A - Defined terms
Australian-specific definitions

climate-related physical risks Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity.

These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. A for-profit entity's financial performance and a not-for-profit entity's ability to further its objectives could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.

climate-related transition risks Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. A for-profit entity's financial performance and a not-for-profit entity's ability to further its objectives could also be affected by shifting demands from recipients of its goods and services (e.g. consumers) and the development and deployment of new technology.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S1

3 This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

IFRS S2

2 This Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Agree, this is the fundamental disclosure for any material information.

Question 23: Disclosure objective for NFPs

Do you agree with paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 that the objective of a not-for-profit entity would be to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term? Please provide reasons to support your view.

Question 24: Additional guidance for NFPs in explaining their objective

Is there additional guidance that you consider would be helpful in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures? If so, please provide details of that guidance and explain why you think it would be helpful.

Specific matters that the AASB have requested comment on in ED SR1

[Draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1 propose that a not-for-profit entity would not need to undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, but would be required to use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by [draft] ASRS 1 and [draft] ASRS 2.

I do not believe there is any additional guidance necessary.

As noted in paragraphs BC31–BC33, the AASB is of the view that the clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided in the baseline of IFRS S1 and IFRS S2 (and the [draft] ASRS) relating to certain quantitative disclosures, would be sufficient to address cost-benefit concerns for not-for-profit entities to prepare climate-related financial disclosures and concerns with the scalability of [draft] ASRS 1 and [draft] ASRS 2 for not-for-profit entities.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC31 In forming the view noted in paragraph BC30(c), the AASB observed that disclosing material information relating to:

a) governance – as set out in paragraphs 26–27 of [draft] ASRS 1 and paragraphs 5–Aus7.1 of [draft] ASRS 2 – would not be onerous to preparers of GPFR; and

b) certain disclosure requirements on the entity's strategy and risk management would not require exhaustive costs or effort, if a not-for-profit entity has reasonable and supportable information available at the reporting date, such as:

   (i) qualitative information on the current effects of climate-related risks and opportunities on the entity's business model, and strategy and decision making – particularly since the current effects of those risks and opportunities on the entity's financial position, financial performance and cash flows would have been considered in accordance with Australian Accounting Standards (see paragraph BC95); and

   (ii) qualitative information on the entity's overall risk profile and risk management processes to identify, assess, prioritise and monitor climate-related risks and opportunities.

BC32 Nonetheless, the AASB concluded that a not-for-profit entity should be required to disclose material information set out in applicable [draft] ASRS Standards for which reasonable and supportable information is available to the entity at the reporting date without undue cost or effort.

BC 33 The AASB considered that the clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients provided in the baseline of IFRS S1 and IFRS S2 relating to certain quantitative disclosures (which have been retained in [draft] ASRS 1 and [draft] ASRS 2), would be sufficient in addressing the stakeholder concerns noted in paragraph BC29(b).

Question 25: NFPs need not undertake exhaustive searches for information

Do you agree with the proposal in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1? Please provide reasons to support your view.

Question 26: Cost-benefit and scalability concerns for NFPs

Do you agree with the AASB's view noted in paragraphs BC31–BC33 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view.

Agree with this proposal, NFPs do not have stakeholders who rely on this information to make investment decisions, thus NFPs should not incur further costs or effort to prepare this material in the most comprehensive way.

Agree with AASB's view, NFPs should have reasonable and supportable information, and would be sufficient in addressing the stakeholders concerns.

Question 27: Modifications to assist NFPs comply without undue cost or effort

If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related financial disclosure requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful.

I do not disagree with Question 26.

Questions specific to not-for-profit public sector entities

Specific matters that the AASB have requested comment on in ED SR1

Paragraphs BC105–BC106 set out a high-level overview of two matters raised by not-for-profit public sector stakeholders regarding applying climate-related financial disclosure requirements:

a) whether climate-related financial disclosures should be provided by public sector entities on a mandatory or voluntary basis, and by which level of government entities; and
b) how to determine the value chain of a government and public sector entities with multi-stakeholder groups.

Additionally, as noted in paragraphs BC107–BC109, the AASB is proposing to defer consideration of whether to undertake a domestic standard-setting project to develop Australian requirements or guidance for not-for-profit public sector entities to report the effect of climate-related risks and opportunities, and related government policies, on the economy, environment and people (i.e. climate-related impact reporting) until it has considered the results of the International Public Sector Accounting Standards Board's project on Climate-related Disclosures in due course. Questions 28–29 below are designed for the AASB to obtain information on whether additional modifications to [draft] ASRS 1 and [draft] ASRS 2 may be needed to better support the application of the proposed requirements by not-for-profit public sector entities.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC106 The AASB observed that, among other concerns raised by stakeholders, the two matters described in (a) and (b) below would need to be considered in developing Australian climate-related financial disclosure requirements applicable to not-for-profit public sector entities:

a) whether climate-related financial disclosure requirements should be provided by public sector entities on a mandatory or voluntary basis, and by which level of government entities. Stakeholders provided the following comments:

(i) mandatory versus voluntary – preparers of public sector entities' financial statements commented to the Treasury that climate-related financial disclosures should not be mandated for not-for-profit public sector entities until the requirements have been appropriately tailored for the not-for-profit context and can be implemented in a cost effective and meaningful manner;

(ii) user needs and practical application – some stakeholders are of the view that users of public sector sustainability-related and climate-related information would focus on the activities at the whole-of-government level rather than on an individual entity level. Additionally, because investment in sustainable development would usually be funded from a combination of reductions in other expenditure, additional taxes or debt, opportunities and risks for sustainable development may not always be able to be assessed at the individual entity level or a department level and may need to be assessed at the whole-of-government level; and

(iii) cost-benefits – preparers of public sector entities' financial statements commented that many public sector entities, including local governments, manage a high number of assets and have diverse services to the community; therefore, the cost of preparing climate-related financial disclosures would be high. The cost of preparing such disclosures needs to be balanced with the benefits of such disclosures, particularly when climate-related impact reporting rather than financial disclosures seems to be the main interest of users; and

b) how to determine the value chain of a government and public sector entities with multi-stakeholder groups. Value chain is defined as the "full range" of interactions, resources and relationships related to an entity's business model and the external environment in which it operates. The cost to comply with the whole-of-value-chain reporting requirements would likely outweigh the benefits, if governments and public sector entities were required to undertake extensive analysis of the underlying sources of taxation and grant revenue, and certain types of expenses such as grants, subsidies and social benefits, in determining their value chain.

Climate-related impact reporting

BC107 The requirements in [draft] ASRS 2, developed using IFRS S2 as the baseline, are limited to disclosures of information about climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (i.e. entity-specific climate-related financial disclosures). However, some stakeholders notes in paragraph BC105 have expressed the view that users of not-for-profit public sector entity's financial reports are likely to focus on how climate-related risks and opportunities, and governments' actions related to those risks and opportunities, would affect the Australian economy, environment and people.

BC108 That is, the AASB observed that there is an information need not addressed in IFRS Sustainability Disclosure Standards for not-for-profit public sector entities to report the effects of climate-related risks and opportunities, and related government policies, on the economy, environment and people (i.e. climate-related impact reporting).

BC109 The AASB noted that the IPSASB is undertaking its own Climate-related Disclosures project, which is expected to address both climate-related financial disclosures and climate-related impact reporting from a not-for-profit public sector perspective based on IFRS S2. The AASB decided to defer consideration of whether to undertake a domestic standard-setting project to develop Australian climate-related impact reporting requirements until it has considered the results of the IPSASB's project in due course.

Question 28: Other modifications relevant to NFPs

Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to:

a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and

b) better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030?

In your response, please specify:

a) which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful; and

b) which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view.

   (i) – (iv) …

   (v) Local governments.

Question 29: Public sector impact reporting

Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view.

No other modifications or additions that could be made to baseline of ASRS, agreed with the information already provided.

Agree with AASB's proposed approach, to defer until the results of the IPSASB's project is completed.

Technical sustainability matters

Climate resilience

Specific matters that the AASB have requested comment on in ED SR1

IFRS S2 does not prescribe the number of scenarios an entity is required to assess to meet the disclosure objective of IFRS S2 paragraph 22.

As noted in paragraphs BC51–BC54, the AASB considered the Treasury's second consultation paper and added paragraph Aus22.1 to [draft] ASRS 2 to propose requiring an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures to disclose its climate resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022* (i.e. 1.5°C above pre-industrial levels).

The global temperature goal set out in paragraphs 3(a)(i) and 3(a)(ii) of the Climate Change Act is to contribute to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels; and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels." To avoid entities incurring unnecessary costs and effort in determining which temperature goal to select within the range of 1.5°C and below 2°C above pre-industrial levels, the AASB decided to specify the most ambitious global temperature goal set out in the Climate Change Act (i.e. 1.5°C above pre-industrial levels).

Consistent with the ISSB's reasons, the AASB decided not to specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis, which mainly assesses climate-related physical risks.

This is because scenarios used in assessing physical risk would depend on the entity's facts and circumstances, including the nature and location of its operations.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC51 In respect to the requirements to use climate-related scenario analysis in assessing an entity's climate resilience, IFRS S2 does not prescribe the number of scenarios an entity is required to assess to meet the disclosure objective of IFRS S2 paragraph 22. In its second consultation, Treasury indicated that the Australian Government is considering requiring an entity to disclose its climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the *Climate Change Act 2022*. Treasury staff informed the AASB that feedback to that consultation indicated that there was overall support for this proposed position. At the time of issuing [draft] ASRS 2, the global temperature goal set out in paragraphs 3(a)(i) and 3(a)(ii) of the *Climate Change Act 2022* is to contribute to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels; and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."

BC52 The AASB considers that specifying the lower-temperature scenario consistent with the Climate Change Act, which is aligned with the Paris Agreement, would assist users in assessing an entity's resilience to climate-related transition risk. However, since the Climate Change Act provides a range between 1.5°C and 2°C, some AASB members were concerned that some entities may incur unnecessary costs and effort in determining, and agreeing with their auditors, the temperature goal within that range to use in its climate scenario analysis in order to comply with the requirement. To avoid this issue, the AASB decided to propose in paragraph Aus22.1 of [draft] ASRS 2 that an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures would be required to disclose its climate resilience assessments against the most ambitious global temperature goal set out in the Climate Change Act (i.e. 1.5°C above pre-industrial levels, at the time of issuing this Exposure Draft).

BC53 The AASB contemplated whether it might be useful to also specify an upper-temperature scenario for an entity to assess against, to enable a more comprehensive assessment of climate-related physical risks, but decided not to do so. This is because:

a) the AASB noted that the ISSB's reasons for not specifying particular scenarios that an entity would be required to use in its climate-related scenario analysis is because it is of the view that relevant scenarios would depend on the entity's facts and circumstances, including the nature and location of its operations and the physical and transition risks to which it is exposed (paragraphs BC66–BC69 of the Basis for Conclusions for IFRS S2). The AASB concurs with the ISSB's view related to specifying an upper-temperature scenario for assessing climate-related physical risks; and

b) some AASB members were of the view that, in respect to physical risks, the entity's explanation of why they have chosen a particular scenario to assess against would be more important to users than having an assessment based on a general temperature goal without considering the specific facts and circumstances of the entity.

BC54 Treasury staff advised the AASB that some respondents to the Treasury's second consultation paper expressed concern about the potential volume of disclosure that would result if an entity were to disclose its detailed modelling adopted in carrying out climate-related scenario analysis. Therefore, the AASB added paragraph Aus22.2 in [draft] ASRS 2 to clarify that, consistent with paragraph 22 of [draft] ASRS 2, an entity would disclose the inputs and assumptions used in its climate-related scenario analysis and the related outcomes but not the detailed modelling adopted in carrying out its climate-related scenario analysis.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

Climate resilience

22 An entity shall disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. The entity shall use climate-related *scenario analysis* to assess its climate resilience using an approach that is commensurate with the entity's circumstances (see paragraphs B1–B18). In providing quantitative information, the entity may disclose a single amount or a range. Specifically, the entity shall disclose:

(a) the entity's assessment of its climate resilience as at the reporting date, which shall enable users of general purpose financial reports to understand:

(i) the implications, if any, of the entity's assessment for its strategy and business model, including how the entity would need to respond to the effects identified in the climate-related scenario analysis;

(ii) the significant areas of uncertainty considered in the entity's assessment of its climate resilience;

(iii) the entity's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term, including;

(1) the availability of, and flexibility in, the entity's existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate-related opportunities;

(2) the entity's ability to redeploy, repurpose, upgrade or decommission existing assets; and

(3) the effect of the entity's current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience; and

(b) how and when the climate-related scenario analysis was carried out, including:

(i) information about the inputs the entity used, including:

(1) which climate-related scenarios the entity used for the analysis and the sources of those scenarios;

(2) whether the analysis included a diverse range of climate-related scenarios;

(3) whether the climate-related scenarios used for the analysis are associated with climate-related transition risks or climate-related physical risks;

(4) whether the entity used, among its scenarios, a climate-related scenario aligned with the *latest international agreement on climate change*;

(5) why the entity decided that its chosen climate-related scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties;

(6) the time horizons the entity used in the analysis; and

(7) what scope of operations the entity used in the analysis (for example, the operating locations and business units used in the analysis);

(ii) the key assumptions the entity made in the analysis, including assumptions about:

(1) climate-related policies in the jurisdictions in which the entity operates;

(2) macroeconomic trends;

(3) national- or regional-level variables (for example, local weather patterns, demographics, land use, infrastructure and availability of natural resources);

(4) energy usage and mix; and

(5) developments in technology; and

(iii) the reporting period in which the climate-related scenario analysis was carried out (see paragraph B18).

Aus22.1 Further to paragraph 22, an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures shall disclose its climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022*.

Aus22.2 For the purposes of paragraphs 22–Aus22.1, an entity need not disclose the detailed modelling adopted in carrying out its climate-related scenario analysis. An entity is required to disclose the inputs and assumptions used in its climate-related scenario analysis and the related outcomes set out in paragraph 22.

Somewhat agree, but perhaps not necessary for an NFP entity, as the climate resilience assessments may incur further costs or effort that is not required for NFPs.

Question 10: Requirement to disclose climate resilience assessments against at least two relevant possible future states

Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view.

Question 11: No need to disclose upper-temperature scenario

Do you agree with the AASB's view that it should not specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis? Please provide reasons to support your view.

Agree, all entities may have different approaches and scenarios so it should not specific the upper-temperature scenario.

Cross-industry metric disclosures (paragraphs 29(b)–29(f))

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

29 An entity shall disclose information relevant to the cross-industry metric categories of:

(b) climate-related transition risks—the amount and percentage of assets or business activities 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 e[ntity uses to] assess the costs of its greenhouse gas emissions; and

Yes I believe it does provide useful information, as it provides a good comparison with similar entity's performance in relation to its climate-related risks and opportunities.

Question 12: Views on cross-industry metrics disclosures

Do you consider the cross-industry metric disclosures set out in paragraphs 29(b)–29(f) 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.

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

Specific matters that the AASB have requested comment on in ED SR1

AASB members formed two views regarding whether to require Australian entities to disclose the following information as set out in [draft] ASRS 2 paragraph 29(g):

a) a description of whether and how climate-related considerations are factored into executive remuneration; and
b) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

One of the concerns noted by a minority of the AASB is that if [draft] ASRS 2 paragraph 29(g) is included in the final Standard, it might be seen as the AASB replicating remuneration reporting requirements outside of Australian legislation. However, for the reasons outlined in paragraphs BC57–BC63, on balance the AASB decided to propose that entities should be required to disclose that information.

To avoid potential conflicts with existing regulatory requirements or entities attempting to define which of their key management personnel is considered an "executive", the AASB decided to clarify that, in the context of [draft] ASRS 2, "executive" and "executive management" has the same meaning as "key management personnel" and "remuneration" has the same meaning as "compensation", both as defined in AASB 124 *Related Party Disclosures*.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC57 IFRS S2 paragraph 29(g) requires an entity to disclose information relevant to the cross-industry metric category of remuneration, including:

a) a description of whether and how climate-related considerations are factored into executive remuneration; and
b) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

BC58 The AASB, in the joint AASB-AUASB response to the ISSB's Exposure Drafts on [draft] IFRS S1 and [draft] IFRS S2, disagreed with requiring entities to prepare such disclosures. This was mainly because:

a) the AASB Staff Paper *Review of Executive Remuneration Disclosure Requirements* highlighted that Australia and many other nations already have detailed remuneration disclosure or reporting requirements that are heavily regulated and subject to audit or assurance (for example, in Australia, remuneration reporting requirements for an entity's key management personnel are legislated in s. 300A of the *Corporations Act 2001* and reg. 2M.3.03 of the *Corporations Regulations 2001* and include requirements for a discussion of the relationship between the remuneration policy and the entity's performance);

b) explicitly linking executive remuneration to climate or other sustainability-related topics would not necessarily affect an entity's climate or sustainability-related performance;

c) there does not appear to be strong evidence indicating that information about executive remuneration in relation to climate or other sustainability-related topics would influence users' decisions; and

d) if similar requirements are incorporated into future IFRS Sustainability Disclosure Standards on other sustainability topics, it would be difficult for an entity subject to multiple significant sustainability-related risks to demonstrate performance through metrics related to executive remuneration—that is, an entity cannot be expected to link executive remuneration to its performance against every significant sustainability-related risk to which they are exposed.

BC59 When considering IFRS S2, AASB members formed two views regarding whether to require Australian entities to disclose the information outlined in paragraph BC57, as required by IFRS S2 paragraph 29(g).

BC60 A minority of AASB members continued to support the AASB and AUASB's opinion described in paragraph BC58 and considered that the requirements of IFRS S2 paragraph 29(g) should not be incorporated in [draft] ASRS 2, because:

a) even if those requirements are not incorporated in [draft] ASRS 2, in accordance with the *Corporations Act 2001* applicable entities would be required to disclose the information outlined in paragraph BC57 in their GPFR, although that information would be prepared for the entity's key management personnel (which includes executives and non-executives) and not limited to its executives; and

b) for entities that do not currently have climate-related considerations linked to their executive remuneration policies, those AASB members were concerned that incorporating in [draft] ASRS 2 the requirement to disclose the information outlined in paragraph BC57(b) might inadvertently (and at significant cost to those entities) compel those entities to re-negotiate executive remuneration to factor in climate-related considerations, even if:

(i) climate-related financial risks and opportunities are not identified as being material to the entity; or

(ii) executive remuneration is not a tool utilised by the entity to achieve its climate-related performance objectives and targets.

BC61 However, despite the considerations described in paragraphs BC58 and BC60, the majority of AASB members concluded that the perceived benefits of aligning to the baseline of IFRS S2 outweigh the potential unintended consequences of introducing remuneration reporting requirements outside existing regulatory requirements. This is because:

a) a few AASB members observed examples where executive remuneration of some Australian entities is linked to climate-related considerations and that, in their view, this information would be important to users;

a) further to point (a), if this information is important to users, then the absence of a link to climate-related considerations in an entity's executive remuneration policy might also be considered important information to users; and

b) if an entity's executive remuneration policy does not factor in climate-related considerations, the entity would simply need to disclose this fact to comply with the requirements outlined in paragraph BC57.

BC62 On balance, the AASB decided to incorporate in [draft] ASRS 2 the requirements of IFRS S2 paragraph 29(g), and to add a Specific Matter for Comment (see Question 13) to seek further input from stakeholders.

BC63 To avoid potential conflicts with existing regulatory requirements or entities attempting to define which of their key management personnel is considered an "executive", the AASB decided to clarify that, in the context of [draft] ASRS 2, "executive" and "executive management" has the same meaning as "key management personnel" and "remuneration" has the same meaning as "compensation", both as defined in AASB 124 *Related Party Disclosures*.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

29 An entity shall disclose information relevant to the cross-industry metric categories of:

(g) remuneration—the entity shall disclose:

(i) a description of whether and how climate-related considerations are factored into executive remuneration (see also [draft] ASRS 1 paragraph 27(a)(v)); and

(ii) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

Aus29.1 For the purposes of paragraph 29(g), "executive" and "executive management" has the same meaning as "key management personnel" and "remuneration" has the same meaning as "compensation", both as defined in AASB 124 *Related Party Disclosures*.

Question 13: Link between climate-related consideration and executive remuneration

Do you agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose the information described in points (a) and (b) in the above box? In your opinion, will this requirement result in information useful to users? Please provide reasons to support your view.

Agree with proposed requirements. KMP remuneration is always useful information to users, and a more in depth view regarding climate-related considerations would also be helpful to users.

Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19–AusB63.1 Australian application guidance)

Specific matters that the AASB have requested comment on in ED SR1

As noted in paragraphs BC66–BC69, IFRS S2 defines greenhouse gases as the seven greenhouse gases listed in the Kyoto Protocol. However, the AASB noted that one of those gases, nitrogen trifluoride (NF_3), is not listed in the *National Greenhouse and Energy Reporting Act 2007* and related regulations (NGER Scheme legislation) as a class of greenhouse gas.

Despite that difference, the AASB decided to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification. This is because Australia does not have a significant presence in the manufacturing of items containing NF_3. Therefore, it is expected that not many Australian entities would have material NF_3 emissions to report.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC66 IFRS S2 defines greenhouse gases as the seven greenhouse gases listed in the Kyoto Protocol. However, the AASB was informed by:

a) the CSIRO that one of those gases, nitrogen trifluoride (NF_3), is not listed in NGER Scheme legislation as a class of greenhouse gas; and

b) the DCCEEW that Australia is a party to the Paris Agreement, and it may be more relevant to Australian entities if the definition of greenhouse gases refers to the Paris Agreement instead of the Kyoto Protocol.

BC67 In respect to the point noted in paragraph BC66(a), the AASB considered whether there would be a need to modify the requirements—that is, to require an entity to measure the six classes of gases listed in NGER Scheme legislation without requiring the measurement of NF_3. The AASB observed that because NF_3 is primarily produced in the manufacture of semiconductors, liquid crystal display (LCD) panels and certain types of solar panels and chemical lasers, and Australia does not have a significant presence in the manufacturing of these items, there has been negligible amounts of electronic cooling fluids containing NF_3 consumed in Australia.[1] Therefore, it is expected that not many Australian entities would have material NF_3 emissions to report. Consequently, the AASB decided to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification.

BC68 In respect to the point noted in paragraph BC66(b), the AASB decided not to depart from IFRS S2 and to maintain that definition of greenhouse gases in [draft] ASRS 2, which refers to the Kyoto Protocol. Referring to the Paris Agreement would have no effect on the

[1] As stated on page 66 of the *Australia's emissions projections 2022*.

outcome as its definition of greenhouse gases refers to the same seven classes of gases as the Kyoto Protocol.

BC69 The AASB observed that the definitions of Scope 1 and Scope 2 GHG emissions in NGER Scheme legislation are expressed differently to how the ISSB has defined Scope 1 and Scope 2 GHG emissions. The AASB considered that despite the different expressions, Scope 1 and Scope 2 GHG emissions as defined in NGER Scheme legislation should be taken to be the same as Scope 1 and Scope 2 GHG emissions as defined in IFRS S2 (and therefore as in [draft] ASRS 2).

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2
Appendix A - Defined terms

Agree with the AASB's proposal to incorporate the definition of greenhouse gases.

greenhouse gases The seven greenhouse gases listed in the Kyoto Protocol - carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6).

Question 14: Definition of greenhouse gases

Do you agree with the AASB's proposal to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification? Please provide reasons to support your view.

Specific matters that the AASB have requested comment on in ED SR1

Paragraphs B21 and B22 of IFRS S2 require an entity to convert greenhouse gases into a CO_2 equivalent value using global warming potential (GWP) values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change (IPCC) assessment available at the reporting date. The IPCC has undertaken its 6th assessment in 2023. Therefore, if an entity is preparing climate-related financial disclosures for the period beginning 1 July 2024, under IFRS S2 the entity would be required to convert greenhouse gases using the GWP values in the IPCC 6th assessment report (AR6).

However, entities reporting under NGER Scheme legislation would be required to use the GWP values in the IPCC 5th assessment report (AR5). As noted in paragraphs BC70–BC72, to avoid regulatory burden for certain Australian entities, the AASB added paragraphs AusB22.1 and AusB22.2 to [draft] ASRS 2 to require an entity to convert greenhouse gases using the GWP values in AR5, as identified in [draft] ASRS 101.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC70 Paragraphs B21 and B22 of IFRS S2 require an entity to convert greenhouse gases into a CO2 equivalent value using global warming potential (GWP) values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change (IPCC) assessment available at the reporting date. The IPCC has undertaken its 6th assessment in 2023. Therefore, if an entity is preparing climate-related financial disclosures for the financial period beginning on 1 July 2024, under IFRS S2 the entity would be required to convert greenhouse gases using the GWP values in the IPCC 6th assessment report (AR6).

BC71 However, the DCCEEW has informed the AASB that the reporting obligations for parties to the Paris Agreement require converting greenhouse gases using the GWP values in the IPCC 5th assessment report (AR5). They commented that it is unlikely that the Paris Agreement reporting requirements would be amended in the near future to require the use of the GWP values in AR6. They were concerned that if Australian entities were required to convert greenhouse gases using the GWP values in AR6, it would increase the regulatory burden for entities that would also be required to report under NGER Scheme legislation, which requires the use of the GWP values in AR5.

BC72 To avoid regulatory burden for certain Australian entities, the AASB added paragraphs AusB22.1 and AusB22.2 to [draft] ASRS 2 to require an entity to convert greenhouse gases using the GWP values in the IPCC assessment report identified in [draft] ASRS 101. The [draft] ASRS 101 refers to AR5 rather than AR6. In the future, if the Paris Agreement and NGER Scheme legislation are updated to require the use of the GWP values in a different IPCC assessment report, the AASB will amend [draft] ASRS 101 to refer to that report.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

Appendix B - Application guidance

Aggregation of greenhouse gases into CO_2 equivalent using global warming potential values

B20 Paragraph Aus31.1 requires an entity to disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO_2 equivalent. To meet this requirement, the entity shall aggregate the seven constituent greenhouse gases into CO_2 equivalent values.

B21– B22 [Deleted by the AASB]

AusB22.1 If an entity uses direct measurement to measure its greenhouse gas emissions, the entity is required to convert the seven constituent greenhouse gases into a CO_2 equivalent value using global warming potential values based on a 100-year time horizon from the Intergovernmental Panel on Climate Change Assessment Report, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.

AusB22.2 If an entity uses emission factors to estimate its greenhouse gas emissions, the entity shall use—as its basis for measuring its greenhouse gas emissions—the emission factors that best represent the entity's activity (see paragraph B29). If an entity uses emission factors that are not converted into CO_2 equivalent values, the entity shall use the global warming potential values based on a 100-year time horizon from the Intergovernmental Panel on Climate Change Assessment Report, as identified in [draft] ASRS 101.

[Draft] ASRS 101

18 Each reference in other ASRS Standards to a foreign external document listed in Table 5 below is taken to be a reference to the relevant document as listed in the table.

Table 5: Other foreign external documents

Title	Issuer	Issue Date/Version
Intergovernmental Panel on Climate Change Assessment Report	Intergovernmental Panel on Climate Change (IPCC)	2014 – Fifth Assessment Report (AR5)

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S2

Appendix B - Application guidance

B21 If an entity uses direct measurement to measure its greenhouse gas emissions, the entity is required to convert the seven constituent greenhouse gases into a CO2 equivalent value using global warming potential values based on a 100-year time horizon, from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date.

B22 If an entity uses emission factors to estimate its greenhouse gas emissions, the entity shall use as its basis for measuring its greenhouse gas emissions the emission factors that best represent the entity's activity (see paragraph B29). If these emission factors have already converted the constituent gases into CO2 equivalent values, the entity is not required to recalculate the emission factors using global warming potential values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date. However, if an entity uses emission factors that are not converted into CO2 equivalent values, then the entity shall use the global warming potential values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date.

Question 15: Converting GHG in line with NGER legislation

Do you agree with the AASB's view that an Australian entity should be required to convert greenhouse gases using GWP values in line with the reporting requirements under NGER Scheme legislation? Please provide reasons to support your view.

Specific matters that the AASB have requested comment on in ED SR1

IFRS S2 paragraph 29(a)(v) requires an entity to disclose its location-based Scope 2 GHG emissions. However, the Treasury's second consultation paper proposed a phased-in approach to requiring an entity to also disclose market-based Scope 2 GHG emissions. The AASB added paragraphs Aus31.1(f) and AusC4.2 to propose requiring an entity that would be required by the *Corporations Act 2001* to prepare climate-related financial disclosures to disclose its market-based

Agree with AASB's view, all entities should use a standardised GWP value with reporting greenhouse gases to ensure a consistent approach and ease for stakeholders to understand.

Scope 2 GHG emissions in addition to its location-based Scope 2 GHG emissions, except for the first three annual reporting periods in which such an entity applies [draft] ASRS 2 (see also paragraphs BC78–BC79).

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC78 IFRS S2 paragraph 29(a)(v) requires an entity to disclose its location-based Scope 2 GHG emissions. The AASB observed that Treasury's second consultation paper indicated that the Australian Government is considering a phased-in approach to requiring an entity to also disclose its market-based Scope 2 GHG emissions.

BC79 Consistent with Treasury's proposal, the AASB added paragraphs Aus31.1(f) and AusC4.2 in [draft] ASRS 2 to propose that an entity that would be required by the *Corporations Act 2001* to prepare climate-related financial disclosures disclose its market-based Scope 2 GHG emissions in addition to its location-based Scope 2 GHG emissions, except for the first three annual reporting periods in which such an entity applies [draft] ASRS 2. That exemption continues for those periods as comparative periods in subsequent annual reporting periods, consistent with the transition relief in IFRS S2.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 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]

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

(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;

Appendix B – Application guidance

B30– B31 [Deleted by the AASB]

AusB31.1 Paragraph Aus31.1(e) requires an entity to disclose its location-based Scope 2 greenhouse gas emissions. An entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures is also required to disclose its market-based Scope 2 greenhouse gas emissions in accordance with paragraph Aus31.1(f).

AusB31.2 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).

Appendix C - Effective date and transition

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.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S2

Climate-related metrics

29 An entity shall disclose information relevant to the cross-industry metric categories of:

(a) *greenhouse gases*—the entity shall:

(v) for Scope 2 greenhouse gas emissions disclosed in accordance with paragraph 29(a)(i)(2), 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 B30–B31);

Appendix B - Application guidance

B30 Paragraph 29(a)(v) requires an entity to disclose its location-based Scope 2 greenhouse gas emissions and provide information about any contractual instruments the entity has entered into that could inform users' understanding of the entity's Scope 2 greenhouse gas emissions. 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 and information about them informs users' understanding of an entity's Scope 2 greenhouse gas emissions.

B31 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). Various types of contractual instruments are available in different

Agree with the proposal, it is important to disclose the Scope 2 greenhouse gases as part of the climate related disclosures, but there should be a sufficient amount of time for entities to gather and collate the required information before disclosing it to ensure the right information is disclosed.

markets and the entity might disclose information about its market-based Scope 2 greenhouse gas emissions as part of its disclosure.

Question 16: Requirement to disclose market-based Scope 3 emissions

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.

Specific matters that the AASB have requested comment on in ED SR1

The AASB added paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 to specify that an entity would be required to:

a) consider the measurement of its Scope 1 GHG emissions, location-based Scope 2 GHG emissions, market-based Scope 2 GHG emissions (when applicable) and Scope 3 GHG emissions separately;
b) apply methodologies set out in NGER Scheme legislation, using Australian-specific data sources and factors for the estimation of greenhouse gas emissions, to the extent practicable; and
c) when applying a methodology in NGER Scheme legislation is not practicable, apply:
   (i) a methodology that is consistent with measurement methods otherwise required by a jurisdictional authority or an exchange on which the entity is listed that are relevant to the sources of the greenhouse gas emissions; or
   (ii) in the absence of such a methodology, a relevant methodology that is consistent with GHG Protocol Standards.[2]

The diagram in the *Australian Application Guidance* accompanying [draft] ASRS 2 illustrates the application of paragraphs Aus31.1(b) and AusB25.1. See also paragraphs BC73–BC76.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC73 The AASB noted the following information in Treasury's second consultation paper (page 16):

a) Scope 1 and Scope 2 Australian-based GHG emissions would need to be calculated consistently with methods set out in NGER Scheme legislation;

b) NGER Scheme legislation does not provide methods for the estimation of emissions from agricultural sources or land use, land use change and forestry. Guidance on the estimation of emissions from these sources would be provided over time, drawing on Australia's national greenhouse gas inventory methods; and

c) Scope 3 GHG emissions should incorporate material emissions both upstream and downstream from the reporting entity, in line with a recognised emissions accounting framework (i.e. Standards issued by the Greenhouse Gas Protocol Initiative (GHG

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[2] *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* and *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

Protocol Standards)) and draw on Australian-specific emission factors where relevant (i.e. National Greenhouse Accounts Factors).

BC74 The DCCEEW provided the following comments:

a) although the methods for Scope 1 GHG emissions prescribed in NGER Scheme legislation may be useful in some instances in the process of estimating Scope 3 GHG emissions, NGER Scheme legislation does not prescribe measurement methods specific to Scope 3 GHG emissions;

b) to promote greater accuracy of GHG emission estimates, an Australian entity should prioritise using Australian guidance, data sources and emission factors in estimating GHG emissions over foreign data. For example, when estimating GHG emissions from agricultural sources or land use, land use change and forestry—for which NGER Scheme legislation does not prescribe specific measurement methods—the entity should nevertheless attempt to apply Australian-specific methods, using Australian data sources and emission factors, to the maximum extent practicable before referring to foreign GHG measurement frameworks and foreign data; and

c) the National Greenhouse Accounts Factors, which the DCCEEW publishes every year, provide guidance and emission factors for estimating GHG emissions.

BC75 In light of the above information, and consistent with IFRS S2 paragraph B24 (quoted in paragraph BC64)— that if the entity is required by a jurisdictional authority to use a different method for measuring its GHG emissions, the entity is permitted to use that method instead of applying GHG Protocol Standards—the AASB added paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 to specify that an entity would be required to:

a) consider the measurement of its Scope 1 GHG emissions, location-based Scope 2 GHG emissions, market-based Scope 2 GHG emissions (when applicable) and Scope 3 GHG emissions separately;

b) apply methodologies set out in NGER Scheme legislation, using Australian-specific data sources and factors for the estimation of GHG emissions, to the extent practicable; and

c) when applying a methodology in NGER Scheme legislation is not practicable, apply:

   (i) a methodology that is consistent with measurement methods otherwise required by a jurisdictional authority or an exchange on which the entity is listed that are relevant to the sources of the GHG emissions; or

   (ii) in the absence of such a methodology, a relevant methodology that is consistent with GHG Protocol Standards, as identified in [draft] ASRS 101.

BC76 The AASB added *Australian Application Guidance* to illustrate the application of paragraphs Aus31.1(b) and AusB25.1.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

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

(b) measure its greenhouse gas emissions by applying relevant methodologies set out in *NGER Scheme legislation*, to the extent practicable. If applying a methodology in NGER Scheme legislation is not practicable, an entity shall apply an appropriate methodology, as follows (see paragraph AusB25.1 and the *Australian application guidance* that accompanies this [draft] Standard):

(i) a methodology that is consistent with measurement methods otherwise required by a jurisdictional authority or an exchange on which the entity is listed that are relevant to the sources of the greenhouse gas emissions; or

(ii) in the absence of such a methodology, a relevant methodology that is consistent with the following internationally recognised greenhouse gas emission measurement frameworks, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*:

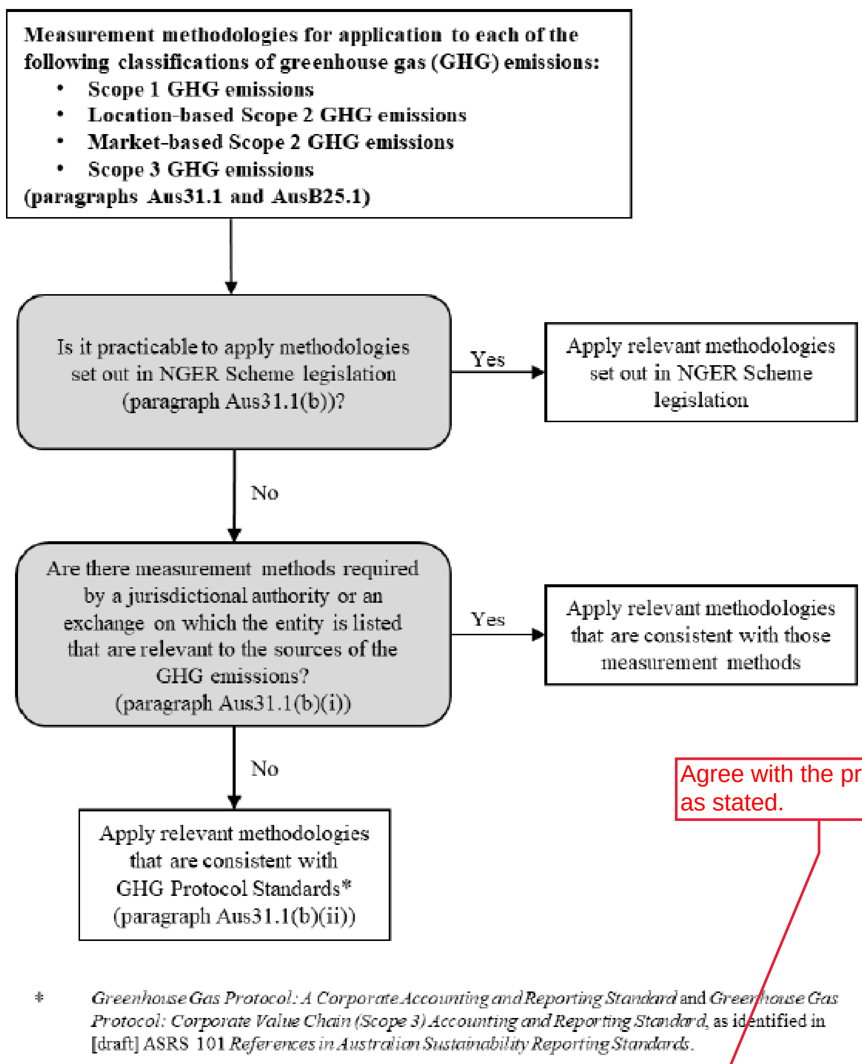
(1) *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*; and
(2) *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*;

Appendix B - Application guidance
Greenhouse gas emission measurement methodologies

AusB25.1 For the purposes of paragraph Aus31.1(b), an entity shall consider the measurement of the following classifications of greenhouse gas emissions separately and apply methodologies set out in NGER Scheme legislation, using Australian-specific data sources and factors for the estimation of greenhouse gas emissions, to the extent practicable before applying other methodologies under the measurement hierarchy set out in paragraph Aus31.1(b):
(a) Scope 1 greenhouse gas emissions;
(b) location-based Scope 2 greenhouse gas emissions;
(c) market-based Scope 2 greenhouse gas emissions (when applicable); and
(d) Scope 3 greenhouse gas emissions.

Australian application guidance

AG1 Paragraph Aus31.1(b) requires an entity to measure its greenhouse gas emissions by applying relevant methodologies set out in NGER Scheme legislation, to the extent practicable. If applying a methodology in NGER Scheme legislation is not practicable, an entity shall apply a methodology that is consistent with the hierarchy of measurement methods and frameworks set out in paragraph Aus31.1(b). The diagram below illustrates the application of paragraphs Aus31.1(b) and AusB25.1.



Agree with the proposals as stated.

Question 17: Measurement of GHG emissions consistent with NGER legislation

Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view.

Specific matters that the AASB have requested comment on in ED SR1

As noted in paragraphs BC80–BC81, the AASB decided to add paragraph AusB39.1 to [draft] ASRS 2 to propose permitting an entity to disclose in the current reporting period its 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.[3]

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

[3] Under [draft] ASRS 2 paragraph AusC4.1, an entity would not be required to disclose its Scope 3 GHG emissions in the first annual reporting period in which the entity applies [draft] ASRS 2.

BC80 In respect to Scope 3 GHG emissions, the AASB noted the following information in Treasury's second consultation paper (pages 15–17):

a) Scope 3 emissions are important to determine the level of interconnectedness for transition risk, including whether and where risks sit within an entity's supply chain, which if realised could have significant flow-on effects to the reporting entity and the broader financial system;
b) it is expected that in the immediate term most Scope 3 GHG emission disclosures would 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 emission estimation and available methodologies and data improve over time, disclosures would be expected to improve;
c) 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
d) the reporting entity's Scope 3 GHG emissions disclosed in GPFR 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 emissions where banks, superannuation funds and insurers are likely to need to model or estimate a significant proportion of the economy.

BC81 In view of that information, the AASB added the following paragraphs in [draft] ASRS 2:

a) paragraph AusB39.1, to specify that 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 GHG emissions using data for the immediately preceding reporting period; and

b) paragraph AusC4.1, to specify that in the first annual reporting period in which an entity applies [draft] ASRS 2, the entity is not required to disclose its Scope 3 GHG emissions.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2
Appendix B - Application guidance

B39 An entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 greenhouse gas emissions.

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.

Appendix C - Effective date and transition

C4 [Deleted by the AASB]

AusC4.1 Notwithstanding paragraph Aus31.1, in the first annual reporting period in which an entity applies this [draft] Standard, the entity is not required to disclose its Scope 3 greenhouse gas emissions. In subsequent reporting periods, the entity is permitted to not disclose its Scope 3 greenhouse gas emissions relating to that first reporting period as comparative information.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S2

Appendix C - Effective date and transition

C4 In the first annual reporting period in which an entity applies this Standard, the entity is permitted to use one or both of these reliefs:

(a) if, in the annual reporting period immediately preceding the date of initial application of this Standard, the entity used a method for measuring its greenhouse gas emissions other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), the entity is permitted to continue using that other method; and

(b) an entity is not required to disclose its Scope 3 greenhouse gas emissions (see paragraph 29(a)) which includes, if the entity participates in asset managemen[t,] commercial banking or insurance activities, the additional information about it[s] financed emissions (see paragraph 29(a)(vi)(2) and paragraphs B58–B63).

Agree, an entity should be disclosing Scope 3 greenhouse gases emissions, and have the flexibility to report data from preceding reporting periods as it may not be available at the certain reporting period. This allows entities to report more effectively and accurately.

Question 18: Practical expedients re reporting Scope 3 emissions

Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2? Please provide re[asons] to support your view.

Specific matters that the AASB have requested comment on in ED SR1

IFRS S2 paragraphs B32–B33 require an entity to categorise the sources of its Scope 3 GHG emissions based on the 15 categories listed in the IFRS S2 definition, which was taken from the GHG Protocol Standards. However, as noted in paragraphs BC82–BC85, the AASB observed that those 15 categories of Scope 3 GHG emissions are not referenced in IPCC guidelines or the Paris Agreement. The AASB was unsure whether requiring categorisation of the sources of Scope 3 GHG emissions under the 15 categories listed in the IFRS S2 definition would achieve international alignment if entities in other jurisdictions that are parties to the Paris Agreement are able to disclose different categories.

The AASB considered whether it would be more appropriate to require Australian entities to categorise the sources of their Scope 3 GHG emissions consistent with the categories outlined in IPCC guidelines and National Greenhouse Gas Inventory reporting requirements. However, the AASB rejected that approach because the objective of IFRS S2 paragraphs B32–B33 is to disclose information about the entity's activities that give rise to Scope 3 GHG emissions, and the IPCC sectoral classifications do not appear to be sufficient in identifying the entity's activities. For example, it is unclear whether the sectoral categories would provide information about emissions arising from business travel, employee commuting and investments, which are categories in IFRS S2.

The AASB decided to add the Scope 3 GHG emission categories in IFRS S2 to [draft] ASRS 2 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 (see [draft] ASRS 2 paragraph AusB33.1).

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC82 IFRS S2 paragraphs B32–B33 require an entity to categorise the sources of its Scope 3 GHG emissions under the 15 categories listed in the IFRS S2 definition taken from the GHG Protocol Standards. However, the AASB observed that those 15 categories of Scope 3 GHG emissions are not referenced by IPCC guidelines or the Paris Agreement. That is, the AASB was unsure whether categorising the sources of Scope 3 GHG emissions under the 15 categories listed in the IFRS S2 definition would achieve international alignment if entities in other jurisdictions that are parties to the Paris Agreement would use different categories.

BC83 The AASB considered whether it would be more appropriate to require Australian entities to categorise the sources of their Scope 3 GHG emissions consistent with the categories outlined in IPCC guidelines and reporting requirements, which would require categorising the sources of GHG emissions based on the following sectoral emission classifications:

a) Energy sector (IPCC Sector 1);
b) Non-energy related industrial production and processes (IPCC sector 2);
c) Agriculture sector (IPCC Sector 3);
d) Land Use, Land Use Change and Forestry (LULUCF) sector (IPCC sector 4); and
e) Waste sector (IPCC Sector 5).

BC84 However, the AASB considered that the objective of IFRS S2 paragraphs B32–B33 is to disclose information about the entity's activities that give rise to Scope 3 GHG emissions, and the sectoral classifications described in paragraph BC83 do not appear to be sufficient in identifying the entity's activities. For example, it is unclear whether the sectoral categories would provide information about emissions arising from business travel, employee commuting and investments as required by IFRS S2.

BC85 The AASB decided to add IFRS S2's Scope 3 GHG emission categories to [draft] ASRS 2 as examples of categories that an entity could consider when measuring 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 (see [draft] ASRS 2 paragraph AusB33.1).

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

Appendix B - Application guidance

Scope 3 greenhouse gas emissions

B32– B33 [Deleted by the AASB]

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.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S2

Appendix B - Application guidance

Scope 3 greenhouse gas emissions

B32 In accordance with paragraph 29(a)(vi), 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 shall consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011). In accordance with paragraph 29(a)(vi), the entity shall disclose which of these categories are included in its Scope 3 greenhouse gas emissions disclosures.

B33 For the avoidance of doubt, regardless of the method an entity uses to measure its greenhouse gas emissions, the entity is required to disclose the categories included within its measure of Scope 3 greenhouse gas emissions as described in paragraph 29(a)(vi)(1).

Question 19: Scope 3 emission categories

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.

Agree with AASB's approach, by providing examples of categories that an entity could consider, it provides some consistency for disclosures, and allows users of the information to interpret more simply. Also it allows the entity to have a good idea on how to categorise when first disclosing these requirements.

Financed emissions

Specific matters that the AASB have requested comment on in E

As noted in paragraph BC86, IFRS S2 paragraphs 29(a)(vi)(2) and B58–B63 require an entity that participates in asset management, commercial banking or financial activities associated with insurance to provide additional disclosures relating to its financed emissions.

When incorporating those IFRS S2 requirements relating to financed emissions, instead of requiring an entity to disclose the information outlined in IFRS S2 paragraphs B61–B63, the AASB proposes to require an entity to consider the applicability of those disclosures related to its financed emissions (see [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1). This is because IFRS S2 paragraphs B61–B63 are based on GHG Protocol Standards requirements, which require an entity to disaggregate its Scope 1 and Scope 2 GHG emissions (in addition to its Scope 3 GHG emissions). The AASB is of the view that entities that apply methodologies set out in NGER Scheme legislation to measure their Scope 1 and Scope 2 GHG emissions may not have the information necessary for those disaggregated disclosures.

An entity is required to disclose the information outlined in [draft] ASRS 2 paragraphs AusB61.1 and AusB63.1 if those disclosures are applicable to the entity.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC86 IFRS S2 paragraphs 29(a)(vi)(2) and B58–B63 require an entity that participates in asset management activities, commercial banking activities or financial activities associated with insurance to provide additional disclosures relating to its financed emissions. When incorporating those IFRS S2 requirements relating to financed emissions, the AASB made the following changes:

a) instead of requiring an entity to disclose the information outlined in IFRS S2 paragraphs B62–B63, [draft] ASRS 2 requires an entity to consider the applicability of those disclosures related to its financed emissions (see [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1). This is because IFRS S2 paragraphs B62 and B63 are based on GHG Protocol Standards requirements, which require an entity to disaggregate its Scope 1 and Scope 2 GHG emissions, in addition to its Scope 3 GHG emissions, for each industry by asset class. Entities that apply methodologies set out in NGER Scheme legislation to measure Scope 1 and Scope 2 GHG emissions may not have the information necessary for those disaggregated disclosures. However, an entity is required to disclose the information outlined in [draft] ASRS 2 paragraphs AusB61.1 and AusB63.1 if those disclosures are applicable to the entity; and
b) IFRS S2 paragraphs B62 and B63 require an entity that participates in commercial banking and insurance activities to disaggregate its Scope 1, Scope 2 and Scope 3 GHG emissions by applying the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties. The GICS is not an industry classification system widely used in Australia. Consistent with the AASB's views on industry-based disclosure requirements discussed in paragraphs BC39–BC42, the AASB specified in [draft] ASRS 2 paragraph AusB63.1(a)(i) that an entity is required to apply ANZSIC for classifying counterparties.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 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]

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;

Appendix B - Application guidance
Financed emissions

B58 Entities participating in financial activities face risks and opportunities related to the greenhouse gas emissions associated with those activities. Counterparties, borrowers or investees with higher greenhouse gas emissions might be susceptible to risks associated with technological changes, shifts in supply and demand and policy change, which in turn can affect the financial institution that is providing financial services to these entities. These risks and opportunities can arise in the form of credit risk, market risk, reputational risk and other financial and operational risks. For example, credit risk might arise in relation to financing clients affected by increasingly stringent carbon taxes, fuel efficiency regulations or other policies; credit risk might also arise through technological shifts. Reputational risk might arise from financing fossil-fuel projects. Entities participating in financial activities, including commercial and investment banks, asset managers and insurance entities, are increasingly monitoring and managing such risks by measuring their financed emissions. This measurement serves as an indicator of an entity's exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time.

B59 [Deleted by the AASB]

AusB59.1 Paragraph Aus31.1(a)(iii) requires an entity to disclose its absolute gross Scope 3 greenhouse gas emissions generated during the reporting period, including upstream and downstream emissions. An entity that participates in one or more of the following activities shall refer to and consider the applicability of paragraphs AusB61.1–AusB63.1, which describe additional and specific disclosures about emissions associated with those activities (also known as 'financed emissions'):

(a) asset management (see paragraph AusB61.1);
(b) commercial banking (see paragraph AusB63.1); and
(c) insurance (see paragraph AusB63.1).

B60 An entity shall apply the requirements for disclosing greenhouse gas emissions in accordance with paragraph Aus31.1 when disclosing information about its financed emissions.

Asset management

B61 [Deleted by the AASB]

AusB61.1 An entity that participates in asset management activities shall consider disclosing:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions;

(b) for each of the disaggregated items in paragraph (a), the total amount of assets under management (AUM) that is included in the financed emissions disclosure, expressed in the presentation currency of the entity's financial statements;

(c) the percentage of the entity's total AUM included in the financed emissions calculation. If the percentage is less than 100%, the entity shall disclose information that explains the exclusions, including types of assets and associated amount of AUM; and

(d) the methodology used to calculate the financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of investments.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion
IFRS S2

29 An entity shall disclose information relevant to the cross-industry metric categories of:

(a) *greenhouse gases*—the entity shall:

(i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of *CO_2 equivalent* (see paragraphs B19–B22), classified as:

(3) *Scope 3 greenhouse gas emissions*;

(vi) for Scope 3 greenhouse gas emissions disclosed in accordance with paragraph 29(a)(i)(3), and with reference to paragraphs B32–B57, disclose:

(2) additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (*financed emissions*), if the entity's activities include asset management, commercial banking or insurance (see paragraphs B58–B63);

Appendix B - Application guidance
Financed emissions

B59 Paragraph 29 (a)(i)(3) requires an entity to disclose its absolute gross Scope 3 greenhouse gas emissions generated during the reporting period, including upstream and downstream emissions. An entity that participates in one or more of the following financial activities is required to disclose additional and specific information about its Category 15 emissions or those emissions associated with its investments which is also known as 'financed emissions':

(a) asset management (see paragraph B61);

B61 An entity that participates in asset management activities shall disclose:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions.

(b) for each of the disaggregated items in paragraph B61(a), the total amount of assets under management (AUM) that is included in the financed emissions disclosure, expressed in the presentation currency of the entity's financial statements.

(c) the percentage of the entity's total AUM included in the financed emissions calculation. If the percentage is less than 100%, the entity shall disclose information that explains the exclusions, including types of assets and associated amount of AUM.

Somewhat agree, if those entities had those activities involved, they should disclose as part of their climate-related disclosures. It is quite simple to decide whether those activities are part of the entities activities, and should not need to consider the applicability, but it can be noted that it may be a very small activity in the entity, thus does not require to be disclosed as it may not be material.

(d) the methodology used to calculate the financed em allocation the entity used to attribute its share of e investments.

Question 20: Applicability of financed emissions disclosures

Do you agree with the AASB's proposal to require an entity to consider the applicability of those disclosures related to its financed emissions, as set out in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information? Please provide reasons to support your view.

Superannuation entities

Question 21 - Unlikely to have impact on Local Government, therefore no information provided.

Carbon credits

Specific matters that the AASB have requested comment on in ED SR1

IFRS S2 defines a carbon credit as "An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are **uniquely serialised**, issued, tracked and cancelled by means of an electronic registry." [emphasis added]

As noted in paragraphs BC90–BC92, non-Kyoto Australian carbon credit units (ACCUs) are not uniquely serialised. The AASB is proposing to modify the definition of carbon credit in [draft] ASRS 2 to specify that carbon credits issued under the Australian Carbon Credits Units Scheme meet the definition of carbon credit, to ensure non-Kyoto ACCUs can also be recognised as carbon credits in the context of the [draft] Standard.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC90 IFRS S2 defines a carbon credit as "An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are **uniquely serialised**, issued, tracked and cancelled by means of an electronic registry." [emphasis added]

BC91 At the time of issuing [draft] ASRS 2, there are two forms of Australian carbon credit units (ACCUs) issued under the Australian Carbon Credit Unit Scheme: Kyoto ACCUs and non-Kyoto ACCUs. The AASB has been informed by the CSIRO that Kyoto ACCUs would meet the IFRS S2 definition of a carbon credit. However, because non-Kyoto ACCUs are not uniquely serialised, they would not meet the IFRS S2 definition.

BC92 To ensure non-Kyoto ACCUs can also be recognised as carbon credits in the context of [draft] ASRS 2, the AASB amended the definition of a carbon credit in [draft] ASRS 2 to refer explicitly to the Australian Carbon Credit Unit Scheme while retaining the reference to "uniquely serialised" in the general definition.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

Appendix A - Defined terms

Agree with AASB's proposal to modify the definition of carbon credit

Australian-specific definitions

carbon credit An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of **greenhouse gases**. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry or otherwise are recognised under the Australian Carbon Credit Unit Scheme.

Question 22: Modified definition of carbon credit

Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2? Please provide reasons to support your view.

Format and scope limitation of ASRS

Specific matters that the AASB have requested comment on in ED SR1

The AASB is proposing to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures. Therefore, in developing the [draft] ASRS Standards, all references to "sustainability" in IFRS S1 have been replaced with "climate". After making that change, the requirements in IFRS S2 in respect to core content disclosures of governance, strategy and risk management duplicate the requirements in IFRS S1. To minimise unnecessary duplication, the AASB considered three possible options regarding how to present the core content disclosure requirements of IFRS S1 in [draft] ASRS Standards (see paragraphs BC21–BC24).

The AASB is proposing to develop two [draft] ASRS Standards ([draft] ASRS 1, based on IFRS S1, and [draft] ASRS 2, based on IFRS S2), and instead of having the same requirements duplicated in both [draft] Standards, decided to include in [draft] ASRS 1 the requirements relating to core content disclosures of governance, strategy and risk management, and in [draft] ASRS 2, to replace relevant IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing the corresponding paragraphs in [draft] ASRS 1.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC21 Because the AASB decided to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures, all references to "sustainability" in IFRS S1 have been replaced with "climate" in developing [draft] ASRS Standards. However, the AASB observed that after making that change, the requirements in IFRS S2 in respect to disclosures of governance, strategy and risk management would duplicate the requirements in IFRS S1. To minimise unnecessary duplication, the AASB considered the following options regarding how to present the contents of a limited-scope IFRS S1 in [draft] ASRS Standards.

a) Option 1 – Issue one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgements, uncertainties and errors (i.e. all relevant requirements other than those relating to the core content that are exactly the same as the requirements in IFRS S2) within an Australian equivalent of IFRS S2;

b) Option 2 – Issue two ASRS Standards ([draft] ASRS 1, to be developed based on IFRS S1, and [draft] ASRS 2, to be developed based on IFRS S2). Under this option, the same requirements in respect to disclosures of governance, strategy and risk management would be included in both [draft] ASRS Standards; and

c) Option 3 – This option is a variation of Option 2. Issue two ASRS Standards, and to better future-proof the [draft] Standards, include in [draft] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [draft] ASRS 2, replace duplicated content with Australian-specific paragraphs cross-referencing to corresponding paragraphs in [draft] ASRS 1.

BC22 While the AASB is of the view that Option 1 may provide a better reading experience for readers, the AASB rejected this option. The AASB considered that, if in future it progressed to considering other sustainability-related reporting topics, it would need to remove IFRS S1-related contents from that ASRS Standard and re-issue it as a separate standard addressing general requirements. That process would require re-exposure of relevant content that has been previously agreed upon by the AASB for public comment. The AASB considered that it would not be helpful, or useful to stakeholders, to go through another round of due process on the same content just to remove the IFRS S1-related content from an ASRS Standard.

BC23 While the AASB acknowledged that under both Options 2 and 3 a reader would need to read both [draft] ASRS 1 and [draft] ASRS 2 in order to prepare climate-related financial disclosures, the AASB decided to develop this Exposure Draft based on Option 3 (with the proposed ASRS Standards in one Exposure Draft) and add a Specific Matter for Comment to obtain input from stakeholders on whether to include the duplication in [draft] ASRS 2 (see Question 1 in the Introduction to this ED). The AASB came to this conclusion because, in the joint AASB-AUASB response to the ISSB's Exposure Drafts on [draft] IFRS S1 and [draft] IFRS S2, it highlighted the significant degree of duplication between the proposed requirements in [draft] IFRS S1 and [draft] IFRS S2 and the cost of maintaining future Standards if the core content in IFRS S1 is to be duplicated in each future topic-specific IFRS Sustainability Disclosure Standard.

BC24 The International Accounting Standards Board (IASB) has previously recognised this level of duplication between Standards as a significant issue and, where possible, it seeks to remove duplication from IFRS Accounting Standards. For example, as part of its Definition of Material project in October 2018, the IASB removed the duplicated definition of 'material' from IAS 8 *Accounting Policies, Changes to Accounting Estimates and Errors* so that it would only appear once in IFRS Accounting Standards, in IAS 1 *Presentation of Financial Statements*.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

Note that governance is used as a sample to demonstrate the approach proposed by the AASB. A similar approach is also proposed for strategy and risk management areas of focus.

[Draft] ASRS 1

Core content

25 Unless another Australian Sustainability Reporting Standard permits or requires otherwise in specified circumstances, an entity shall provide disclosures about:

(a) governance—the governance processes, controls and procedures the entity uses to monitor and manage climate-related risks and opportunities (see paragraphs 26–27);

(b) strategy—the approach the entity uses to manage climate-related risks and opportunities (see paragraphs 28–42);

(c) risk management—the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities (see paragraphs 43–44); and

(d) metrics and targets—the entity's performance in relation to climate-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation (see paragraphs 45–53).

Governance

26 The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.

27 To achieve this objective, an entity shall disclose information about:

a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

(i) how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;

(iv) how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraph 51), policies; and

b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

[Draft] ASRS 2

Core content - Governance

5 The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.

6–7 [Deleted by the AASB]

Aus7.1 To achieve the objective in paragraph 5, an entity shall disclose in its general purpose financial reports information set out in paragraph 27 of [draft] ASRS 1.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S1

Governance

26 The objective of sustainability-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee sustainability-related risks and opportunities.

27 To achieve this objective, an entity shall disclose information about:

(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of sustainability-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

(i) how responsibilities for sustainability-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to sustainability-related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about sustainability-related risks and opportunities;

(iv) how the body(s) or individual(s) takes into account sustainability-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(vi) how the body(s) or individual(s) oversees the setting of targets related to sustainability-related risks and opportunities, and monitors progress towards those targets (see paragraph 51), including whether and how related performance metrics are included in remuneration policies.

(b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of sustainability-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

IFRS S2

Governance

5 **The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.**

6 To achieve this objective, an entity shall disclose information about:

(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

(i) how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;

(iv) how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraphs 33–36), including whether and how related performance metrics are included in remuneration policies (see paragraph 29(g)).

(b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

7 In preparing disclosures to fulfil the requirements in paragraph 6, an entity shall avoid unnecessary duplication in accordance with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) (see paragraph B42(b) of IFRS S1). For example, although an entity shall provide the information required by paragraph 6, if oversight of sustainability-related risks and opportunities is managed on an integrated basis, the entity would avoid duplication by providing integrated governance disclosures instead of separate disclosures for each sustainability-related risk and opportunity.

Question 1: Presenting core content disclosure requirements

The AASB is proposing to develop two [draft] ASRS Standards ([draft] ASRS 1, based on IFRS S1, and [draft] ASRS 2, based on IFRS S2), and instead of having the same requirements duplicated in both [draft] Standards, decided to include in [draft] ASRS 1 the requirements relating to core content disclosures of governance, strategy and risk management, and in [draft] ASRS 2, to replace relevant IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing the corresponding paragraphs in [draft] ASRS 1.

In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:

a) Option 1 – one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgements, uncertainties and errors (i.e. all relevant requirements other than those relating to the core content that are exactly the same as the requirements in IFRS S2) within an Australian equivalent of IFRS S2;

b) Option 2 – two ASRS Standards where the same requirements in respect to disclosures of governance, strategy and risk management would be included in both Standards;

c) Option 3 – two ASRS Standards, by including in [draft] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [draft] ASRS 2, replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding

Option 3 is preferred, as it does not duplicate information (rather just cross references) and ASRS 2 is more Australian-specific approach for Australian entities.

paragraphs in [draft] ASRS 1 (which is the option adopted by the AASB in developing the [draft] ASRS 1 and [draft] ASRS 2 in this Exposure Draft); or

d) another presentation approach (please provide details of that presentation method)?

Specific matters that the AASB have requested comment on in ED SR1

As noted in paragraphs BC25–BC27, the AASB is of the view that since the *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of Financial Statements* (in respect to not-for-profit entities) are not legislative instruments and do not form part of the authoritative Australian Accounting Standards, they should not be made enforceable as part of [draft] ASRS Standards. Accordingly, where components of those Frameworks have been duplicated within IFRS S1 and IFRS S2 as requirements with which an entity must comply, the AASB is proposing to replace the relevant IFRS S1 and IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing to those Frameworks.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC25 IFRS S1 includes definitions and content identical to the IASB's *Conceptual Framework for Financial Reporting*. When developing [draft] ASRS 1, the AASB noted that the AASB's *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of Financial Statements* (in respect to not-for-profit entities) are not legislative instruments and do not form part of the authoritative Australian Accounting Standards. While some Australian Accounting Standards make reference to aspects of those Frameworks, the Frameworks themselves are not enforceable as, consistent with their objectives, they explain the foundational concepts underpinning GPFR, including GPFS.

BC26 The AASB is of the view that, given those Frameworks are not enforceable as part of Australian Accounting Standards, they should not be made enforceable as part of [draft] ASRS Standards. Accordingly, where components of those Frameworks have been duplicated within IFRS S1 and IFRS S2 as requirements with which entities must comply, the AASB has replaced the relevant paragraphs in IFRS S1 and IFRS S2 with Australian-specific paragraphs to cross-reference to the Frameworks.

BC27 This approach is consistent with the approach the AASB takes in developing Australian Accounting Standards.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

Below are two examples of the AASB's proposed approach:

[Draft] ASRS 1
Objective

1 [Deleted by the AASB]

Aus1.1 The objective of [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* is to require an entity to disclose information about its *climate-related risks and opportunities* that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.1

Aus1.2 Primary users of general purpose financial reports for a for-profit entity are those described in paragraph 1.2 of the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*. Primary users of general purpose financial reports for a not-for-profit entity are those described in paragraph AusOB2.1 of the *Framework for Preparation and Presentation of Financial Statements*, as identified in [draft] ASRS 101.

Fair presentation

13 [Deleted by the AASB]

Aus13.1 Fair presentation requires disclosure of relevant information about climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, and their faithful representation. Entities shall refer to, and consider the applicability of, the principles set out in:

a) **in respect to for-profit entities, Chapter 2 of the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101; and**

b) **in respect to not-for-profit entities, Appendix Chapter 3 of the *Framework for Preparation and Presentation of Financial Statements*, as identified in [draft] ASRS 101.**

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S1

Objective

1 The objective of IFRS S1 *General Requirements for Disclosure of Sustainability related Financial Information* is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to *primary users of general purpose financial reports* in making decisions relating to providing resources to the entity.

Fair presentation

13 Fair presentation requires disclosure of relevant information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, and their faithful representation in accordance with the principles set out in this Standard. To achieve faithful representation, an entity shall provide a complete, neutral and accurate depiction of those sustainability-related risks and opportunities.

Appendix A - Defined terms

general purpose financial reports	Reports that provide financial information about a **reporting entity** that is useful to **primary users** in making decisions relating to providing resources to the

entity. Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;
(b) providing or selling loans and other forms of credit; or
(c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.

General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and **sustainability-related financial disclosures**.

primary users of general purpose financial reports Existing and potential investors, lenders and other creditors.

Question 2: References to definitions in Frameworks

Do you agree with the AASB's approach to make references to its *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of Statements* (in respect to not-for-profit entities) instead of duplicating definitions and contents of those Frameworks in [draft] ASRS 1 and [draft] ASRS 2? Please provide reasons to support your view.

Agree with AASB's approach, as these Frameworks are generic and applied to all standards across the board, and does not require to be duplicating definitions and contents.

Entities without material climate-related risks and opportunities

Specific matters that the AASB have requested comment on in ED SR1

Treasury's second consultation paper indicated that, where an entity assesses climate-related risks and opportunities as not material, disclosing that fact would be useful information to users. Accordingly, the AASB is proposing that if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact and explain how it came to that conclusion (see paragraphs BC34–BC36).

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC34 In accordance with the nature of GPFR reporting and disclosing information limited to matters that are material to the reporting entity, the AASB observed that entities that do not have significant assets or operations vulnerable to climate change or that give rise to material greenhouse gas (GHG) emissions would likely determine that they do not have material climate-related financial information to disclose. However, without any explanation in the GPFR of those entities, it might be difficult for users to understand whether those entities have considered climate-related risks and opportunities in their operations.

BC35 Treasury's second consultation paper indicated that, for almost all entities in the scope of mandatory climate-related financial reporting, climate-related risks and opportunities are expected to be material. However, Treasury staff informed the AASB that feedback to that consultation indicated that where an entity assesses climate-related risks and opportunities as not material, disclosing that fact would be useful information to users.

BC36 Accordingly, to provide better information to users, the AASB added paragraph Aus6.2 in [draft] ASRS 1 and paragraph Aus4.2 in [draft] ASRS 2 to require an entity that assessed climate-related risks and opportunities as immaterial to disclose that fact and explain how it came to this conclusion. The AASB considered that the additional disclosure would not be onerous for entities to prepare.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 1

Aus6.2 For the purposes of this [draft] Standard, if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general purpose financial reports.

[Draft] ASRS 2

Aus4.2 For the purposes of this [draft] Standard, if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general purpose financial reports.

Question 3: Disclosures where no materials climate related risks and opportunities

Do you agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2? Please provide reasons to support your view.

Agree with proposed requirements, as some entities may have immaterial impacts on climate-related risks, but entitie should explain how and why this is the case.

Modifications to the baseline of IFRS S1 for [draft] A

Specific matters that the AASB have requested comment on in ED SR1

As noted in paragraphs BC39–BC41, the AASB is proposing to remove from IFRS S1 and IFRS S2 the requirement for an entity to consider the applicability of SASB Standards and references to *Industry-based Guidance on Implementing IFRS S2* issued by the ISSB developed based on SASB Standards. This is mainly because:

a. the ISSB's public consultation period was too short for Australian stakeholders to appropriately consider the proposals in Appendix B to [draft] IFRS S2 (issued by the ISSB as *Industry-based Guidance on Implementing IFRS S2*) and for the AASB to appropriately apply its own due process;

b. not all of the proposals in Appendix B to [draft] IFRS S2 are related to climate-related risks and opportunities; and

c. the SASB Standards are US-centric and not representative of the Australian or global market.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC39 Feedback to ED 321 highlighted that, while most stakeholders supported the development of industry-based requirements as a part of sustainability reporting, they did not support the proposals in [draft] IFRS S1 and [draft] IFRS S2 that would require an entity to:

a) apply the SASB Standards in the absence of a relevant IFRS Sustainability Disclosure Standard; and

b) disclose the industry-based metrics proposed in Appendix B to [draft] IFRS S2 (issued by the ISSB as *Industry-based Guidance on Implementing IFRS S2*), which had been adapted from SASB Standards.

BC40 The AASB decided not to incorporate in [draft] ASRS 1 the requirements in IFRS S1 relating to SASB Standards and the industry-based metrics adapted from SASB Standards that entities are required to consider because:

a) the ISSB's public consultation period was too short for Australian stakeholders to appropriately consider the proposals in Appendix B to [draft] IFRS S2 and for the AASB to appropriately apply its own due process;

b) feedback to ED 321 indicated that the SASB Standards are US-centric and not representative of the Australian or global market; and

c) not all of the proposals in Appendix B to [draft] IFRS S2 (issued by the ISSB as *Industry-based Guidance on Implementing IFRS S2*) are related to climate-related risks and opportunities.

BC41 Consequently, the AASB decided not to publish the industry-based guidance accompanying IFRS S2, or include references to SASB Standards, until the content has been comprehensively internationalised by the ISSB and has undergone the AASB's own due process. However, the AASB acknowledges that an entity that wishes to make additional, voluntary disclosures using SASB Standards, or the Standards listed in Appendix C of IFRS S1, would be able to do so.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion

IFRS S2

12 In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, the entity shall refer to and consider the applicability of the industry-based *disclosure topics* defined in the *Industry-based Guidance on Implementing IFRS S2*.

23 In preparing disclosures to meet the requirements in paragraphs 13-22, an entity shall refer to and consider the applicability of cross-industry metric categories, as described in paragraph 29, and industry-based metrics associated with disclosure topics defined in the *Industry-based Guidance on Implementing IFRS S2* as described in paragraph 32.

32 An entity shall disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise

Agree with AASB's views, that AASB should not include any references to SASB Standards, until the content is comprehensively internationalised as stated.

participation in an industry. In determining the industry-based metrics that the entity discloses, the entity shall refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the *Industry-based Guidance on Implementing IFRS S2*.

Question 4: Removal of references to SASB standards

Do you agree with the AASB's views noted in paragraphs BC39–BC41? Please provide reasons to support your view.

Specific matters that the AASB have requested comment on in ED SR1

The industry classification system used in Australia is the *Australian and New Zealand Standard Industrial Classification* (ANZSIC) issued by the Australian Bureau of Statistics. As noted in paragraph BC42, to avoid introducing requirements that would require an entity to use another industry classification system, the AASB is proposing to specify in [draft] ASRS Standards that, if an entity elects to make industry-based disclosures, the entity shall consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC (see paragraphs Aus48.1, Aus55.1, Aus58.1 and AusB20.1 of [draft] ASRS 1 and paragraphs Aus32.1, Aus37.1, AusB63.1 and AusB67.1 of [draft] ASRS 2).

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC42 Additionally, the AASB observed that entities in Australia are required to apply the industrial classification system, the *Australian and New Zealand Standard Industrial Classification* (ANZSIC), issued by the Australian Bureau of Statistics under existing Australian legislation and regulations. The AASB also observed that ANZSIC and the SASB Sustainable Industry Classification System (SICS) are not aligned. Accordingly, to avoid introducing requirements that would require an entity to use an industrial classification system that is not aligned with ANZSIC, the AASB decided to introduce an Australian-specific requirement that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC (see paragraphs [draft] ASRS 1 paragraphs Aus48.1, Aus55.1 and Aus58.1 and [draft] ASRS 2 paragraphs Aus32.1 and Aus37.1).

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 1

Metrics and targets

45 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in

relation to its climate-related risks and opportunities, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

46 An entity shall disclose, for each climate-related risk and opportunity that could reasonably be expected to affect the entity's prospects:

(a) metrics required by an applicable Australian Sustainability Reporting Standard; and
(b) metrics the entity uses to measure and monitor:

(i) **that climate-related risk or opportunity; and**

(ii) **its performance in relation to that climate-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.**

47-48 [Deleted by the AASB]

Aus48.1 Metrics disclosed by an entity applying paragraphs 45–46 may include well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in an industry, as classified in *ANZSIC*.

General requirements

Sources of guidance

Identifying climate-related risks and opportunities

54 In identifying climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity shall apply Australian Sustainability Reporting Standards.

55 [Deleted by the AASB]

Aus55.1 In addition to Australian Sustainability Reporting Standards, an entity may refer to and consider the applicability of the climate-related risks and opportunities identified by entities that operate in the same industry, as classified in ANZSIC.

Identifying applicable disclosure requirements

56 In identifying applicable disclosure requirements about a climate-related risk or opportunity that could reasonably be expected to affect an entity's prospects, an entity shall apply the Australian Sustainability Reporting Standard that specifically applies to that climate-related risk or opportunity.

57– 58 [Deleted by the AASB]

Aus58.1 In the absence of an Australian Sustainability Reporting Standard that specifically applies to a climate-related risk or opportunity, an entity may—to the extent that these sources do not conflict with Australian Sustainability Reporting Standards—refer to and consider the applicability of information, including well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC. An entity shall apply judgement to identify information that:

a) is relevant to the decision-making of users of general purpose financial reports; and

b) faithfully represents that climate-related risk or opportunity.

[Draft] ASRS 2

32 [Deleted by the AASB]

Aus32.1 An entity may disclose well-established and understood industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry. In identifying industry-based metrics against which to report, an entity shall refer to and consider the applicability of metrics disclosed by entities that operate in the same industry, as classified in ANZSIC.

37 [Deleted by the AASB]

Aus37.1 In identifying and disclosing the metrics used to set and monitor progress towards reaching a target described in paragraphs 33–34, an entity shall refer to and consider the applicability of information, including well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC.

Relevant extracts from IFRS S1 and IFRS S2 proposed for deletion
IFRS S1

47 In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity shall apply paragraphs 57- 58 to identify applicable metrics.

55 In addition to IFRS Sustainability Disclosure Standards:

(a) an entity shall refer to and consider the applicability of the *disclosure topics* in the SASB Standards. An entity might conclude that the disclosure topics in the SASB Standards are not applicable in the entity's circumstances.

(b) an entity may refer to and consider the applicability of:

(i) the CDSB Framework Application Guidance for Water-related Disclosures and the CDSB Framework Application Guidance for Biodiversity-related Disclosures (collectively referred to as 'CDSB Framework Application Guidance');
(ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and
(iii) the sustainability-related risks and opportunities identified by entities that operate in the same industry(s) or geographical region(s).

57 In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, an entity shall apply judgement to identify information that:

(a) is relevant to the decision-making of users of general purpose financial reports; and

(b) faithfully represents that sustainability-related risk or opportunity.

58 In making the judgement described in paragraph 57:

(a) an entity shall refer to and consider the applicability of the metrics associated with the disclosure topics included in the SASB Standards. An entity might conclude that the metrics specified in the SASB Standards are not applicable in the entity's circumstances.

(b) an entity may—to the extent that these sources do not conflict with IFRS Sustainability Disclosure Standards—refer to and consider the applicability of:

(i) the CDSB Framework Application Guidance;
(ii) the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the information needs of users of general purpose financial reports; and
(iii) the information, including metrics, disclosed by entities that operate in the same industry(s) or geographical region(s).

(c) an entity may—to the extent that these sources assist the entity in meeting the objective of this Standard (see paragraphs 1–4) and do not conflict with IFRS Sustainability Disclosure Standards—refer to and consider the applicability of the sources specified in Appendix C.

IFRS S2

32 An entity shall disclose industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry. In determining the industry-based metrics that the entity discloses, the entity shall refer to and consider the applicability of the industry-based metrics associated with disclosure topics described in the *Industry-based Guidance on Implementing IFRS S2*.

37 In identifying and disclosing the metrics used to set and monitor progress towards reaching a target described in paragraphs 33–34, an entity shall refer to and consider the applicability of cross-industry metrics (see paragraph 29) and industry-based metrics (see paragraph 32), including those described in an applicable IFRS Sustainability Disclosure Standard, or metrics that otherwise satisfy the requirements in IFRS S1.

Question 5: Use of ANZSIC metrics

Do you agree with the AASB's view that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC? Please provide reasons to support your view.

Question 6: Ability to provide additional voluntary disclosures

Do you consider that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards)?

Agree with AASB's view, as this will make it easier and simpler for users of this information to comprehend and compare with other entities.

An entity should be able to voluntarily provide disclosures if necessary, as this provide more transparency to users of this information.

Entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures. Please provide reasons to support your view.

Disclosing the location of the entity's climate-related financial disclosures

Specific matters that the AASB have requested comment on in ED SR1

As noted in paragraphs BC43–BC45, in its second consultation Treasury proposed to require entities to include an index table in its annual report that displays climate-related financial disclosure requirements (i.e. governance, strategy, risk management, and metrics and targets) and the relevant disclosure section and page number. Feedback to that consultation indicated that there was overall support for such an index table and that it would provide useful information to users.

However, the AASB was concerned that requiring an entity to include a detailed index table in its GPFR could be onerous to prepare. The AASB is of the view that the benefits of having such a detailed index table presented in an entity's GPFR would not outweigh the cost and effort required to prepare the index table.

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC43 IFRS S1 paragraph 21(b) requires an entity to provide information in a manner that enables users of GPFR to understand the connections between disclosures provided by the entity in its sustainability-related financial disclosures and in other GPFR published by the entity. Treasury's second consultation paper proposed to require entities to include an index table in its annual report that displays climate-related financial disclosure requirements (i.e. governance, strategy, risk management, and metrics and targets) and the relevant disclosure section and page number. Feedback to that consultation indicated that there was overall support for such an index table and that it would provide useful information to users. The AASB concurs that such an index table would assist in avoiding material information about a climate-related risk or opportunity being obscured by relevant information being scattered throughout the climate-related financial disclosures or other reports published by the entity.

BC44 However, the AASB was concerned that requiring an entity to include a detailed index table in its GPFR would be onerous to prepare. Some AASB members considered that such a requirement is akin to including a financial statements disclosure checklist in the entity's GPFR, which could be very time consuming to prepare and is not a requirement in Australian Accounting Standards. The AASB is of the view that the benefits of having such a detailed index table presented in an entity's GPFR would not outweigh the cost and effort required to prepare the index table.

BC45 Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 in [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures.

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 1

Location of disclosures

60 An entity is required to provide disclosures required by Australian Sustainability Reporting Standards as part of its general purpose financial reports.

Aus60.1 Further to paragraph 60, an entity shall provide information in a manner that enables users of general purpose financial reports to locate its disclosures prepared in accordance with applicable Australian Sustainability Reporting Standards.

Question 7: Location of climate-related financial disclosures

Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 to [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures. Do you agree with that proposed requirement? Please provide reasons to support your view.

Agree with the proposed requirement, it give the entity more flexibility to incorporate the climate-related disclosures alongside different areas or activities that have climate related risks and opportunities, which allows the information to flow better for the user of this information.

Interim reporting

Question 8 - Unlikely to have impact on Local Government, t

Clarify the scope of [draft] ASRS 2

Specific matters that the AASB have requested comment on in ED SR1

IFRS S2 applies to climate-related risks and opportunities within the context of climate change. As noted in paragraphs BC49–BC50, feedback to ED 321 highlighted that there was a significant degree of confusion on what was meant by “climate” and the boundary of [draft] IFRS S2. Given that IFRS S2 makes no reference to climate-related financial disclosures beyond climate change or other climate-related emissions, the AASB decided to add paragraph Aus3.1 to [draft] ASRS 2 to clarify the scope of the Standard—that [draft] ASRS 2:

a) is limited to climate-related risks and opportunities related to climate change; and
b) does not apply to other climate-related emissions (e.g. ozone depleting emissions) that are not greenhouse gas (GHG) emissions.

That scope statement would also clarify that [draft] ASRS 2 does not replace existing legislation or pronouncements prescribing reporting requirements related to other sustainability-related topics (e.g. water and biodiversity).

Relevant extracts of Basis for Conclusions (BC) of [draft] ASRS 1 and [draft] ASRS 2

BC49 IFRS S2 applies to climate-related risks and opportunities within the context of climate change. Feedback to ED 321 highlighted that there was a significant degree of confusion on what was meant by “climate” and the boundary of [draft] IFRS S2. Given that IFRS S2 makes no reference to climate-related financial disclosures beyond climate change or other climate-related emissions, the AASB considered that it would be necessary to clarify the scope of [draft] ASRS 2 by specifying that the Standard:

a) is limited to climate-related risks and opportunities related to climate change; and
b) does not apply to other climate-related emissions (e.g. ozone depleting emissions) that are not GHG emissions.

BC50 Clarifying the scope of [draft] ASRS 2 also has the benefit of clarifying that the [draft] Standard does not replace existing legislation or pronouncements that prescribe reporting requirements related to other sustainability-related topics (e.g. water and biodiversity).

Relevant extracts from [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101

[Draft] ASRS 2

Scope

3 This [draft] Standard applies to:

(a) climate-related risks to which the entity is exposed, which are:

(i) *climate-related physical risks*; and
(ii) *climate-related transition risks*; and

(b) climate-related opportunities available to the entity.

Aus3.1 The scope of this [draft] Standard is limited to an entity's climate-related risks and opportunities in relation to climate change. Other climate-related emissions, such as ozone depleting emissions that are not *greenhouse gas* emissions, are outside the scope of this [draft] Standard.

Question 9: Clarification of scope – limited to climate change

Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard? Please provide reasons to support your view.

Agree with the proposal, as it is outside the scope of a greenhouse gas emission, although it could be amended in the future once there is more improvement and development of this standard.

General matters for comment

The AASB would also particularly value comments on the following general matters:

Question 30: Application of AASB Sustainability Reporting Standard-Setting Framework

Has the *AASB Sustainability Reporting Standard-Setting Framework* (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?

I believe it has.

Question 31: Australian specific regulatory issues (incl for NFP and public sector entities)

Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any issues relating to:

a) not-for-profit entities; and

b) public sector entities?

No there is not. It will benefit the users of the information.

Question 32: Auditing or assurance challenges

Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?

No it will not. If all financial information has support, it will not impact auditing challenges.

Question 33: Usefulness to users

Would the proposals result overall in climate-related financial information that is useful to users?

I believe it will.

Question 34: Best interests of Australian economy?

Are the proposals in the best interests of the Australian economy?

Yes

Question 35: Cost and benefits of the proposals

Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs of the proposals.

There should not be material additional costs involved when collating the financial or non-financial information for climate-related risks and opportunities, as Council is already focused on a sustainable future, and has the resources to be able to report these climate-related disclosures.