Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosures**	**Meeting:**	AASB 6–7 June 2024 (M204)
Topic:	**Greenhouse gas emissions measurement methodologies (SMC 17)**	**Agenda Item:**	5.4
		Date:	21 May 2024
Contact(s):	Ao Li ali@aasb.gov.au Patricia Au pau@aasb.gov.au Charis Halliday challiday@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	High High Consider ED feedback

Objectives of this paper

1 In respect to the proposal in [draft] ASRS 2 to require an entity to prioritise applying relevant methodologies in NGER Scheme legislation as the default methodologies in measuring its GHG emissions, the objectives of this paper are for the AASB to:

(a) consider feedback from stakeholders on SMC 17 of ED SR1; and

(b) decide on any changes required to be made to the Standard regarding GHG measurement methodologies.

Abbreviations

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

Background

3 IFRS S2 paragraph 29(a)(ii) and B24 permit an entity to use a method different to *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* and *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011)* [hereafter, GHG Protocol] for measuring its GHG emissions when required to do so by a jurisdictional authority or an exchange on which the entity is listed.

4 That is, if an Australian entity applies a methodology in NGER Scheme legislation instead of GHG Protocol in measuring its GHG emissions because the Australian Government requires it to do so, doing so would not affect the entity's ability to claim compliance with IFRS S2.

5 When developing ED SR1, the AASB noted the references to NGER Scheme legislation in the Treasury's second consultation paper and was of the view that the forthcoming Australian legislation may require applicable Australian entities to prioritise applying relevant methodologies in NGER

Scheme legislation in measuring its GHG emissions. Accordingly, the AASB decided to add paragraphs Aus31.1(b) and AusB25.1 to [draft] ASRS 2, which is reproduced below.

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

(a) …

(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*; …

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.

6 The Treasury Policy Statement *Mandatory climate-related financial disclosures* issued in January 2024 states that the Australian Government expects that the Scope 1 and 2 GHG emission estimation methodologies and frameworks used should be consistent with those included in the *National Greenhouse and Energy Reporting (Measurement) Determination 2008* where available, or the relevant annual National Greenhouse Accounts Factors publication, where entities are reporting Australian-based emissions.

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

Overview of staff recommendation

8 Staff recommend the Board to prioritise the GHG Protocol, instead of NGER Scheme legislation, as the default framework to measure GHG emissions.

Structure

9 The rest of the paper is structured as follows:

(a) Section 1: Summary of stakeholder feedback

(b) Section 2: Staff analysis and recommendation

(c) Section 3: Other comments from stakeholders

(d) Appendix: Redrafting suggestions accompanying staff recommendations

Section 1: Summary of stakeholder feedback[1]

10 SMC 17 of ED SR1 asked stakeholders: "Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view." An identical question was included in the survey.

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

(a) 80 comment letters responded to SMC 17, with 8 of them not clearly stating whether they agreed or disagreed with the proposed hierarchy approach.[2] Instead, they highlighted specific issues and challenges in measuring GHG emissions that would exist regardless of the measurement framework applied.

(b) 66 survey submissions responded to SMC 17.

12 The following table provides a high-level overview of the responses received in relation to the proposed GHG emissions measurement methodologies:

	Agree	Partially agree	Disagree
Out of the 72 comment letters expressed a view on SMC 17[3]	32%	23%	45%
Out of 66 survey responses commented on SMC 17[4]	71%	17%	12%

13 Based on the staff judgement on the overall comments expressed in the comment letters and responses from survey respondents, stakeholders expressed mixed views towards the proposed GHG emission measurement methodologies outlined in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1.

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

---

1 Comments summarised below focus on the proposed hierarchy approach. Comments related to definition of GHG, converting to CO2 equivalent, Market-based Scope 2 GHG emissions, Scope 3 GHG emissions, financed emissions, superannuation entities-specific comments are included in other Agenda Papers.

2 Comment letters: 13, 16, 17, 19, 22, 25, 82, 93, 102, and 115.

3 Some respondents did not expressly state in their comment letters whether they agreed, disagreed, or partially agreed with a proposal. Staff applied judgement in categorising the overall comments expressed in the comment letters. An overview of stakeholder feedback expressed in the comment letters is presented as Agenda Paper 5.9 for the Board's reference.

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

Stakeholders’ reasons for supporting the proposal

15 The majority of the respondents who supported the proposed GHG measurement methodologies in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1 did not provide a reason for their support.

16 The respondents who provided their reasons for supporting the proposal commented that the proposed approach is pragmatic as it:

(a) aligns with the IFRS S2 baseline requirements, which allow the use of jurisdictional methods for measuring GHG emissions;[5]

(b) provides clear guidance and expectations regarding the information required to be reported and acceptable approaches to producing the required information;[6]

(c) supports accurate, region-specific, and standardised reporting for informed investment decisions, particularly in the clean energy sector;[7] and

(d) aligns with current practices and reduces the regulatory and reporting burden for current NGER reporters.[8]

17 Despite their support, some of them suggested the AASB clarify the following: [9]

(a) the term “to the extent practicable” in the proposed paragraph Aus31.1(b) or providing examples for circumstances where applying the methodologies set out in NGER Scheme legislation could be impracticable; [10] and

(b) whether flexibility is allowed in determining the reporting boundary for GHG emissions calculation under the proposed approach in [draft] ASRS 2. NGER Scheme legislation requires an entity to report on GHG emissions within its operational boundaries, whereas the GHG Protocol permits entities to choose between an equity share approach or a control approach (e.g. financial control or operational control).[11]

Stakeholders’ reasons for not supporting the proposal

18 Forty respondents explicitly expressed their disagreement with the proposed hierarchy approach for GHG emissions measurement methodologies.

---

5 For example, comment letter: 7.

6 For example, comment letters: 43 and 83.

7 For example, comment letter: 74; survey responses: 14, 28 and 136.

8 For example, comment letters: 3, 4, 9, 12, 36, 37, 38, 42, 49, 50 and 51; and survey response: 264.

9 To streamline the presentation of stakeholders' feedback, this paragraph also includes similar suggestions made by respondents who disagreed with the proposed financed emissions disclosures.

10 For example, comment letters: 20, 21, 27, 38, 40, 61, 62, 65 and 104.

11 For example, comment letters: 20, 21, 26, 32, 40, 55, 67, 77, 100 and 102; and survey responses: 20, 21, and 22. IFRS S2 paragraph 29(a)(iv) requires entities to disaggregate their Scope 1 and 2 GHG emissions between the (a) consolidated accounting group (e.g., for an entity applying IFRS Accounting Standards, this group would comprise the parent and its consolidated subsidiaries); and (2) other investees excluded from the consolidated accounting group (for example, for an entity applying IFRS Accounting Standards, these investees would include associates, joint ventures and unconsolidated subsidiaries). IFRS S2 paragraph BC101 states that an entity can include the emissions of unconsolidated investees using an equity share approach or control approach. These different approaches mean that the way information is provided in an entity’s financial statements about its investments in other entities might not align with how its greenhouse gas emissions are calculated. It also means that two entities with identical investments in other entities could report different greenhouse gas emissions in relation to those investments by virtue of choices made in applying the GHG Corporate Protocol Standard.

19 Almost all of these respondents expressed a strong preference for prioritising GHG Protocol to be more aligned with IFRS S2 instead of mandating the GHG measurement methodologies in NGER Scheme legislation as the default approach for all entities applying ASRS Standards.[12]

20 Some respondents commented that mandating the NGER Scheme legislation by default, with departure only permitted if it is impracticable to apply NGER methodologies, could impose an incremental regulatory burden, impede comparability and potentially result in entities reporting their GHG emissions on a basis that is different to how they manage their business (e.g. if an entity sets emissions reduction targets on a financial control basis rather than on an operational control basis as required by NGER),[13] particularly for an Australian entity which:

(a) has international peers that report GHG emissions under the GHG Protocol, and the entity wants to provide users in global capital markets with disclosures that are comparable with international peers;

(b) has assets and operations overseas, and the entity wants its global GHG emissions to be measured on the same basis; and

(c) has an overseas parent entity, and the group's global GHG emissions are measured under the GHG Protocol.[14]

21 Stakeholders also find that 'not practicable' could be a threshold that is too high to meet, posing challenges for entities seeking to justify the adoption of alternative methodologies. This could create difficulty for entities to demonstrate the feasibility of using more suitable methods than those prescribed in NGER Scheme legislation.[15]

22 Some respondents advocate for prioritising the GHG Protocol over NGER, citing its global acceptance,[16] noting that:

(a) the GHG protocol is cited in the IFRS S2 baseline and widely used in the US, EU, UK, and many other jurisdictions, which constitute a major source of capital for Australian entities;

(b) the GHG Protocol already includes a hierarchy of sources for GHG emission data, which would point an Australian entity to NGER Scheme legislation where applicable. Therefore, there is no need to specifically mention NGER Scheme legislation in [draft] ASRS 2;

(c) the GHG Protocol is discussing multiple proposed amendments to the GHG Protocol Corporate Standard, including potential adjustments to organisational boundary approaches and adjustments to the methodologies of Scope 2 emissions (both market-based and location-based approaches). Prioritising GHG Protocol instead of NGER Scheme legislation would ensure continuous alignment with IFRS S2 and international practices; and

(d) globally, there are many more professionals with in-depth knowledge of the GHG Protocol Corporate Standard than individuals with in-depth knowledge of the NGER Scheme Legislation due to its niche application to date in the Australian market. Prioritising NGER Scheme

---

12 For example, comment letters: 10, 11, 20, 26, 30, 31, 35, 40, 41, 55, 58, 65, 68, 92 and 111.

13 For example, comment letters: 26, 35, 55 and 58.

14 Stakeholder [Comment letter: 58] noted that ASIC Regulatory Guide 58 *Reporting by registered foreign companies and Australian companies with foreign shareholders* gives relief from certain financial reporting obligations to large proprietary companies that have foreign company shareholders and small proprietary companies that are controlled by foreign companies.

15 For example, comment letter: 11.

16 For example, comment letters: 20, 26, 27, 30, 31, 65, 103, 104, 105, and 110; Survey response: 107.

legislation would increase the resourcing constraints for both annual report preparers and professional services firms.

Section 2: Staff analysis and recommendations

23 Staff concur with the stakeholders' reasons summarised in paragraphs 19–22. Given the strong preferences among stakeholders for prioritising the GHG Protocol, instead of NGER Scheme legislation, as the default framework to measure GHG emissions.

24 IFRS S2 paragraph 29(a)(ii) and B24 permit an entity to use a different method to GHG Protocol for measuring its GHG emissions when required to do so by a jurisdictional authority or an exchange on which the entity is listed. Therefore, NGER reporters applying the measurement methodologies in NGER Scheme legislation for the purpose of ASRS Standards would be able to claim compliance with IFRS S2.

25 Staff recommend the Board prioritise the GHG Protocol, instead of NGER Scheme legislation, as the default framework to measure GHG emissions.[17]

26 Staff consider that the approach suggested in paragraph 25 would effectively address stakeholders' concerns towards the proposed hierarchy approach by:

(a) prioritising alignment with the IFRS S2 baseline and supporting Australian entities to participate in the international capital markets;

(b) supporting interoperability with other GHG reporting frameworks, such as ESRS and GRI Standards that rely on GHG Protocol;

(c) allowing flexibility for both NGER and non-NGER reporters to determine the most appropriate and cost-effective methods (including GHG emissions boundaries) to report their GHG emissions; and

(d) facilitating simpler implementation by avoiding the need to determine if applying a method in NGER Scheme Legislation is practicable.

27 If the Board agrees with the staff recommendation in paragraph 25, a few other paragraphs in [draft] ASRS 2 would also need to be revised so that the GHG Protocol will become the default framework to measure GHG emissions instead of the NGER Scheme legalisation. Staff will provide a revised draft of those affected paragraphs for the Board's deliberation at a future meeting.

Question 1 to the Board:
Do Board members agree with staff recommendations in paragraph 25 to prioritise the GHG Protocol, instead of NGER Scheme legislation, as the default framework to measure GHG emissions?
If not, what alternative approaches would Board members suggest?

17 The recommended drafting focuses on the substance and is made under the assumption that the paragraph numbers will remain unchanged. Subject to the Board's discussion regarding other aspects of ED SR 1 and any subsequent changes in the drafting, the paragraph numbers may by modified.

Section 3: Other comments from stakeholders

28 Those respondents who agreed with the proposal in principle qualified their support with the following comments/recommendations: [18]

(a) Recommend allowing flexibility in the reporting period for climate-related financial information for NGER reporters. The reporting period under NGER Scheme legislation for NGER reporters to report their GHG emissions to the CER is for the annual period ending 30 June. Whereas IFRS S2 requires climate-related financial information to be prepared for the same period as the related financial statements, which would not be 30 June for entities with a different financial report period.[19]

> **Staff analysis**
>
> As stated in [draft] ASRS 2 paragraph 1, the objective of the Standard 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 (GPFR) in making decisions in relation to providing resources to the entity. [Draft] ASRS 1 paragraph 34 further states that an entity shall disclose information that enables users of GPFR to understand the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cashflows for the reporting period; and the anticipated effects of climate-related risks and opportunities on the entity's financials over the short, medium, and long term.
>
> Accordingly, aligning GHG emissions data with the financial reporting period is crucial to achieving the objective of [draft] ASRS 2.
>
> Staff conducted research and found that only a limited number of entities have a financial reporting period that does not end on 30 June. Approximately 27 ASX-listed entities meeting the reporting thresholds set in the draft legislation that are also NGER reporters have a financial reporting period that does not end on 30 June.[20]
>
> Staff anticipate that the cost for these entities to report GHG emissions in two different periods would not be overly burdensome because the entity would have to obtain the emissions data regardless of when its reporting period starts and finishes. The additional cost should only be in relation to presenting those GHG emission data twice in a calendar year: once in accordance with NGER Scheme legislation for the period ending 30 June and once in accordance with ASRS Standards when preparing its annual report.
>
> **Staff recommendation:** Staff recommend no action in respect to the stakeholder comment noted in point (a).

(b) Consider expanding the acceptable GHG measurement frameworks for entities to choose the appropriate methodology,[21] for example, to include:

18 To streamline the presentation of stakeholder feedback, this paragraph also includes suggestions of a similar nature made by respondents who disagreed with the proposal.

19 For example, comment letters: 12, 61, and 100.

20 These 27 entities are among the largest ASX listed entities. The data was obtained as at 1 May 2024 and only covers listed entities. Proprietary entities are not included due to limited access to data.

21 For example, comment letters: 6, 11, 20, 26, 27, 63, 65, 77, 84, 86, 90, 95, 100, and 104.

(i) ISO 14064-1 as an alternative to the GHG Protocol to provide land and agriculture sector entities flexibility to select methods most relevant to the industry;[22]

(ii) Partnership for Carbon Accounting Financials (PCAF) Standards for financed emission;[23] and

(iii) Climate Active Initiative and Climate Active Carbon Neutral Standards.[24]

> **Staff analysis:** Staff are currently reviewing the suitability of the above-mentioned GHG measurement frameworks with CSIRO and will bring this matter to the Board at a future meeting.

(c) Provide guidance to clarify how to measure financed emissions within the proposed measurement hierarchy set out in ED SR1.[25]

(d) State in ASRS Standards the areas where methodologies in NGER Scheme legislation differ from the respective methodologies prescribed in GHG Protocol, particularly if the Board decide to proceed requiring an entity to prioritise methodologies in NGER Scheme legislation.[26]

(e) Clarification is needed on the following:

(i) which measurement framework should an entity refer to when there are no relevant methodologies that are consistent with NGER Scheme legislation or GHG Protocol under the proposed hierarchy in paragraph Aus31.1(b) (e.g. Scope 3 estimation methodologies for water, and GHG measurement methods for agricultural and land sector entities);[27] and

(ii) how NGER Scheme legislation could be used by entities in different industries to calculate Scope 1 and Scope 2 emissions, particularly for entities operating in industries that are not covered by NGER Scheme legislation.[28]

> **Staff analysis**
>
> With respect to the stakeholder comment noted in (c)–(e), staff consider that no action is needed at this stage. This is because as noted in paragraph 23 staff are recommending removing the measurement hierarchy proposed in ED SR 1, and instead adopt the same requirement in IFRS S2 to prioritise GHG Protocol as the default framework for measuring GHG emissions.
>
> **Staff recommendation**: Staff recommend no action in respect to the stakeholder comments noted in point (c)–(e).

---

22 For example, comment letters: 6, 80, 84, 87, 94; and survey response: 19.

23 For example, comment letters: 18, 81, and 97.

24 For example, comment letters: 56; and Survey response: 9.
Climate Active is an Australian Government program that supports national climate policy by driving voluntary climate action by Australian businesses. The Climate Active Carbon Neutral Standard is built upon the GHG Protocol, Australian Standard (AS) ISO 14064 series, International Standard ISO 14040 series, and ISO 14065:2013 – Greenhouse gases.

25 For example, comment letters: 13 and 54.

26 For example, comment letters: 4. 89, 103 and 110; and survey response: 217.

27 For example, comment letters: 9, 25, 67, 70, 79 and 93; and survey responses: 214 and 264.

28 For example, comment letter: 40.

(f) Considering whether “estimation” (rather than “measurement”) would be a more appropriate terminology to describe Scope 3 disclosures;[29]

> **Staff analysis**
>
> Staff consider that it is sufficiently clear in [draft] ASRS 2 that “measurement” of GHG emissions is only an “estimate”. [Draft] ASRS 2 paragraph B57 (verbatim of IFRS S2 paragraph B57) states that “This [draft] Standard includes the presumption that Scope 3 greenhouse gas emissions **can be estimated** reliably using secondary data and industry averages. In those rare cases when an entity determines it is impracticable to estimate its Scope 3 greenhouse gas emissions, the entity shall disclose how it is managing its Scope 3 greenhouse gas emissions. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.” [emphasis added]
>
> Staff observed that the terms “measurement” and “estimate” are sometimes used together in an Accounting Standard. For example, paragraph 2 of AASB 13 *Fair Value Measurement* states that “… the objective of a **fair value measurement** in both cases is the same—to **estimate** the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date …” [emphasis added].
>
> **Staff recommendation**: Staff recommend no action.

(g) Consider not mandating Scope 3 GHG emissions disclosure due to concerns about the potential high compliance costs, challenges in collecting relevant data and the absence of relevant methodologies in NGER Scheme legislation.[30]

> **Staff analysis**
>
> Staff acknowledge the challenges of reporting Scope 3 GHG emissions. However, the reporting requirement for Scope 3 GHG emissions is established by the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (the Bill), which proposed that entities within the scope of the Bill shall report Scope 3 GHG emissions (including financed emissions) (s296D(1)(b)(iii)).
>
> [Draft] ASRS paragraph AusC4.1 provides relief that an entity is not required to disclose its Scope 3 GHG emissions in the first annual reporting period in which it applies [draft] ASRS 2. Paragraph AusB39.1 also proposed to permit entities to disclose its current reporting period Scope 3 GHG emissions using data for the immediately preceding reporting period if reasonable and supportable data related to the current reporting period is unavailable (subject to Board deliberation on SMC 18 – *Providing relief relating to Scope 3 GHG emissions*).[31]
>
> **Staff recommendations:** Staff recommend no action.

29 For example, comment letters: 60 and 62.

30 For example, comment letters: 67 and 107; and survey response: 21.

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

(h) Paragraph Aus31.1(a) of [draft] ASRS 2 (which is the same as IFRS S2 paragraph 29(a)(i)) refers to the disclosure of "absolute gross GHG emissions" with no reference to GHG removals. This appears to overlook companies whose accounting includes both GHG emissions and removals.[32]

Staff analysis

[Draft] ASRS 2 paragraph 36(e)(iii), relating to climate-related targets, requires an entity to disclose information about its planned uses of carbon credit, including whether the underlying offset will be nature-based or based on technological carbon removals, and whether the underlying offset is achieved through carbon reduction or removal.

Moreover, [draft] ASRS 2 does not prohibit an entity from making additional disclosures to provide relevant information for users. So an entity can elect to make additional disclosures about its GHG removals should it consider the information necessary for its users.

Staff recommendation: Staff recommend no action in relation to this comment.

Question 2 to the Board:

Do Board members agree with staff recommendations in relation to other stakeholder suggestions presented in paragraphs 28(a)–28(h) above? If not, what other approaches would Board members suggest?

32 For example, comment letter: 87.