



Australian Government

Australian Accounting Standards Board

Climate resilience and climate-related scenario analysis requirements in AASB S2

Educational material

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AASB S2 Climate-related Disclosures requires an entity to:

- disclose information that enables primary users to **understand the resilience of its strategy and business model** to climate-related changes, developments and uncertainties, taking into consideration its identified climate-related risks and opportunities; and
- use climate-related scenario analysis (hereafter ‘scenario analysis’) to assess its climate resilience using an approach that is **commensurate with its circumstances**.

Why AASB S2 requires disclosures about climate resilience

Climate-related risks and opportunities that affect an entity are often complex and their likelihood, magnitude and timing are uncertain. Primary users need useful information that enables them to understand an entity’s **climate resilience** when making their decisions.

Climate resilience¹ is an entity’s capacity—strategically and operationally—to manage climate-related risks and benefit from climate-related opportunities, including its ability to respond and adapt to the transition and physical risks related to climate change.

What information entities disclose about climate resilience

An entity discloses **its assessment** of its climate resilience to enable primary users to understand:

- **implications for its strategy and business model**, including how it would need to adjust or adapt to the effects identified through its assessment;
- **significant areas of uncertainty** considered; and
- its **capacity to adjust or adapt** its strategy and business model over the short, medium and long term.

An entity also discloses how and when the **scenario analysis** that was used to inform its assessment was carried out, including information about the inputs used, key assumptions made in the analysis and the reporting period in which it was carried out.

Scenario analysis¹ is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. It allows an entity to explore and develop an understanding of how climate-related risks and opportunities might affect its strategy and business model over time and its capacity to adjust or adapt.



Further Information

Watch the AASB’s video [Climate Resilience and Climate-related Scenario Analysis in AASB S2](#)
Watch the IFRS Foundation’s [webcast](#)

¹ Key terms are defined here for educational purposes only and are adapted from the formal definitions set out in Australian Sustainability Reporting Standards.

How entities assess their climate resilience

AASB S2 includes application guidance on using scenario analysis to assess climate resilience. This guidance is grounded in [proportionality mechanisms](#) that enable an entity to select an approach to scenario analysis that is **commensurate with its circumstances** and to consider **all reasonable and supportable information** available to it **without undue cost or effort**.

Figure 1—Using scenario analysis to assess climate resilience

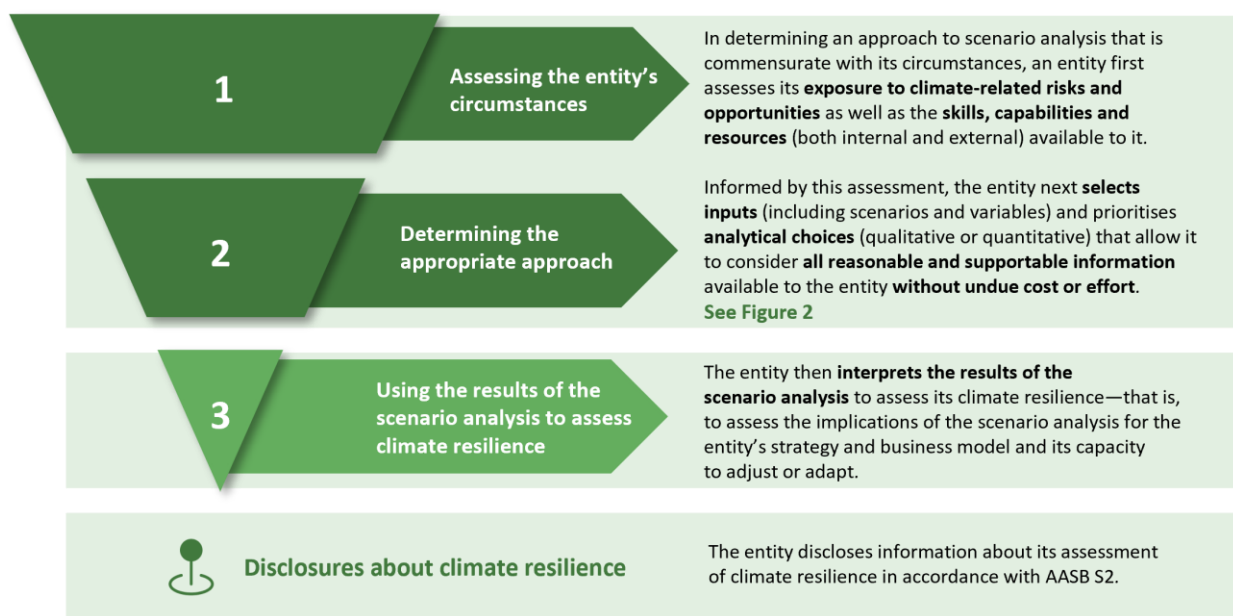
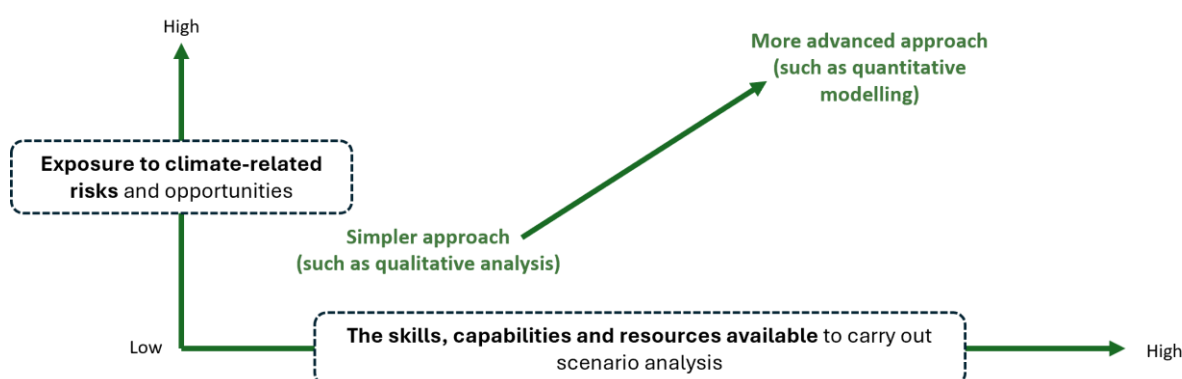


Figure 2—Using an approach to scenario analysis commensurate with an entity's circumstances



Additional considerations when using scenario analysis to assess climate resilience:

- An entity's approach to scenario analysis and its circumstances are likely to change over time.
- An entity assesses its climate resilience annually, however it is not required to update its scenario analysis on an annual basis. It—at a minimum—updates its scenario analysis in line with its strategic planning cycle and reassesses its circumstances each time.
- AASB S2 does not specify the particular inputs (including scenarios and variables) an entity is required to use in its scenario analysis. However, entities required to prepare a sustainability report under Chapter 2M of the *Corporations Act 2001* should ensure that they comply with requirements relating to scenario analysis set out in this legislation (e.g. section 296D). For further information, see [ASIC Regulatory Guide 280 Sustainability Reporting](#).



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Disclaimer: This document is not part AASB S2 *Climate-related Disclosures* and does not add to or change the requirements in the Standard. It was developed to aid stakeholders' understanding of the Standard. This document has been developed in accordance with the current requirements set out in AASB S2.

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