



Project:	Climate-related Financial Disclosures	Meeting:	AASB 26 August 2024 (M207)
Topic:	Other matters – AASB S2	Agenda Item:	3.2.2
		Date:	16 August 2024
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		Decision-Making:	High
		Project Status:	Finalising Standard

Objective of this paper

- 1 In its June and July 2024 meetings,¹ the Board decided that AASB S2² should incorporate all IFRS S2 requirements without modification, except for the requirement relating to consideration and disclosure of industry-based information and adding a sector-specific definition to assist not-for-profit entities in identifying their “primary users of general purpose financial reports”.
- 2 The objective of this paper is for the Board to:
 - (a) **consider** stakeholder comments relating to [draft] AASB S2 arising from ED SR1 that have not yet been deliberated, including
 - (i) additional stakeholder comments on GHG measurement methodologies (i.e. relating to SMC 17 of ED SR1);
 - (ii) additional stakeholder comments on market-based Scope 2 GHG emissions (i.e. relating to SMC 16 of ED SR1); and
 - (b) **decide** on any changes needed to be made to the working draft version of AASB S2 (see Agenda Paper 3.2.4), for the purpose of finalising the Standard.

Summary of staff recommendations

- 3 Staff have not identified any changes that need to be made to the working draft version of AASB S2 in relation to the matters discussed in this paper.

Section 1: Additional stakeholder comments on GHG measurement methodologies

- 4 At the [6–7 June 2024 \(M204\)](#) meeting, the Board decided to adopt the GHG measurement hierarchy in IFRS S2, which permits an entity to use a different method to the GHG Protocol when required to

1 See [M204 \(6-7 June\) Minutes](#), [M205 \(26 June\) Minutes](#), and [M206 \(19 July\) Action Alert](#) for more detail.

2 In agenda paper 3.0, staff recommend the Board consider revising the prefix in the numbering of Australian Sustainability Reporting Standards to align with the numbering of ISSB Standards, including revising the numbering and title of [draft] ASRS 2 in ED SR1 to AASB S2 *Climate-related Disclosures*. For ease of reference, the rest of this paper refers to the Standard on climate-related disclosures as AASB S2 rather than ASRS 2.

do so by a jurisdictional authority or an exchange on which the entity is listed, instead of requiring an entity to prioritise relevant methodologies in NGER Scheme legislation, as proposed in ED SR1. This decision means that AASB S2 would be consistent for GHG measurement methodologies with the baseline of IFRS S2.

5 In addition to the primary thematic issues that the Board has deliberated in its June meetings, some stakeholders suggest the Board consider:

- (a) allowing entities the choice between the GHG Protocol and ISO 14064-1:2018 *Greenhouse gases –Part 1* when preparing the information for reporting GHG emissions;³

Staff analysis

Staff observed that ISO 14064 1:2018 is widely used internationally, and the request for flexibility in measurement methods used for disclosure of GHG emissions had been previously raised with the ISSB on the [draft] IFRS S2. When finalising IFRS S2, the ISSB decided to reference the GHG Protocol in IFRS S2 to provide a common basis for measurement and considered that using a single reference would improve the comparability of entities' disclosures by narrowing the range of permitted measurement approaches.

Staff highlight the IFRS Foundation and International Organization for Standardization (ISO) joint media release on their shared commitment to future cooperation towards effective communication about sustainability-related risks and opportunities. In that press release, they explained that ISO 14000 environmental management and greenhouse gas emission standards can help companies that have sustainability and climate commitments implement those commitments and support disclosures in line with IFRS S2. Further, as ISO Standards support consistent approaches internationally in the internal management of sustainability-related matters, ISO supports the work of the ISSB to establish a truly global baseline of sustainability-related financial disclosures.

Given that the request to include ISO 14064-1:2018 as an alternative to the GHG Protocol is not Australian-specific, staff consider it more appropriate to share this issue with the ISSB for further consideration rather than amending AASB S2.

Staff recommendation: Staff recommend no action with respect to finalising AASB S2.

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

- (b) prescribing a more specific calculation methodology for financed emissions (i.e. the [Global GHG Accounting and Reporting Standard for the Financial Industry](#) (PCAF Standards));⁴

Staff analysis

PCAF is an industry-led initiative that developed and published the PCAF Standards in November 2020, focusing on measuring and reporting financed emissions. In 2020, the GHG Protocol reviewed and approved the majority of the methodologies in PCAF in conformance with the requirements set forth in the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* for Category 15 investment activities.⁵

Similar to the feedback from Australian stakeholders on ED SR1, some of the respondents to the [draft] IFRS S2 also suggested the ISSB prescribe a more specific calculation methodology for financed emissions. The majority of these respondents supported referring to PCAF Standards. The ISSB considered whether it should prescribe a more specific calculation methodology for certain asset classes to improve the consistency and comparability of disclosure. However, ISSB staff noted that prescribing a calculation methodology for certain asset classes could disrupt or decelerate the consensus that is emerging in the market or hinder the development of approaches that may be relevant across multiple asset classes. ISSB staff further noted that the language in IFRS S2 provides appropriate transparency and enables the market to converge on accepted standards as they emerge for specific asset classes.⁶

Staff concur with the ISSB staff view, particularly considering that few Australian stakeholders raised the concern that there is no industry standard for calculating financed emissions for undrawn loan commitments.⁷

Further, as noted above, the issue of whether to prescribe PCAF Standards as the calculation methodology for financed emissions is not Australian-specific; as such, staff consider that no amendments are required to AASB S2.

Staff recommendation: Staff recommend no action.

- (c) including reference to the [Climate Active](#) program and [Climate Active Carbon Neutral Standard for Organisations](#) (Climate Active Standard) in AASB S2.⁸

Staff analysis

Climate Active is a voluntary Australian Government program that supports national climate policy by driving voluntary climate action by Australian businesses. The Climate Active Standard is a voluntary standard that includes the guidance built upon international standards and GHG protocols, including GHG Protocol Standards and ISO Standards.⁹ The requirements of the Climate Active Standard are written from the perspective of a reader who is seeking to achieve carbon neutrality. Entities could use the Climate Active Standard as a framework to credibly claim carbon neutrality by following the requirements in the standard and as a pathway to be certified as carbon neutral by the Australian Government.

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

5 As indicated by [Global GHG Accounting and Reporting Standard for the Financial Industry](#) (2nd edition, December 2022), In 2020 the GHG Protocol reviewed and approved the methodologies for listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgage, and motor vehicle loans. These methodologies are in conformance with the requirements set forth in the *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* for Category 15 investment activities. The sovereign debt methodology and the guidance on emission removals are pending GHG Protocol review and approval.

6 ISSB [Staff paper 4D Financed and facilitated emissions](#) (December 2022).

7 See [staff paper 4.5 \(M205\)](#) for more discussion on undrawn loan commitments.

8 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.

9 ISO 14064 series, ISO 14040 series, and ISO 14062:2013 – Greenhouse gases.

Staff consider that it is not necessary to amend AASB S2 to include the Climate Active Standard as an alternative to GHG measurement methodology because:

- (a) The guidance in the Climate Active Standard is built upon the GHG Protocol; and
- (b) The Climate Active Standard focuses on the pathway to achieve carbon neutrality, which is inherently different from the objective of the IFRS S2, which requires 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. Therefore, an entity applying the Climate Active Standard may not be disclosing information that meets the objective of IFRS S2 (and AASB S2).

Staff recommendation: Staff recommend no action.

Question 1 to the Board:

Do Board members agree with staff recommendations regarding the additional stakeholder comments on GHG measurement methodologies (SMC 17) presented in paragraph 5 above? If not, what alternative approach do Board members suggest?

Section 2: Additional stakeholder comments on market-based Scope 2 GHG emissions (SMC16)

- 6 At its [6–7 June 2024 \(M204\)](#) meeting, the Board decided to omit the proposed requirement for an entity to disclose its market-based Scope 2 GHG emissions from the fourth year of applying AASB S2. Under IFRS S2 (and AASB S2), entities might provide information about their market-based Scope 2 GHG emissions if they consider it would be useful to the users of their climate-related disclosures.
- 7 In addition to the primary thematic issues relating to SMC 16 that the Board has deliberated in its June meeting, some stakeholders provided comments requesting the AASB consider providing additional clarification and/or guidance on the proposed market-based Scope 2 GHG emissions reporting requirements, for example, considering:
- (a) providing clear definitions of the terminology “location-based”, “market-based”, “gross” and “net” emissions to support consistent interpretation and application of the requirements;¹⁰
 - (b) clarifying that emissions using the location-based method and market-based method should not be aggregated;¹¹
 - (c) adding a quantitative materiality criterion to allow entities to **estimate** Scope 2 emissions if, for example, an entity’s Scope 2 GHG emissions are lower than 5% of total emissions. This stakeholder is concerned about the potentially high compliance costs for accurately measuring Scope 2 GHG emissions using both location and market-based methods when the entity has an insignificant Scope 2 presence; and¹²
 - (d) providing guidance to assist entities in identifying the appropriate methods to report Scope 2 GHG emissions using market-based approach under the proposed GHG measurement hierarchy described in paragraph 4 above.¹³
- 8 Staff recommend that, with respect to finalising AASB S2, no action is required for the additional stakeholder comments on market-based Scope 2 GHG emissions listed in paragraph 7 above. This is

10 For example, comment letters: 4 and 113.

11 For example, comment letter: 101.

12 For example, comment letter: 48.

13 For example, comment letter 12.

because the Board decided to omit the proposed requirement for an entity to disclose its market-based Scope 2 GHG emissions.

Question 2 to the Board:

Do Board members agree with staff recommendations in paragraph 8 above that, with respect to finalising AASB S2, no action is required for the additional stakeholder comments on market-based Scope 2 GHG emissions? If not, what alternative do Board members suggest?