



<b>Project:</b>	<b>Climate-related Financial Disclosures</b>	<b>Meeting:</b>	AASB 6–7 June 2024 (M204)
<b>Topic:</b>	<b>Converting greenhouse gas emissions into a CO<sub>2</sub> equivalent value (SMC 15)</b>	<b>Agenda Item:</b>	5.6
		<b>Date:</b>	21 May 2024
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider ED feedback

## Objectives of this paper

- 1 In respect to the requirement in IFRS S2 for an entity to convert its gross GHG emissions generated during the reporting period into metric tonnes of CO<sub>2</sub> equivalent, the objectives of this paper are for the AASB to:
  - (a) consider stakeholder feedback on the AASB’s proposed modification to the baseline of IFRS S2 to require the use of the global warming potential (GWP) values in the IPCC 5<sup>th</sup> assessment report (AR5), instead of the GWP values in the IPCC 6<sup>th</sup> assessment report (AR6), to align with the Paris Agreement (SMC 15); and
  - (b) decide on any changes to be made to the proposed requirement in [draft] ASRS 2 paragraphs AusB22.1 and AusB22.2.

## Abbreviations

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

## Summary of staff recommendations

- 3 Staff recommend no changes to the baseline of IFRS S2 with respect to the requirements in IFRS S2 paragraphs B21 and B22.

## Background – The proposal in ED SR1

- 4 Paragraphs B21 and B22 of IFRS S2 require an entity to convert GHG emissions into a CO<sub>2</sub> equivalent value using GWP values based on a 100-year time horizon from the **latest IPCC assessment available at the reporting date unless emission factors have already converted the constituent gases into CO<sub>2</sub> equivalent values**, cited below:

- B21 If an entity uses direct measurement to measure its GHG emissions to convert the seven constituent greenhouse gases into a CO<sub>2</sub> equivalent value using GWP values based on a 100-year time horizon, from the latest IPCC 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 CO<sub>2</sub> 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 CO<sub>2</sub> 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.

5 At present, the latest IPCC assessment report is the 6<sup>th</sup> assessment report (AR6). However, DCCEEW has informed the AASB that the reporting obligations for parties to the Paris Agreement require converting GHG emissions using the GWP values in AR5, and is unlikely to change in the near term. They were concerned that if Australian entities were required to convert GHG emissions 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 consistent with the Paris Agreement.

6 Therefore, when developing ED SR1, the AASB deleted paragraphs B21 and B22 of IFRS S2 and added paragraphs AusB22.1 and AusB22.2 to propose requiring the use of the GWP values AR5 instead of AR6 to align with the Paris Agreement.

7 However, staff observed that the drafting of paragraphs AusB22.1 and AusB22.2 of [draft] ASRS 2 was not sufficiently clear about:

- (a) the relief provided in IFRS S2 paragraph B22—if an entity uses emission factors to estimate its GHG emissions and if the emission factors have already converted the constituent gases into CO<sub>2</sub> equivalent values, the entity is not required to recalculate the emission factors using GWP values in the latest IPCC assessment available at the reporting date; and therefore
- (b) the consideration of which GWP values to apply in converting constituent gases into CO<sub>2</sub> equivalent values is relevant mostly for entities applying the direct measurement approach to measure their GHG emissions.

8 As a result, some stakeholders provided feedback about conversion using AR5 versus AR6 with respect to both the application of emission factors and the application of the direct measurement method.

## Structure

9 To assist Board members' consideration of this topic, staff will first discuss the requirements in IFRS S2 with respect to entities measuring GHG emissions using the estimation method, followed by a discussion on measuring GHG emissions using the direct measurement method.

10 The rest of this paper is structured as follows:

- (a) [Section 1](#): Staff analysis on measuring GHG emissions using the estimation method
- (b) [Section 2](#): Staff analysis on measuring GHG emissions using the direct measurement method
- (c) [Appendix](#): Summary of stakeholder feedback

## Section 1: Measuring GHG emissions using the estimation method

- 11 As stated in IFRS S2 paragraph B22, entities using emission factors to estimate their GHG emissions are not required to recalculate the emission factors if they have already been converted to a CO<sub>2</sub> equivalent value.
- 12 DCCEEW prepares the Australian National Greenhouse Accounts Factors (NGA) Factors,<sup>1</sup> which are applied by many Australian entities to estimate their GHG emissions. NGA Factors include emission factors that have converted the constituent gases into CO<sub>2</sub> equivalent values using IPCC AR5. Therefore, in accordance with IFRS S2 paragraph B22, Australian entities applying the NGA factors to estimate their GHG emissions would not be required to recalculate their emissions using IPCC AR6.
- 13 That is, if an Australian entity estimates its GHG emissions using NGA Factors it would not be required to recalculate its emissions using IPCC AR6, and doing so would not affect its ability to claim compliance with IFRS S2. Accordingly, staff consider that no modification to the baseline would be necessary for entities measuring GHG emissions using the estimation method.

## Section 2: Measuring GHG emissions using the direct measurement method

- 14 Staff observed that:
  - (a) IFRS S2 paragraphs 29(a)(ii) and B24 permit an entity to use a different method to the GHG Protocol for measuring its GHG emissions when required to do so by a jurisdictional authority or an exchange on which the entity is listed; and
  - (b) in ED SR1 the Board proposed to require an entity to prioritise applying relevant methodologies in NGER Scheme legislation as the default methodologies in measuring its GHG emissions (paragraph Aus31.1(b) of [draft] ASRS 2).
- 15 NGER Scheme legislation has specified the GWP values to apply in converting GHG emissions into CO<sub>2</sub> equivalent values. Therefore, it could be interpreted that where an entity applies the methodologies in NGER Scheme legislation to measure its GHG emissions using the direct measurement method, the entity would be permitted to apply the GWP values specified in NGER Scheme legislation under IFRS S2 paragraphs 29(a)(ii). That is, under the baseline of IFRS S2, an NGER reporter would be permitted to apply the GWP values in AR5.
- 16 Staff considered whether—in responding to stakeholders’ feedback to promote consistency in reporting and across relevant Australian climate change laws<sup>2</sup> (and therefore prefer prescribing the use of the GWP values in AR5 to be consistent with the Paris Agreement)—any modification to the baseline of IFRS S2 might be needed to require entities to apply the GWP values in AR5 to promote consistency and alignment with the Paris Agreement.
- 17 Staff consider that there may not be many entities measuring GHG emissions using the direct measurement method. That is, the matter about which GWP values should be applied is unlikely to be a pervasive matter that would require Australian-specific modification to the baseline of IFRS S2, on the basis that:
  - (a) According to the Clean Energy Regulator,<sup>3</sup> emissions are rarely measured through direct observation. They are most often estimated by reference to readily observable variables that

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1 The NGA Factors are published annually in the *NGA Factors Workbook*. NGA Factors Workbook is not published for the purposes of reporting under the NGER Scheme legislation. The methods used in NGA Factors are consistent with IPCC guidelines and are subject to international expert review each year.

2 For example, comment letters: 1, 4, 15, 37, 41, 49, 50, 51, 64, 66, 69, 74, 101 and 113; and survey responses: 20, 21, 22, 25, and 116.

3 [Methods and measurement criteria guideline](#), July 2023

are closely related to greenhouse gas emissions, such as the quantity of fossil fuels consumed. However, while not common, direct monitoring already occurs in the coal industry where state legislation requires the monitoring of methane levels for health and safety reasons.

- (b) Staff were informed by an international sustainability reporting standard setter that almost all of the entities in their jurisdiction measure their GHG emissions using emission factors due to the inherent challenges of measuring GHG emissions directly.

### Staff recommendation

- 18 Staff recommend no changes to the baseline of IFRS S2 with respect to the requirements in IFRS S2 paragraphs B21 and B22. That is, staff recommend adding IFRS S2 paragraphs B21 and B22, and removing paragraphs AusB22.1 and AusB22.2, to the final Standard.
- 19 The staff recommendation is supported by stakeholder feedback that [draft] ASRS 2 should:
  - (a) be consistent with the IFRS S2 baseline requirements, which allow the use of jurisdictional methods for measuring GHG emissions, and support interoperability with other international reporting frameworks;<sup>4</sup>
  - (b) aligned with current practices and reduce the regulatory and reporting burden for both NGER and non-NGER reporters.<sup>5</sup> Staff were informed that many entities apply NGA Factors to measure their GHG emissions; and
  - (c) allow flexibility for entities to use the GWP values appropriate for the methodology adopted for measuring GHG emissions (see paragraph A8 in the [Appendix](#)). IFRS S2 paragraph paragraphs 29(a)(ii) and B24 provide sufficient flexibility for NGER reporters to apply the methodology and GWP values prescribed in NGER Scheme legislation.
- 20 A summary of stakeholder feedback is included in the [Appendix](#) for the Board's consideration.

#### Question 1 to the Board:

Do Board members agree with the staff view in paragraph 18 that no changes to the baseline of IFRS S2 with respect to the requirements in IFRS S2 paragraphs B21 and B22?

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<sup>4</sup> For example, comment letters: 6 and 7.

<sup>5</sup> For example, comment letters: 4, 49, 50, 51, 66, 69, 74, 79 and 113; and survey responses: 21, 25, 91, 116, 136 and 214. Comment letter 79 noted that the estimated RIS calculation published by Treasury suggested that, if AR6 is mandated, the transition cost would be doubled.

## Appendix: Summary of stakeholder feedback

- A1. SMC 15 of ED SR1 asked stakeholders: “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.” An identical question was included in the survey.
- A2. A total of 117 comment letters and 289 survey responses were submitted during the comment period:
- (a) 60 comment letters responded to SMC 15, with 3 of them did not provide a clear view.
  - (b) 66 survey submissions responded to SMC 15.
- A3. The following table provides a high-level overview of the responses received in relation to the proposal in paragraphs AusB22.1 and AusB22.2:

	Agree	Partially agree	Disagree
Out of the 57 comment letters that commented on SMC 15 <sup>6</sup>	35%	14%	51%
Out of 65 survey responses that commented on SMC 15 <sup>7</sup>	62%	23%	15%

- A4. Overall, stakeholders expressed mixed views towards SMC 15. Many respondents, irrespective of their view towards the proposals in paragraphs AusB22.1 and AusB22.2, suggested that NGER Scheme legislation should be updated to reflect the latest science to enhance information accuracy and usefulness.<sup>8</sup> For example, one respondent noted that the IPCC AR6 provides an additional GWP for methane, differentiating between methane originating from fossil fuel and non-fossil fuel sources, which would provide a more robust measurement than the earlier version of the IPCC guideline.<sup>9</sup>
- A5. 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.

### Stakeholders’ reasons for supporting the proposal

- A6. The respondents who provided their reasons for supporting the proposal commented that requiring entities to convert GHG emissions using the GWP values that align with NGER Scheme legislation would:
- (a) be consistent with the IFRS S2 baseline requirements, which allow the use of jurisdictional methods for measuring GHG emissions;<sup>10</sup>
  - (b) promote consistency in reporting and across relevant Australian climate change laws. Stakeholders expect such consistency to enhance information usefulness to regulators and

6 Some respondents did not expressly state in their comment letters whether they agree, disagree, or partially agree with a proposal. Staff applied judgment 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.

7 The survey responses have been provided separately for the Board’s reference.

8 For example, comment letters: 11, 12, 16, 34, 40, 41, 42, 43, 45, 54, 61, 62, 73, 79, 92, and 109; and survey responses: 4, 9, 38, 91, 162, 190 and 266.

9 For example, comment letters: 75.

10 For example, comment letters: 6 and 7.

investors, ensuring businesses have a clear understanding of their obligations across these laws;<sup>11</sup> and

- (c) align with current practices and reduce the regulatory and reporting burden for both NGER and non-NGER reporters.<sup>12</sup>

A7. Despite their support, some stakeholders raised the following comments:

- (a) The proposed approach is feasible only for Scope 1 and 2 GHG emissions. NGER Scheme legislation does not provide methodologies for measuring Scope 3 GHG emissions; therefore, all Australian entities will have to apply methodologies outside of NGER Scheme legislation in measuring their Scope 3 emissions, which may employ different GWP values than those in AR5. It could be challenging for entities to adjust reporting to account for different GWP factors used by customers and data providers, particularly when there are significant concerns over the data quality and availability for Scope 3 GHG emissions and financed emissions.<sup>13</sup>
- (b) ASRS Standards should be reviewed periodically, and future alignment with other jurisdictions and international reporting frameworks should be considered.<sup>14</sup>

#### Stakeholders' reasons for not supporting the proposal

A8. Many respondents explicitly expressed their disagreement with the proposals in paragraphs AusB22.1 and AusB22.2. Overall, these stakeholders have a strong preference for international alignment. Their feedback can be summarised into three main views as follows:

- (a) **View 1:** [Draft] ASRS 2 should allow policy choice for entities to use either the GWP values in line with the latest IPCC assessment report or the GWP values in line with NGER Scheme legislation.<sup>15</sup>

Stakeholders consider that this policy choice is particularly important for Australian entities with operations overseas or those who are required to provide GHG emission information to their foreign parent entities reporting under IFRS S2 or European Sustainability Reporting Standards (ESRS).

- (b) **View 2:** [Draft] ASRS 2 should align with the IFRS S2 baseline to require the use of the GWP values from the latest IPCC assessment at the reporting date.<sup>16</sup>
- (c) **View 3:** [Draft] ASRS 2 should require NGER reporters to use GWP values in line with NGER Scheme legislation, and all other entities should use the GWP values in line with the latest IPCC assessment at the reporting date (i.e. the IFRS S2 baseline approach).<sup>17</sup>

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11 For example, comment letters: 1, 4, 15, 37, 41, 49, 50, 51, 64, 66, 69, 74, 101 and 113; and survey responses: 20, 21, 22, 25, and 116.

12 For example, comment letters: 4, 49, 50, 51, 66, 69, 74, 79 and 113; and survey responses: 21, 25, 91, 116, 136 and 214. Comment letter 79 noted that the estimated RIS calculation published by Treasury suggested that, if AR6 is mandated, the transition cost would be doubled.

13 For example, comment letters: 53 and 94.

14 For example, comment letter: 38.

15 For example, comment letters: 3, 12, 20, 34, 44, 55, 68, 83, 86, 88, 97 and 110. A few stakeholders [Comment letters: 9, 38, 65 and 104], despite their support for the proposed approach, also share similar concerns that the proposal could potentially increase the regulatory burden for entities who need to report internationally.

16 For example, comment letters: 16, 11, 21, 26, 35, 45, 54, 61, 62, 92 and 103.

17 For example, comment letters: 27, 77, 98 and 109.

- A9. Stakeholders who recommended the above approaches commented that requiring the use of GWP values in AR5 would create a significant misalignment in international reporting comparability because both the ESRS and IFRS S2 require the use of the most recent IPCC report (AR6).<sup>18</sup>
- A10. Since the requirements of ESRS and IFRS Sustainability Disclosure Standards affect international value chains, there will likely be Australian companies who will be asked to provide emission information to entities upstream or downstream. This is particularly important for Australian entities with overseas operations or those who would be required to provide GHG emission information to their foreign parent entities reporting under ESRS or IFRS S2.<sup>19</sup>
- A11. The proposal to require the use of GWP values in AR5 could also impose a significant regulatory burden and cost of compliance for entities that do not meet the definition of a controlling corporation under NGER Scheme legislation (and are therefore not required to comply with NGER Scheme legislation) and might be measuring their GHG emissions under a different framework that would require the use of GWP values in AR6.

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18 [ESRS E1-6](#) paragraph AR 39(d) and IFRS S2 paragraphs B21-B22.

19 For example, comment letters: 16, 26 and 58.