Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related Financial Disclosure**	**Meeting:**	AASB August 2023 (M197)
Topic:	**Approach to the baseline of IFRS S2—GHG emissions intensity**	**Agenda Item:**	09.1
		Date:	24 July 2023
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		Decision-Making:	High
		Project Status:	Development of an exposure draft

Objective

1 The objective of this paper is for the Board to:

(a) **consider** staff analysis and recommendation on the Board's proposed approach to the cross-industry greenhouse gas (GHG) emissions intensity disclosure requirement in the baseline IFRS S2 *Climate-related Disclosures* (IFRS S2), and

(b) **decide** whether to re-introduce the cross-industry GHG emissions intensity disclosure requirement (i.e. paragraph 21(a)(ii) of [draft] IFRS S2) for the purpose of developing an exposure draft of an Australian equivalent to IFRS S2.

2 Staff will develop an Exposure Draft for the Australian-equivalent standards to IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 based on the Board's decisions at its August and September 2023 meetings. At a later stage, staff will consider whether any consequential changes to the non-authoritative guidance accompanying IFRS S1 and IFRS S2 would be needed (see Agenda Paper 7.1).

Structure

3 This paper is structured as follows:

(a) Summary of staff recommendation (paragraph 4)

(b) Background (paragraphs 5-8)

(c) Staff analysis and recommendation (paragraphs 9-16)

Summary of staff recommendation

4 Staff recommend the Board aligns with the baseline of IFRS S2 and does not re-introduce the cross-industry GHG emissions intensity disclosure requirement. That is, staff recommend that the Board does not amend the baseline of IFRS S2 to re-introduce the cross-industry GHG emissions intensity

disclosure requirement (i.e. paragraph 21(a)(ii) of [draft] IFRS S2) for the purpose of developing an Australian equivalent to IFRS S2.

Background

5 In March 2022, the ISSB published [draft] IFRS S2 *Climate-related Disclosure* which proposed requiring an entity to disclose both:

(a) its absolute gross GHG emissions, classified as Scope 1, Scope 2 and Scope 3, generated during the reporting period (i.e. paragraph 21(a)(i) of [draft] IFRS S2); and

(b) the intensity of each scope of GHG emissions, expressed as metric tonnes of CO_2e equivalent per unit of physical or economic output (i.e. paragraph 21(a)(ii) of [draft] IFRS S2).

6 In the joint response to the ISSB's Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2, the AASB and AUASB agreed with the proposals relating to absolute GHG emissions and related intensity disclosure requirements.[1] However, the AASB and AUASB also acknowledged that some stakeholders suggested the ISSB refer specifically to emissions intensity per dollar of revenue as opposed to referring to 'per unit of economic output' for GHG emissions intensity disclosure proposed in paragraph 21(a)(ii) of [draft] IFRS S2.

7 As part of its redeliberation on [draft] IFRS S2, in its December 2022 meeting, the ISSB decided to remove the proposed cross-industry GHG emissions intensity disclosure requirement. That is, IFRS S2 has kept only the disclosure requirement for absolute gross GHG emissions (i.e. paragraph 29(a)(i) of IFRS S2).[2] The ISSB made this decision in response to stakeholders' concerns that it could be challenging to achieve comparability and relevance of the intensity disclosure. These stakeholders highlighted that comparability of intensity disclosures between entities can only be achieved if the denominator is consistent across entities. However, it is challenging to prescribe one standardised approach that would be relevant to all primary users of general purpose financial reporting (users).[3] The relevant denominator to calculate the GHG emissions intensity will depend on several industry-specific characteristics, including an entity's business model and investor preferences.[4]

8 Given the strong support from Australian stakeholders on the proposed GHG emissions disclosures, including the proposed cross-industry GHG emissions intensity disclosure requirement in [draft] IFRS S2, staff would like to seek the Board's direction on whether to re-introduce the cross-industry GHG emissions intensity disclosure requirement for the purpose of developing Australian climate-related financial disclosure requirements.

Staff analysis and recommendation

9 Staff acknowledge stakeholders who said that GHG emissions intensity information is useful because it would help users understand the entity's GHG emissions efficiency (e.g., GHG emissions over revenue or physical output), better enabling users to compare GHG emissions between different entities. For example, with absolute GHG emissions, GHG emissions intensity information could also help provide a more complete picture of an entity's GHG emissions profile over time.

10 However, staff agree with stakeholder feedback and ISSB staff analysis that highlighted comparability will likely only be achieved if entities within the same industry use the same denominator to calculate

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1 See paragraph 21-25 of Agenda Paper 3.2.4 (M191) for summary of Australian stakeholders' comments.

2 See appendix A for comparison between the [draft] IFRS S2 and the final IFRS S2.

3 Being existing and potential investors, lenders and other creditors (Appendix A to IFRS S1 and IFRS S2).

4 See paragraph BC81 of IFRS S2 and paragraphs 22-28 of the ISSB Agenda Paper 4A (Dec 2022).

their GHG emissions intensity. Furthermore, despite the strong support from Australian stakeholders on the cross-industry GHG emissions intensity disclosure requirement, some of these stakeholders suggested the ISSB refer specifically to GHG emissions intensity per dollar of revenue as opposed to referring to 'per unit of economic output' for better consistency and comparability among reporting entities.[5] The ISSB has also heard from other international stakeholders that the preferred denominators are revenue or a physical unit of economic output.[6]

11 In particular, in redeliberating the cross-industry GHG emissions intensity disclosure requirement, the ISSB raised concern that it would be challenging to prescribe a specific denominator that is relevant and would provide a faithful representation of an entity's GHG emission intensity at a cross-industry level.[7] Staff agree with the ISSB and are of the view that this issue would be particularly prevalent in the context of the Board exploring the development of sector-neutral climate-related financial disclosure requirements applicable to for-profit (FP) and not-for-profit (NFP) entities.[8] For example, GHG emissions intensity measured as emissions per unit of revenue (e.g. tonnes of CO_2e per total $m sales revenue) might not faithfully represent NFP entities' GHG emissions performance.

12 The calculation of an entity's GHG emissions intensity is usually based on information that is already disclosed in the financial statements (e.g. revenue or grants for NFP entities); or will be required by other climate-related financial disclosures (e.g. the absolute gross GHG emissions for Scope 1, Scope 2 and Scope 3 GHG emissions). In particular, staff agree with the ISSB that arguably the most important piece of information necessary to facilitate the calculation of GHG emissions intensity information is the disclosure of absolute GHG emissions. The disclosure of absolute GHG emissions should therefore enable users to calculate GHG emissions intensity when combined with other information.[9]

13 Consequently, staff consider that users would likely have access to the information needed to elect their own denominator and calculate GHG emissions intensity for entities that are useful, relevant, and comparable to assist their analysis. That is, staff are of the view that not including a GHG emissions intensity disclosure requirement would not prevent:

(a) an entity from voluntarily disclosing its GHG emissions intensity using a denominator that they consider appropriate and useful to communicate its climate-related risks and opportunities to users; and

(b) users from calculating an entity's GHG emissions intensity using the information that would be publicly available (e.g. the financial statements and climate-related financial disclosures).

International alignment[10]

14 The table below summarises the GHG emissions disclosure requirements in other significant international and jurisdictional standards and frameworks. Staff noted that Aotearoa New Zealand Climate Standard 1 *Climate-related Disclosures* (NZ CS 1), [draft] European Sustainability Reporting Standard E1 *Climate change* (ESRS E1) and GRI 305: *Emissions* 2016 (GRI 305) all require disclosure of an entity's GHG emissions intensity, in addition to gross GHG emissions. Similar to [draft] IFRS S2,

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5 See page 42 of the joint response to the ISSB's Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2.

6 See paragraph 13 of the ISSB agenda paper 4A (Dec 2022).

7 See paragraph BC83 of IFRS S2.

8 Per paragraph 8 of the IFRS S1, the IFRS Sustainability Disclosure Standard uses terminology suitable for profit-oriented entities. Entities with NFP activities who wish to apply the Standard might need to amend the descriptions used for particular items of information.

9 See paragraph BC83 of IFRS S2.

10 See Agenda Paper 4.1 for an overview of the ongoing work related to the assessment of international alignment.

these standards and frameworks allow entities to choose the denominator for calculating the intensity ratio.

International or jurisdictional standards and framework	Disclosure requirements for gross GHG emissions	Disclosure requirements for GHG emissions intensity
NZ CS 1	**Required** - gross GHG emissions in metric tonnes of CO_2 equivalent for: • Scope 1, • Scope 2 (location-based), and • Scope 3 *(Paragraphs 22(a) of NZ CS 1)*	**Required**. Paragraph 22(b) requires an entity to disclose its GHG emissions intensity. Appendix A to NZ CS 1 provides further clarity and defines emissions intensity as "GHG emissions impact per unit of physical activity or unit of economic output."
ESRS E1	**Required** – gross GHG emissions in metric tonnes of CO_2 equivalent for: • Scope 1, • Scope 2 (location-based and market-based), and • Scope 3 *(Disclosure requirements E1-7 – E1-10)*	**Required**. Disclosure requirement E-11 requires an entity to disclose its total GHG emissions (in metric tons of CO_2 equivalent) per net turnover (monetary unit).
GRI 305 [11]	**Required** - gross emissions in metric tonnes of CO_2 equivalent for: • Scope 1, • Scope 2 (location-based and market-based if applicable), and • Scope 3 (*Disclosure Requirements 305-1 – 305-3*)	**Required**. Disclosure requirement 305-4 requires an entity to disclose the GHG emissions intensity ratio for the organisation and the organisation-specific metric (the denominator) chosen to calculate the ratio.

15 Staff consider the misalignment would not cause significant issues based on the consideration that:

(a) users would likely have access to the information needed to elect their own denominator and calculate GHG emissions intensity for entities that are useful, relevant, and comparable to assist their analysis (see paragraphs 11-13 above); and

(b) allowing an entity to choose its own denominator could reduce comparability (see paragraphs 10-11 above).

Staff recommendation and questions to Board members

16 Based on the analysis in paragraphs 9-15, staff recommend the Board **align** with the baseline of IFRS S2 and does not re-introduce the cross-industry GHG emissions disclosure requirement that was proposed in paragraph 21(a)(ii) of [draft] IFRS S2. That is, despite the strong Australian stakeholder support for this disclosure requirement, staff recommend that the Board does not amend the

11 A high-level comparison between IFRS S2 and the GRI Standards is included in Agenda Item 4.1 of this meeting.

baseline to re-introduce cross-industry GHG emissions intensity disclosure for the purpose of developing an Australian equivalent to IFRS S2.

Questions to the Board:

Q1: Do Board members have any questions or comments on the information provided in this paper?

Q2: Do Board members agree with the staff recommendation in paragraph 16 to align to the baseline of IFRS S2 and not to re-introduce the cross-industry GHG emissions intensity disclosure requirement for the purpose of developing an Australian equivalent to IFRS S2?

If not, do Board members have any alternative suggestions?

Appendix A—Extracts from IFRS S2 *Climate-related Disclosures*

A1 To assist the Board in understanding the changes made to the proposals in the Exposure Draft on [Draft] IFRS S2, the extracts below show the changes the ISSB made in finalising IFRS S2 for disclosures on absolute GHG emissions and emissions intensity. Added text is underlined, and deleted text is struck through.

~~21~~<u>29</u> An entity shall disclose information relevant to the cross-industry metric categories of:

(a) *greenhouse gas* ~~emissions~~—the entity shall ~~disclose the following~~:

(i) <u>disclose</u> its absolute gross greenhouse gas emissions generated during the reporting period, ~~measured in accordance with the *Greenhouse Gas Protocol Corporate Standard*,~~ expressed as metric tonnes of *CO_2 equivalent* <u>(see paragraphs B19-B22)</u>, classified as:

(1) *Scope 1 <u>greenhouse gas</u> emissions*;

(2) *Scope 2 <u>greenhouse gas</u> emissions*; <u>and</u>

(3) *Scope 3 <u>greenhouse gas</u> emissions*;

~~(ii) its greenhouse gas emissions intensity for each scope in paragraph 21(a)(i)(1)–(3), expressed as metric tonnes of CO_2 equivalent per unit of physical or economic output;~~

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