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Dear AASB members,

We appreciate the invitation to comment on Exposure Draft Amendments to Greenhouse Gas Emissions Disclosures - Proposed amendments to AASB S2. We have provided comments for the matters we felt were most relevant. Our comments have also been informed by targeted stakeholder engagement with Group 1 – 3 entities.

Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight. Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are the leading business advisor to mid-market businesses in Australia.

Our comments are made primarily in relation to an Australian-specific context, for the benefit of the AASB's considerations of proposed amendments to AASB S2 *Climate-related Disclosures*. On that basis, paragraph references below explicitly refer to AASB S2 as issued by the AASB rather than IFRS S2 as issued by the ISSB. A version of our comments will also be separately incorporated into a global response to the ISSB from the Grant Thornton global network.

Question 1—Measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions

We are broadly in favour of the clarification provided by proposed paragraph 29A(a), to limit the disclosure of Category 15 greenhouse gas emissions to financed emissions as defined in Appendix A. From discussions with targeted stakeholders, we agree that the additional disclosures specified by AASB S2 around financed emissions is an area of concern for preparers, as it often relates to uncertain information outside the entity's control.

We do, however, have concerns with the wording in paragraph 29A(a) in relation to derivatives: *"For the purposes of the limitation, an entity is permitted to exclude any greenhouse gas emissions associated with derivatives."*

While we see this as a very practical outcome, given the current immaturity of accounting for financed emissions associated with derivatives, we have concerns that this proposed wording may create contradictions with the requirement to disclose material information in AASB S2 Appendix D.17. Specifically, we are of the view that the proposed wording does not provide clarity where an entity may have determined there is material information that said paragraph would require disclosure of with respect to financed emissions associated with derivatives.

We further observe that this view appears to be supported by the response to Question 5 in recent educational material published on 29 May 2025 by the IFRS Foundation, *Greenhouse Gas Emissions Disclosure requirements applying IFRS S2 Climate-related Disclosures*, which clarifies that "IFRS S2 requires that entities disclose material information about their Scope 3 GHG emissions considering all of the categories set out in the GHG Protocol Corporate Value Chain Standard. ISSB Standards also require that entities consider their entire value chain when providing information about the sustainability-related risks and opportunities that could reasonably be expected to affect their prospects." This response, in our view, appears to clarify that material information is required to be disclosed.

From discussions with targeted stakeholders, Australian entities that were not intending (prior to the announcement of the targeted amendment) to disclose information about financed emissions related to derivatives had already determined that such information was unlikely to be material. We observe that AASB S2 Appendix D.B25 already states that "An entity need not disclose information otherwise required by an Australian Sustainability Reporting Standard if the information is not material. This is the case even if the Australian Sustainability Reporting Standard contains a list of specific requirements or describes them as minimum requirements."

By contrast, the Australian entities that had (prior to the announcement of the targeted amendment) commenced work to estimate the financed emissions associated with derivatives, had done so on the determination that such information would be material information to their primary users. We observe AASB S2 Appendix D.B26 states "An entity shall disclose additional information when compliance with the specifically applicable requirements in an Australian Sustainability Reporting Standard is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term." The majority of those entities have now paused that work, pending the outcome of this targeted amendment, with the intention of early adopting the amendment should it become effective.

We have concerns therefore, that such entities are interpreting the proposed amendment as an override to AASB S2 Appendix D.B26 to avoid disclosure of what was previously determined by the entity to be material information, which seems to contradict Appendix D.B26. We note that unlike AASB Appendix D.70, there is currently no qualifier on materiality to limit its application to "unless the Standard permits or requires otherwise". This also presents assurance challenges, due to the risk of contradictory conclusions reached by management in regards to the identification of material information about their climate-related risks and opportunities.

To address this issue, we suggest that either the concept of material information is explicitly addressed in the proposed amendment, or alternatively that this sentence is deleted entirely. For example:

- If the intention was for proposed 29A to replace materiality considerations with respect to financed emissions related to derivatives, we suggest that the proposed new disclosure requirements in 29A(b) make explicit reference to the concept of material information for financed emissions associated with derivatives. For example: "for the purposes of disclosing material information about financed emissions that are excluded in accordance with paragraphs 29A(a)…[contents of paragraph 29A(b)]".
- If the intention was for the explicit limitation in 29A(a) to be subject to identification of material information, then we suggest this is explicitly incorporated: "For the purposes of the limitation, subject to the requirement in IFRS S1.B26 to disclose additional information when compliance with this Standard is insufficient, an entity is permitted to exclude any greenhouse gas emissions associated with derivatives".

Alternatively, in our view the final sentence of 29A(a) that explicitly excludes derivatives could be deleted entirely without affecting the meaning of 29A(a), which otherwise elaborates on the meaning of 'loans and investments' included in the definition of financed emissions in Appendix A.

Additionally, we observe that 29A(b) sets disclosure requirements for derivatives and other financial activities excluded, whereas 29A(a) only explicitly permits exclusion of derivatives, creating an apparent mismatch between the two paragraphs. We suggest that if the explicit reference to derivatives is retained in 29A(a), this is extended to incorporate the other financial activities as well, thereby aligning 29A(a) and 29A(b).

We also observe that the additional disclosure requirements proposed in 29A(b) creates separate disclosures for excluded derivatives (29A(b)(i)) from the rest of other financial activities(29A(b)(ii)). We are of the view that the information regarding the amount of excluded financial activities, and the explanation of how these were determined would likely be relevant information for disclosure irrespective of if the financial activities were derivatives or not, particularly due to the level of judgement involved in setting that category 15 boundary. We suggest the requirements of 29A(b)(i) are applied to all excluded financial activities.

Finally, we wish to observe that accounting for financed emissions from derivatives is currently on the PCAF current agenda for further exploratory work. We acknowledge there are problems with characterising this as transition relief, as the timing of when derivative financed emissions methodologies will mature is uncertain, and thus setting any specific time period for transition relief is difficult to establish. However as discussed above, we query whether the explicit exclusion of derivatives should be incorporated directly into the standard, which may in future necessitate further amendments, or if it can be omitted entirely without impacting the intended outcome of these targeted amendments.

Additionally, we observe that the updated guidelines for Net Zero Banking Alliance include, within the scope of targets, some financial activities that are excluded from the disclosure requirements in this proposed limitation, including facilitated emissions. In our view, if an entity had set a greenhouse gas emissions target that does incorporate these excluded emissions, it would be appropriate for the entity to include that information in the disclosure of the associated metrics as well, to enhance the connections between the information disclosed for their target and the related cross-industry metric. We observe that if this proposed limitation was subject to the requirements of Appendix D.B26, then the application of material information would likely result in the additional disclosure of facilitated emissions on this basis.

Question 2—Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions

We are broadly in favour of the proposed relief to allow an entity to use industry classification methods other than GICS when preparing the additional disclosures required by AASB S2 paragraphs B62(a) and B63(a). Based on discussions with targeted stakeholders, we understand that Australian entities potentially affected by the proposed amendments currently classify counterparties in a range of ways, broadly summarised as:

a) Use a combination of SESCA and/or ANZSIC to classify counterparties (in line with APRA Economic and Financial Statistics (EFS) reporting requirements[1]); or
b) Use ANZSIC to classify counterparties by industry; or
c) Use a third-party (e.g. a broker) and therefore are reliant upon that third-party organisation to provide any specific information about the industry of the counterparty; or
d) Do not currently have information available to classify counterparties by industry.

The use of GICS to classify counterparties was relatively uncommon amongst the targeted stakeholders that we spoke with, unless the counterparty was ASX-listed, or the entity was part of an international group where GICS was more commonly used. However we have some concerns with the current proposals in B62B and B63B as discussed below.

The proposed wording in B62B(a) and B63B(a) require the entity to classify counterparties using: “the Global Industry Classification Standard (GICS) 6-digit industry-level code, reflecting the latest version of the classification system available at the reporting date, if the entity uses GICS *in any part of the entity* to classify its lending or investment activities at the reporting date” (emphasis added).

We have concerns that this would present problems in a consolidated entity where a part of the entity used GICS, but did not have the licensing requirements necessary to extend the use of GICS to other parts of the entity. For example, a consolidated conglomerate composed of multiple financial services entities under a single holding entity might have a single US based subsidiary that did use GICS (e.g. for international financing purposes), whereas the rest of the Australian subsidiaries used ANZSIC for domestic purposes.

[1] We refer staff to RPG 701.0 *ABS/RBA Reporting Concepts for the EFS Collection*

Applying B62B(a), it is our view that the Australian subsidiaries would also be required to use GICS to classify counterparties, because a part of the entity (i.e. the US based subsidiary) used GICS. This might therefore require an extension of the GICS-Direct licence from the US based entity to the Australian entities for the purposes of reporting, creating potential operational, intellectual property, and/or taxation complications.

To address this issue, we suggest that B62B(a) and B63B(a) is reworded to specify: "if the entity uses GICS in any part of the entity to classify its lending or investment activities at the reporting date, *then that part of the entity* shall classify counterparties using the Global Industry Classification Standard (GICS) 6-digit industry-level code, reflecting the latest version of the classification system available at the reporting date".

Additionally, some targeted stakeholders raised concerns that distinguishing between the requirements of B62B(b) and (c) were confusing, where (b) is "an industry-classification system that the entity or part of the entity uses *for reporting climate-related financial information* to meet a jurisdictional or exchange requirement" and (c) is "an industry-classification system that the entity or part of the entity uses *for financial reporting purposes* to meet a jurisdictional or exchange requirement". Stakeholders noted that EFS reporting (the most commonly cited reason for maintaining and reporting by industry classification externally) did not appear to fit either of these categories.

Some stakeholders also expressed concern that the requirement to disaggregate by industry was problematic where a significant portion of their portfolios were residential finance or personal finance in nature, rather than business counterparties, acknowledging that in these instances, disaggregation by industry might not be considered material information for the primary users of the general purpose financial reports.

Question 3—Jurisdictional relief from using the GHG Protocol Corporate Standard

We are broadly in favour of the proposed amendments to apply the jurisdictional relief in whole or in part. This is particularly relevant in an Australian context as the NGER reporting requirements often apply at the facility level rather than at an entity level, which may result in only components of an entity's activities being subject to NGER reporting requirements.

We also wish to raise for the AASB's attention that there appears to be diversity in interpretation as to what "permitted to use this different method for the part of the entity to which that requirement applies" would entail in practical implementation, particularly as it relates to the application of the NGER Measurement Determination.

Specifically, some forms of Scope 1 emissions (e.g. fugitive emissions) might be excluded from reporting under the NGER Measurement Determination for particular entities (i.e. the category of emissions are not required to be measured under NGER requirements). We are aware that some entities are interpreting this as the emissions have been 'measured' in accordance with NGER requirements as 'nil emissions', and therefore the entity is able to apply the jurisdictional exemption without additional application of the Greenhouse Gas Protocol.

As clarified in the September 2024 TIG papers, the ISSB staff are of the view that IFRS S2.B25 relates only to the disclosure requirement, not the measurement requirement. We suggest that the ISSB or AASB may also wish to clarify this point when undertaking these targeted amendments, either through amendment to the standard or non-authoritative educational materials.

Question 4—Applicability of jurisdictional relief for global warming potential values

We are broadly in favour of this proposed amendment, especially as in an Australian context, the NGER measurement calculators use GWPs from the IPCC Fifth Assessment Report (AR5). We consider this to be a logical proposed amendment to rectify an unintended consequence of the original drafting of the jurisdictional relief mechanism.

However, in an Australian context, we observe that this would still necessitate a non-NGER registered entity using an emissions factor that does not convert activity data directly to CO2-e to use the GWP from the IPCC Sixth Assessment Report. We observe that the 2024 National Greenhouse Accounts Factors currently publish the GWPs from AR5 for refrigerants. We strongly suggest that the AASB work in collaboration with DCCEEW to reflect the AR6 GWPs in the future National Greenhouse Accounts Factors publications, to reduce the risk of unintended user error.

Question 5—Effective date

Subject to the considerations outlined above, we are broadly in favour of these amendments being effective as early as possible and permitting early application, particularly in relation to the limitations on the scope of financed emissions disclosures. We are aware of stakeholders that intend to early adopt these amendments as soon as possible.

Question 6—Other comments

Entities in the financial sector are, by the ISSB's own admission, more likely to be affected that other entities by the proposed amendments related to the Scope 3 Category 15 greenhouse gas emissions disclosure requirements. However, we also consider these amendments may affect entities outside the financial sector that participates in one or more financial activities associated with asset management, commercial banking, or insurance (AASB S2.B37). We encourage the AASB to consider the implications of these proposals for a broader range of entities beyond financial services when considering amendments to AASB S2. We also consider it would be beneficial for the AASB to reiterate the existing proportionality mechanism in AASB S2.B39 when discussing these proposed amendments in relation to scope 3 emissions.

Yours sincerely,

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