Australian Sustainable Finance Institute

ISSB / AASB S2 Proposed amendments June 2025

4 June 2025

The Australian Sustainable Finance Institute (ASFI) welcomes the opportunity to comment on the Australian Accounting Standards Board's exposure draft of proposed amendments to the S2 standard. ASFI is a not-for-profit organisation committed to realigning the Australian financial system to be sustainable, resilient, and inclusive. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that support ASFI's mission. ASFI members collectively hold over AU$37 trillion in assets under management and are committed to allocating capital in a way that creates positive social and environmental outcomes.

In **Section 1** of this submission, ASFI makes comments to the Australian Accounting Standards Board relating to potential adoption of any amendments made by ISSB to S2. In **Section 2** of the submission, ASFI makes comments on the proposals put forward by the ISSB regarding the proposed definite, express and permanent relief from reporting for derivatives, facilitated emissions and insurance associated emissions. At this time, ASFI has no comments on the other proposals for change.

Section 1 - Comments to the AASB

Climate-related financial disclosures (CRFD) is an important tool for organisations in the financial sector to identify and address the impacts of climate change. An effective CRFD scheme is crucial to ensure that the financial system is aware of - and increasingly resilient to - the physical and transition risks that climate change brings. CRFD also provides important information to government and other stakeholders on the measures that financial and real economy organisations are taking to respond to climate change. ASFI is strongly supportive of the introduction of mandatory, credible, and internationally aligned CRFD in Australia, and welcomes the Australian Government's commitment to supporting its implementation.

As will be discussed in Section 2, ASFI is not supportive in principle of the proposed amendments to provide permanent relief for reporting scope 3 emissions from facilitated emissions and insurance-associated emissions. In general, ASFI considers that excluding any material emissions from an entity's scope 3 reporting reduces the utility of the disclosed information and could potentially provide a misleading impression of an entity's scope 3 emissions profile. ASFI suggests that any relief related to technical limitations, such as methodologies or data deficiencies, should be limited and time bound to ensure that best efforts are made to overcome these challenges. ASFI notes that emissions associated with derivatives are particularly difficult to conceptualise and measure, meaning that providing definite, express and long-term relief form reporting these types of emissions may be appropriate.

However, ASFI is also strongly of the view that Australia's sustainability reporting standards should be as internationally aligned as possible. Unless a compelling justification exists for local variations, ASFI maintains that the AASB should seek to implement the ISSB standards with as few variations as possible, to ensure Australian entities are as internationally comparable as possible, while maintaining standards that are usable for Australian organisations. This will help ensure Australian entities do not face unnecessary barriers or disadvantages in access to global capital and will avoid unnecessary transaction costs.

Should the ISSB proceed with implementing the currently proposed amendments to S2, ASFI recommends that notwithstanding our objections to the changes, the AASB should adopt the amendments in the interests of supporting a globally harmonised climate-related financial disclosures regime.

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Section 2 - Comments to the ISSB

In these comments, ASFI wishes to address the ISSB's proposal to make definite, express and permanent relief from scope 3 emissions reporting for derivatives, facilitated emissions and insurance-related emissions. ASFI has no comments on the other proposals for change.

Relief from reporting for derivatives, facilitated emissions or insurance-related emissions

As a general principle, ASFI is strongly supportive of a CRFD regime that is as comprehensive as possible to ensure that markets, investors and other stakeholders are provided with the most complete and relevant information on the risks and opportunities that climate change presents. ASFI supports a disclosure regime that reports on all material emissions.

ASFI acknowledges the ISSB's basis for conclusions that point out the lack of standard methodologies and potential data deficiencies makes reporting emissions from derivatives, insurance-associated emissions and facilitated emissions challenging, and that the current amendment is designed to clarify the original drafting intentions to exclude to these types of emissions. ASFI notes the particular difficulty with conceptualising and measuring emissions associated with derivatives and agrees that providing definite and express long-term relief relating to measuring and reporting these kinds of emissions could be appropriate.

ASFI notes that in all cases, the usability of climate-related financial disclosure for preparers and users relies on the principles of materiality established in the S1 standard. In some cases, emissions may not be material to an organisation's business - or necessary for the understanding of a user of the climate-related financial disclosure report - and need not be disclosed. Nonetheless, we suggest that there are times where insurance-associated emissions and facilitated emissions are material to the overall risks and opportunities that an organisation will face as the transition to a net zero economy progresses.

In relation to facilitated and insurance-associated emissions, we would suggest that the situation has changed since the original standard was released and we would encourage the ISSB to take account of changing circumstances before providing permanent relief for insurance-associated emissions and facilitated emissions. For example, since the publication of S2, the Partnership for Carbon Accounting Financials has published a standard for facilitated emissions, alongside the standard for insurance-associated emissions. While ASFI understands that more work is required to fully develop comprehensive methodologies for measuring and reporting these emission types, there is nonetheless a basis to believe that reporting these emissions may be practical in the future.

Understanding this, ASFI is cautious of the ISSB's intended approach that provides definite, express and permanent relief from reporting these emissions based purely on technical challenges that may not be insurmountable. Providing full and enduring relief from reporting requirements will reduce the drivers to overcome technical challenges, even though these difficulties may be overcome over time. This would not be a desirable outcome and would set an unwelcome precedent. ASFI understands that some relief may be appropriate to provide time to deal with technical challenges. Such relief should be limited and time-bound to preserve a driver to create appropriate disclosure methodologies.

ASFI is concerned that limiting scope 3 category 15 emissions to strictly financed emissions creates potential gaps in disclosures. Markets and other stakeholders may have a significant and legitimate interest in facilitated and insurance-associated emissions. Insurance-associated emissions are particularly material to establishing the climate-related bona fides of a range of financial institutions – the scope 3 emissions associated with the insurance business of an entity are entirely analogous to the financed emissions of an investor. The emissions intensity of an insurer's activities provides important information about how that entity is allocating its resources, and whether that entity is adequately preparing for the transition risks of climate change.

Equally, facilitated emissions should be considered important to support market transparency. While an organisation that facilitates finance has less exposure to the emissions and risks associated with that finance than an entity that provides finance directly, these emissions nonetheless contribute to the overall transition-readiness and profile of an organisation. Information about these activities are still germane to investors, governments and other stakeholders wishing to make informed judgements about the way in which organisations are responding to the transition.

Given these concerns, ASFI recommends that the International Sustainability Standards Board **not proceed** with the proposed provision of permanent relief for facilitated and insurance-associated emissions. Instead, ASFI suggests that the ISSB explore how these emissions can best be incorporated into financial statements and consider providing limited and time-bound reporting relief if necessary.