AASB Sustainability Reporting
Exposure Draft

ED SR1
October 2023

Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information

Comments to the AASB by 1 March 2024

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Sustainability Reporting Exposure Draft

Comments on this Exposure Draft are requested by 1 March 2024.

Formal submissions

Submissions should be lodged online via the "Current Projects – Open for Comment" page of the AASB website (www.aasb.gov.au/current-projects/open-for-comment) as a PDF document and, if possible, a Word document (for internal use only).

Online survey

Although submitting a formal submission is the best way to express views to the AASB relating to a consultation document, preparing a formal submission may require a lot of time and effort from stakeholders. To assist stakeholders in providing timely responses to the AASB on the draft Australian Sustainability Reporting Standards included in this Exposure Draft, AASB staff have developed an online survey setting out the main areas for which stakeholders' views are sought. Survey responses will not be attributed to individuals or organisations and will be presented to the AASB in an aggregated form.

To complete the survey, visit this page (https://www.surveymonkey.com/r/AASBEDSR1) on a web browser and follow the on-screen instructions.

Other feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements or sustainability reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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AUSTRALIAN SUSTAINABILITY REPORTING STANDARDS – DISCLOSURE OF CLIMATE-RELATED FINANCIAL INFORMATION

Introduction

Australian Sustainability Reporting Standards

The Australian Accounting Standards Board (AASB) develops Australian Sustainability Reporting Standards.

The AASB is a Commonwealth entity under the *Australian Securities and Investments Commission Act 2001*.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows in developing a new Australian Sustainability Reporting Standard. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Sustainability Reporting Standards.

Why we are making these proposals

Entities preparing general purpose financial statements (GPFS), which are a particular form of general purpose financial reports (GPFR), are required under Australian Accounting Standards to consider climate-related matters in their GPFS when the effect of those matters is material to primary users of GFPS.[1] However, because Accounting Standards do not refer explicitly to climate-related matters and material information about climate-related matters often falls outside the scope of GPFS, there has been a demand for the AASB to expand the scope of its work to develop additional guidance or requirements to promote consistent and comparable reporting of climate-related financial information.

Feedback to Invitation to Comment ITC 46 *AASB Agenda Consultation 2022–2026* confirmed Australian stakeholders' support for the AASB to address sustainability reporting more broadly as a high-priority project. In February 2022, the AASB formally added the Sustainability Reporting project to its work plan.

In March 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation published for consultation Exposure Draft on [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and Exposure Draft on [draft] IFRS S2 *Climate-related Disclosures*, which integrated and built on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) created by the Financial Stability Board (FSB). In April 2022, the AASB published Exposure Draft ED 321[2] to obtain stakeholders' input on the approach to developing sustainability-related financial reporting requirements in Australia and on the suitability of the proposals in the [draft] IFRS S1 and [draft] IFRS S2 for use in developing Australian sustainability-related reporting requirements.

The Australian Government has announced its commitment to introducing internationally-aligned mandatory climate-related financial reporting for large businesses and financial institutions. As part of this commitment, the Government decided:

(a) the Australian Government Department of the Treasury (Treasury) will lead the development of a broad sustainable finance framework for large businesses and financial institutions, of which climate-related financial disclosure will form one part,[3] and the Department of Finance will lead the related work to implement appropriate arrangements for comparable Commonwealth public sector entities to disclose their exposure to climate-related risks and opportunities;

(b) to introduce standardised reporting requirements for large businesses and financial institutions to make disclosures regarding governance, strategy, risk management, and metrics and targets—the four pillars in the TCFD Recommendations, which have been applied by some Australian entities since 2017;

(c) to align as far as possible with IFRS S2 *Climate-related Disclosures* issued by the ISSB;[4] and

(d) to amend the *Australian Securities and Investments Commission Act 2001* to empower the AASB to deliver Australian Sustainability Reporting Standards to meet the Australian Government's commitment.[5]

1 See paragraph BC95 in the Basis for Conclusions included in this Exposure Draft.

2 AASB ED 321 *Request for Comment on ISSB [draft] IFRS S1* General Requirements for Disclosure of Sustainability-related Financial Information *and [draft] IFRS S2* Climate-related Disclosures.

3 See Treasury's consultations on Climate-related financial disclosure in December 2022 and June 2023.

4 The Australian Treasurer's address to the Australian Sustainable Finance Institute on 12 December 2022.

5 See the Australian Government's consultation *Empowering the AASB to deliver sustainability standards* (November 2022).

Considering the commitment from the Australian Government to introduce internationally-aligned mandatory climate-related financial reporting for large businesses and financial institutions and feedback to ED 321, the AASB decided:

(a) to develop Australian sustainability-related reporting requirements as a separate suite of standards to Accounting Standards;

(b) to use the work of the ISSB as a foundation, with modifications for Australian matters and requirements where necessary to meet the needs of Australian stakeholders; and

(c) in aligning with the Australian Government's direction to address climate-related financial disclosures first, to develop climate-related financial disclosure requirements that can, at least initially, be applied independently of any broader sustainability reporting framework. This approach would permit additional time to consider the development of reporting requirements for other sustainability-related matters in Australia over time.

In June 2023, the ISSB issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. Accordingly, the AASB has issued this Exposure Draft, ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, to propose Australian climate-related financial disclosure requirements, using IFRS S1 and IFRS S2 as the baseline. The proposals would require an entity to disclose climate-related financial information in a GPFR (e.g. as part of its annual report).

What we are proposing

This Exposure Draft includes three draft Australian Sustainability Reporting Standards (ASRS Standards):

(a) [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using IFRS S1 as the baseline but with a scope limitation to climate-related financial disclosure;

(b) [draft] ASRS 2 *Climate-related Financial Disclosures*, developed using IFRS S2 as the baseline; and

(c) [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service standard that would be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.

The AASB developed [draft] ASRS 1 and [draft] ASRS 2 based on consideration of Treasury's *Climate-related Financial Disclosure: Consultation Paper* (June 2023) (Treasury's second consultation paper on the subject) and informal feedback from stakeholders, including staff members of Treasury, the Australian Government Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the CSIRO.

The proposals in this Exposure Draft are subject to change based on the anticipated Australian Government policy announcement, exposure draft legislation, and final amendments to that legislation.

Application date

At the time of publishing this Exposure Draft, the Australian Parliament has not yet passed legislation setting out the entities that would be required to prepare climate-relate financial disclosures in accordance with ASRS Standards. In its second consultation, Treasury included "Table 2: Proposed roadmap for mandatory disclosure requirements" to set out the entities that the Australian Government considers should be subject to mandatory climate-related disclosure requirements. That table is reproduced below.

Proposed roadmap for mandatory disclosure requirements[6]

Timing	Reporting entities
Group 1 *2024-25 onwards*	Entities required to report under Chapter 2M of the Corporations Act and that fulfill **two of the three** thresholds: – Has over 500 employees; – The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $1 billion or more; – The consolidated revenue for the financial year of the company and any entities it controls is $500 million or more. AND Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act and meet the NGER publication threshold.

6 This table is extracted from pages 8–9 of the Treasury's second consultation paper.

Timing	Reporting entities
Group 2 *2026-27 onwards*	Entities required to report under Chapter 2M of the Corporations Act and that fulfill **two of the three** thresholds: – Has over 250 employees; – The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $500 million or more; – The consolidated revenue for the financial year of the company and any entities it controls is $200 million or more. AND Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act and meet the NGER publication threshold.
Group 3 *2027-28 onwards*	Entities required to report under Chapter 2M of the Corporations Act and that fulfill **two of the three** thresholds: – has over 100 employees; – The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $25 million or more; – The consolidated revenue for the financial year of the company and any entities it controls is $50 million or more. AND Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act.

If that proposed roadmap is included in legislation, this would mean that [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101 would be required to be applied:

(a) for entities in Group 1 – in annual periods beginning on or after 1 July 2024;

(b) for entities in Group 2 – in annual periods beginning on or after 1 July 2026; and

(c) for entities in Group 3 – in annual periods beginning on or after 1 July 2027.

To support the Government's proposals set out in Treasury's second consultation paper, the AASB is proposing [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101 would apply to annual reporting periods beginning on or after 1 July 2024. However, the financial period in which an entity is first required to apply those ASRS Standards would be subject to decisions of the Australian Government.

What happens next

The AASB will consider feedback on this Exposure Draft at future meetings and, based on the information received, will determine whether the proposals should be implemented, with or without amendment. Depending on the nature and extent of the feedback, the AASB may publish another Exposure Draft or a Fatal-Flaw Review Draft to enable further consultation with stakeholders.

Making of ASRS Standards

At the time of publishing this Exposure Draft, the AASB has the legislative ability to develop ASRS Standards, but not to formally make (issue) them.

The formal making of ASRS Standards as legislative instruments by the AASB will depend on the *Australian Securities and Investments Commission Act 2001* being amended by Parliament to empower the AASB to issue ASRS Standards.

We need your feedback

Comments are invited on any of the proposals in this Exposure Draft by 1 March 2024. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue (whether an issue specifically identified below or another issue).

Online survey

Although submitting a formal submission is the best way to express views to the AASB relating to a consultation document, preparing a formal submission may require a lot of time and effort from stakeholders. To assist stakeholders in providing timely responses to the AASB on the draft ASRS Standards in this Exposure Draft, AASB staff have developed an online survey setting out the main areas in which stakeholders' views are sought. Survey responses will not be attributed to individuals or organisations and will be presented to the AASB in an aggregated form.

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Specific matters for comment

The AASB would particularly value comments on the following:

Presenting the core content of IFRS S1 in [draft] ASRS Standards

> The AASB is proposing to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures. Therefore, in developing the [draft] ASRS Standards, all references to "sustainability" in IFRS S1 have been replaced with "climate". After making that change, the requirements in IFRS S2 in respect to core content disclosures of governance, strategy and risk management duplicate the requirements in IFRS S1. To minimise unnecessary duplication, the AASB considered three possible options regarding how to present the core content disclosure requirements of IFRS S1 in [draft] ASRS Standards (see paragraphs BC21–BC24).
>
> The AASB is proposing to develop two [draft] ASRS Standards ([draft] ASRS 1, based on IFRS S1, and [draft] ASRS 2, based on IFRS S2), and instead of having the same requirements duplicated in both [draft] Standards, decided to include in [draft] ASRS 1 the requirements relating to core content disclosures of governance, strategy and risk management, and in [draft] ASRS 2, to replace relevant IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing the corresponding paragraphs in [draft] ASRS 1.

1 In respect of presenting the core content disclosure requirements of IFRS S1, do you prefer:

(a) Option 1 – one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgements, uncertainties and errors (i.e. all relevant requirements other than those relating to the core content that are exactly the same as the requirements in IFRS S2) within an Australian equivalent of IFRS S2;

(b) Option 2 – two ASRS Standards where the same requirements in respect to disclosures of governance, strategy and risk management would be included in both Standards;

(c) Option 3 – two ASRS Standards, by including in [draft] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [draft] ASRS 2, replacing duplicated content with Australian-specific paragraphs cross-referencing to the corresponding paragraphs in [draft] ASRS 1 (which is the option adopted by the AASB in developing the [draft] ASRS 1 and [draft] ASRS 2 in this Exposure Draft); or

(d) another presentation approach (please provide details of that presentation method)?

Please provide reasons to support your view.

Replacing duplicated content with references to the Conceptual Frameworks

> As noted in paragraphs BC25–BC27, the AASB is of the view that since the *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of Financial Statements* (in respect to not-for-profit entities) are not legislative instruments and do not form part of the authoritative Australian Accounting Standards, they should not be made enforceable as part of [draft] ASRS Standards. Accordingly, where components of those Frameworks have been duplicated within IFRS S1 and IFRS S2 as requirements with which an entity must comply, the AASB is proposing to replace the relevant IFRS S1 and IFRS S2 paragraphs with Australian-specific paragraphs cross-referencing to those Frameworks.

2 Do you agree with the AASB's approach to make references to its *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of*

Financial Statements (in respect to not-for-profit entities) instead of duplicating definitions and contents of those Frameworks in [draft] ASRS 1 and [draft] ASRS 2? Please provide reasons to support your view.

Entities that do not have material climate-related risks and opportunities

Treasury's second consultation paper indicated that, where an entity assesses climate-related risks and opportunities as not material, disclosing that fact would be useful information to users. Accordingly, the AASB is proposing that if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact and explain how it came to that conclusion (see paragraphs BC34–BC36).

3 Do you agree with the proposed requirements in [draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2? Please provide reasons to support your view.

Modifications to the baseline of IFRS S1 for [draft] ASRS 1

Sources of guidance and references to Sustainability Accounting Standards Board (SASB) Standards

As noted in paragraphs BC39–BC41, the AASB is proposing to remove from IFRS S1 and IFRS S2 the requirement for an entity to consider the applicability of SASB Standards and references to *Industry-based Guidance on Implementing IFRS* S2 issued by the ISSB developed based on SASB Standards. This is mainly because:

(a) the ISSB's public consultation period was too short for Australian stakeholders to appropriately consider the proposals in Appendix B to [draft] IFRS S2 (issued by the ISSB as *Industry-based Guidance on Implementing IFRS S2*) and for the AASB to appropriately apply its own due process;

(b) not all of the proposals in Appendix B to [draft] IFRS S2 are related to climate-related risks and opportunities; and

(c) the SASB Standards are US-centric and not representative of the Australian or global market.

4 Do you agree with the AASB's views noted in paragraphs BC39–BC41? Please provide reasons to support your view.

The industry classification system used in Australia is the *Australian and New Zealand Standard Industrial Classification* (ANZSIC) issued by the Australian Bureau of Statistics. As noted in paragraph BC42, to avoid introducing requirements that would require an entity to use another industry classification system, the AASB is proposing to specify in [draft] ASRS Standards that, if an entity elects to make industry-based disclosures, the entity shall consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC (see paragraphs Aus48.1, Aus55.1, Aus58.1 and AusB20.1 of [draft] ASRS 1 and paragraphs Aus32.1, Aus37.1, AusB63.1 and AusB67.1 of [draft] ASRS 2).

5 Do you agree with the AASB's view that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC? Please provide reasons to support your view.

6 Do you consider that ASRS Standards should expressly permit an entity to also provide voluntary disclosures based on other relevant frameworks or pronouncements (e.g. the SASB Standards)? Entities are able to provide additional disclosures provided that they do not obscure or conflict with required disclosures. Please provide reasons to support your view.

Disclosing the location of the entity's climate-related financial disclosures

As noted in paragraphs BC43–BC45, in its second consultation Treasury proposed to require entities to include an index table in its annual report that displays climate-related financial disclosure requirements (i.e. governance, strategy, risk management, and metrics and targets) and the relevant disclosure section and page number. Feedback to that consultation indicated that there was overall support for such an index table and that it would provide useful information to users.

However, the AASB was concerned that requiring an entity to include a detailed index table in its GPFR could be onerous to prepare. The AASB is of the view that the benefits of having such a detailed index table presented in an entity's GPFR would not outweigh the cost and effort required to prepare the index table.

7 Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 to [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures. Do you agree with that proposed requirement? Please provide reasons to support your view.

Interim reporting

Treasury staff observed that the feedback received on the second consultation paper indicated there was a significant degree of confusion over whether interim reporting of climate-related financial disclosures would be mandatory, since IFRS S1 included optional requirements on interim reporting. As noted in paragraph BC46, to help avoid creating confusion around interim reporting the AASB is proposing to omit the following IFRS S1 paragraphs in [draft] ASRS 1:

(a) IFRS S1 paragraph 69, which requires an entity electing to prepare interim reports to comply with IFRS S1 paragraph B48; and

(b) IFRS S1 paragraph B48, which provides guidance on the content of interim disclosures should an entity elect to prepare interim reports.

8 Do you agree with the proposed omission of IFRS S1 paragraphs 69 and B48? Please provide reasons to support your view.

Modifications to the baseline of IFRS S2 for [draft] ASRS 2

Scope of [draft] ASRS 2

IFRS S2 applies to climate-related risks and opportunities within the context of climate change. As noted in paragraphs BC49–BC50, feedback to ED 321 highlighted that there was a significant degree of confusion on what was meant by "climate" and the boundary of [draft] IFRS S2. Given that IFRS S2 makes no reference to climate-related financial disclosures beyond climate change or other climate-related emissions, the AASB decided to add paragraph Aus3.1 to [draft] ASRS 2 to clarify the scope of the Standard—that [draft] ASRS 2:

(a) is limited to climate-related risks and opportunities related to climate change; and

(b) does not apply to other climate-related emissions (e.g. ozone depleting emissions) that are not greenhouse gas (GHG) emissions.

That scope statement would also clarify that [draft] ASRS 2 does not replace existing legislation or pronouncements prescribing reporting requirements related to other sustainability-related topics (e.g. water and biodiversity).

9 Do you agree with the proposal in [draft] ASRS 2 paragraph Aus3.1 to clarify the scope of the [draft] Standard? Please provide reasons to support your view.

Climate resilience

IFRS S2 does not prescribe the number of scenarios an entity is required to assess to meet the disclosure objective of IFRS S2 paragraph 22.

As noted in paragraphs BC51–BC54, the AASB considered the Treasury's second consultation paper and added paragraph Aus22.1 to [draft] ASRS 2 to propose requiring an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures to disclose its climate resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022* (i.e. 1.5°C above pre-industrial levels).

The global temperature goal set out in paragraphs 3(a)(i) and 3(a)(ii) of the Climate Change Act is to contribute to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels; and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels." To avoid entities incurring unnecessary costs and effort in determining which temperature goal to select within the range of 1.5°C and below 2°C above pre-industrial levels, the AASB decided to specify the most ambitious global temperature goal set out in the Climate Change Act (i.e. 1.5°C above pre-industrial levels).

Consistent with the ISSB's reasons, the AASB decided not to specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis, which mainly assesses climate-related physical risks.

This is because scenarios used in assessing physical risk would depend on the entity's facts and circumstances, including the nature and location of its operations.

10 Do you agree with the proposal in [draft] ASRS 2 paragraph Aus22.1? Please provide reasons to support your view.

11 Do you agree with the AASB's view that it should not specify the upper-temperature scenario that an entity must use in its climate-related scenario analysis? Please provide reasons to support your view.

Cross-industry metric disclosures (paragraphs 29(b)–29(g))

12 Do you consider the cross-industry metric disclosures set out in paragraphs 29(b)–29(g) of IFRS S2 (and [draft] ASRS 2) would provide useful information to users about an entity's performance in relation to its climate-related risks and opportunities? Please provide reasons to support your view.

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

AASB members formed two views regarding whether to require Australian entities to disclose the following information as set out in [draft] ASRS 2 paragraph 29(g):

(a) a description of whether and how climate-related considerations are factored into executive remuneration; and

(b) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

One of the concerns noted by a minority of the AASB is that if [draft] ASRS 2 paragraph 29(g) is included in the final Standard, it might be seen as the AASB replicating remuneration reporting requirements outside of Australian legislation. However, for the reasons outlined in paragraphs BC57–BC63, on balance the AASB decided to propose that entities should be required to disclose that information.

To avoid potential conflicts with existing regulatory requirements or entities attempting to define which of their key management personnel is considered an "executive", the AASB decided to clarify that, in the context of [draft] ASRS 2, "executive" and "executive management" has the same meaning as "key management personnel" and "remuneration" has the same meaning as "compensation", both as defined in AASB 124 *Related Party Disclosures*.

13 Do you agree with the proposed requirements in [draft] ASRS 2 paragraphs 29(g) and Aus29.1 to disclose the information described in points (a) and (b) in the above box? In your opinion, will this requirement result in information useful to users? Please provide reasons to support your view.

Greenhouse gas (GHG) emissions (paragraphs Aus31.1 and B19–AusB63.1 and Australian application guidance)

Definition of greenhouse gases

As noted in paragraphs BC66–BC69, IFRS S2 defines greenhouse gases as the seven greenhouse gases listed in the Kyoto Protocol. However, the AASB noted that one of those gases, nitrogen trifluoride (NF_3), is not listed in the *National Greenhouse and Energy Reporting Act 2007* and related regulations (NGER Scheme legislation) as a class of greenhouse gas.

Despite that difference, the AASB decided to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification. This is because Australia does not have a significant presence in the manufacturing of items containing NF_3. Therefore, it is expected that not many Australian entities would have material NF_3 emissions to report.

14 Do you agree with the AASB's proposal to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification? Please provide reasons to support your view.

Converting greenhouse gases into a CO_2 equivalent value

Paragraphs B21 and B22 of IFRS S2 require an entity to convert greenhouse gases into a CO_2 equivalent value using global warming potential (GWP) values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change (IPCC) assessment available at the reporting date. The IPCC has undertaken its 6th assessment in 2023. Therefore, if an entity is preparing climate-related financial disclosures for the period beginning 1 July 2024, under IFRS S2 the entity would be required to convert greenhouse gases using the GWP values in the IPCC 6th assessment report (AR6).

However, entities reporting under NGER Scheme legislation would be required to use the GWP values in the IPCC 5th assessment report (AR5). As noted in paragraphs BC70–BC72, to avoid regulatory burden for certain Australian entities, the AASB added paragraphs AusB22.1 and AusB22.2 to [draft] ASRS 2 to require an entity to convert greenhouse gases using the GWP values in AR5, as identified in [draft] ASRS 101.

15 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.

Market-based Scope 2 GHG emissions

IFRS S2 paragraph 29(a)(v) requires an entity to disclose its location-based Scope 2 GHG emissions. However, the Treasury's second consultation paper proposed a phased-in approach to requiring an entity to also disclose market-based Scope 2 GHG emissions. The AASB added paragraphs Aus31.1(f) and AusC4.2 to propose requiring an entity that would be required by the *Corporations Act 2001* to prepare climate-related financial disclosures to disclose its market-based Scope 2 GHG emissions in addition to its location-based Scope 2 GHG emissions, except for the first three annual reporting periods in which such an entity applies [draft] ASRS 2 (see also paragraphs BC78–BC79).

16 Do you agree with the proposals set out in [draft] ASRS 2 paragraphs Aus31.1(f) and AusC4.2? Please provide reasons to support your view.

GHG emission measurement methodologies

The AASB added paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 to specify that an entity would be required to:

(a) consider the measurement of its Scope 1 GHG emissions, location-based Scope 2 GHG emissions, market-based Scope 2 GHG emissions (when applicable) and Scope 3 GHG emissions separately;

(b) apply methodologies set out in NGER Scheme legislation, using Australian-specific data sources and factors for the estimation of greenhouse gas emissions, to the extent practicable; and

(c) when applying a methodology in NGER Scheme legislation is not practicable, apply:

    (i) a methodology that is consistent with measurement methods otherwise required by a jurisdictional authority or an exchange on which the entity is listed that are relevant to the sources of the greenhouse gas emissions; or

    (ii) in the absence of such a methodology, a relevant methodology that is consistent with GHG Protocol Standards.[7]

The diagram in the *Australian Application Guidance* accompanying [draft] ASRS 2 illustrates the application of paragraphs Aus31.1(b) and AusB25.1. See also paragraphs BC73–BC76.

17 Do you agree with the proposals in [draft] ASRS 2 paragraphs Aus31.1(b) and AusB25.1? Please provide reasons to support your view.

Providing relief relating to Scope 3 GHG emissions

As noted in paragraphs BC80–BC81, the AASB decided to add paragraph AusB39.1 to [draft] ASRS 2 to propose permitting an entity to disclose in the current reporting period its Scope 3 GHG emissions using data for the immediately preceding reporting period, if reasonable and supportable data related to the current reporting period is unavailable.[8]

18 Do you agree with the proposal in paragraph AusB39.1 of [draft] ASRS 2? Please provide reasons to support your view.

Scope 3 GHG emission categories

IFRS S2 paragraphs B32–B33 require an entity to categorise the sources of its Scope 3 GHG emissions based on the 15 categories listed in the IFRS S2 definition, which was taken from the GHG Protocol Standards. However, as noted in paragraphs BC82–BC85, the AASB observed that those 15 categories of Scope 3 GHG

7 *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* and *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

8 Under [draft] ASRS 2 paragraph AusC4.1, an entity would not be required to disclose its Scope 3 GHG emissions in the first annual reporting period in which the entity applies [draft] ASRS 2.

emissions are not referenced in IPCC guidelines or the Paris Agreement. The AASB was unsure whether requiring categorisation of the sources of Scope 3 GHG emissions under the 15 categories listed in the IFRS S2 definition would achieve international alignment if entities in other jurisdictions that are parties to the Paris Agreement are able to disclose different categories.

The AASB considered whether it would be more appropriate to require Australian entities to categorise the sources of their Scope 3 GHG emissions consistent with the categories outlined in IPCC guidelines and National Greenhouse Gas Inventory reporting requirements. However, the AASB rejected that approach because the objective of IFRS S2 paragraphs B32–B33 is to disclose information about the entity's activities that give rise to Scope 3 GHG emissions, and the IPCC sectoral classifications do not appear to be sufficient in identifying the entity's activities. For example, it is unclear whether the sectoral categories would provide information about emissions arising from business travel, employee commuting and investments, which are categories in IFRS S2.

The AASB decided to add the Scope 3 GHG emission categories in IFRS S2 to [draft] ASRS 2 as examples of categories that an entity could consider when disclosing the sources of its Scope 3 GHG emissions, rather than requiring an entity to categorise the sources of emissions in accordance with the categories of the GHG Protocol Standards (see [draft] ASRS 2 paragraph AusB33.1).

19 Do you agree with the AASB's approach in [draft] ASRS 2 paragraph AusB33.1 to include the Scope 3 GHG emission categories in IFRS S2 as examples of categories that an entity could consider when disclosing the sources of its Scope 3 GHG emissions, rather than requiring an entity to categorise the sources of emissions in accordance with the categories of the GHG Protocol Standards? Please provide reasons to support your view.

Financed emissions

As noted in paragraph BC86, IFRS S2 paragraphs 29(a)(vi)(2) and B58–B63 require an entity that participates in asset management, commercial banking or financial activities associated with insurance to provide additional disclosures relating to its financed emissions.

When incorporating those IFRS S2 requirements relating to financed emissions, instead of requiring an entity to disclose the information outlined in IFRS S2 paragraphs B61–B63, the AASB proposes to require an entity to consider the applicability of those disclosures related to its financed emissions (see [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1). This is because IFRS S2 paragraphs B61–B63 are based on GHG Protocol Standards requirements, which require an entity to disaggregate its Scope 1 and Scope 2 GHG emissions (in addition to its Scope 3 GHG emissions). The AASB is of the view that entities that apply methodologies set out in NGER Scheme legislation to measure their Scope 1 and Scope 2 GHG emissions may not have the information necessary for those disaggregated disclosures.

An entity is required to disclose the information outlined in [draft] ASRS 2 paragraphs AusB61.1 and AusB63.1 if those disclosures are applicable to the entity.

20 Do you agree with the AASB's proposal to require an entity to consider the applicability of those disclosures related to its financed emissions, as set out in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information? Please provide reasons to support your view.

Superannuation entities

As noted in paragraphs BC87–BC88, the AASB has heard from some stakeholders that superannuation entities may have challenges complying with climate-related financial disclosure requirements set out in IFRS S1 and IFRS S2.

21 In your opinion, are there circumstances specific to superannuation entities that would cause challenges for superannuation entities to comply with the proposed requirements in [draft] ASRS 1 and [draft] ASRS 2? If so, please provide details of those circumstances and why they would lead to superannuation entities being unable to comply with the proposed requirements or else able to comply only with undue cost or effort.

Carbon credits

IFRS S2 defines a carbon credit as "An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are **uniquely serialised**, issued, tracked and cancelled by means of an electronic registry." [emphasis added]

As noted in paragraphs BC90–BC92, non-Kyoto Australian carbon credit units (ACCUs) are not uniquely serialised. The AASB is proposing to modify the definition of carbon credit in [draft] ASRS 2 to specify that carbon credits issued under the Australian Carbon Credits Units Scheme meet the definition of carbon credit, to ensure non-Kyoto ACCUs can also be recognised as carbon credits in the context of the [draft] Standard.

22 Do you agree with the AASB's proposal to modify the definition of carbon credit in [draft] ASRS 2? Please provide reasons to support your view.

Questions specific to not-for-profit entities

As noted in paragraphs BC28–BC30, the AASB is proposing to specify the objective of [draft] ASRS 1 and [draft] ASRS 2 in respect to a not-for-profit entity. Paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 state that the objective would be for a not-for-profit entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

23 Do you agree with paragraph Aus3.1(b) of [draft] ASRS 1 and paragraph 2.2(b) of [draft] ASRS 2 that the objective of a not-for-profit entity would be to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term? Please provide reasons to support your view.

24 Is there additional guidance that you consider would be helpful in explaining the objective of a not-for-profit entity preparing climate-related financial disclosures? If so, please provide details of that guidance and explain why you think it would be helpful.

[Draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1 propose that a not-for-profit entity would not need to undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, but would be required to use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by [draft] ASRS 1 and [draft] ASRS 2.

As noted in paragraphs BC31–BC33, the AASB is of the view that the clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided in the baseline of IFRS S1 and IFRS S2 (and the [draft] ASRS) relating to certain quantitative disclosures, would be sufficient to address cost-benefit concerns for not-for-profit entities to prepare climate-related financial disclosures and concerns with the scalability of [draft] ASRS 1 and [draft] ASRS 2 for not-for-profit entities.

25 Do you agree with the proposal in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1? Please provide reasons to support your view.

26 Do you agree with the AASB's view noted in paragraphs BC31–BC33 that the proposed clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients already provided through the baseline of IFRS S1 and IFRS S2, would be sufficient to address the cost-benefit and scalability concerns for not-for-profit entities preparing climate-related financial disclosures? Please provide reasons to support your view.

27 If you disagree with the AASB's view in Question 26, what other modifications could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to assist not-for-profit entities to comply with climate-related financial disclosure requirements without undue cost or effort? Please specify which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful.

Questions specific to not-for-profit public sector entities

Paragraphs BC105–BC106 set out a high-level overview of two matters raised by not-for-profit public sector stakeholders regarding applying climate-related financial disclosure requirements:

(a) whether climate-related financial disclosures should be provided by public sector entities on a mandatory or voluntary basis, and by which level of government entities; and

(b) how to determine the value chain of a government and public sector entities with multi-stakeholder groups.

Additionally, as noted in paragraphs BC107–BC109, the AASB is proposing to defer consideration of whether to undertake a domestic standard-setting project to develop Australian requirements or guidance for not-for-profit public sector entities to report the effect of climate-related risks and opportunities, and related government policies, on the economy, environment and people (i.e. climate-related impact reporting) until it has considered the results of the International Public Sector Accounting Standards Board's project on Climate-related Disclosures in due course.

Questions 28–29 below are designed for the AASB to obtain information on whether additional modifications to [draft] ASRS 1 and [draft] ASRS 2 may be needed to better support the application of the proposed requirements by not-for-profit public sector entities.

28 Unless already provided in response to Question 27, are there any other modifications or additions that could be made to the baseline of IFRS S1 and IFRS S2 as included in the [draft] ASRS to:

(a) assist not-for-profit public sector entities to apply the concept of value chain and other climate-related financial disclosure requirements; and

(b) better support alignment with public sector projects related to climate-related matters, such as the Australian Government's Australian Public Service (APS) Net Zero 2030 policy, which is a policy for the APS to reduce its greenhouse gas emissions to net zero by 2030?

In your response, please specify:

(a) which requirements in [draft] ASRS 1 and [draft] ASRS 2 you would suggest modifying, how those requirements could be modified and why you think the modifications would be helpful; and

(b) which of the following levels of government entities should be subject to your suggested modifications or additional requirements. Please provide reasons to support your view.

(i) Whole of Government;

(ii) General Government Sector;

(iii) Government departments;

(iv) Government entities; and

(v) Local governments.

29 Do you agree with the AASB's proposed approach of deferring consideration of whether to undertake a domestic standard-setting project to address Australian public sector climate-related impact reporting? Please provide reasons to support your view.

General matters for comment

The AASB would also particularly value comments on the following general matters:

30 Has the *AASB Sustainability Reporting Standard-Setting Framework* (September 2023) been applied appropriately in developing the proposals in this Exposure Draft?

31 Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including any issues relating to:

(a) not-for-profit entities; and

(b) public sector entities?

32 Do the proposals create any auditing or assurance challenges and, if so, please explain those challenges?

33 Would the proposals result overall in climate-related financial information that is useful to users?

34 Are the proposals in the best interests of the Australian economy?

35 Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs of the proposals.

[Draft] ASRS 1

General Requirements for Disclosure of Climate-related Financial Information

Contents

[Draft] Australian Sustainability Reporting Standard ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* is set out in paragraphs Aus1.1–86 and Appendices A–E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. [Draft] ASRS 1 is to be read in the context of other Australian Sustainability Reporting Standards, including [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.

Preface

Introduction

The Australian Accounting Standards Board (AASB) develops Australian Sustainability Reporting Standards.

The AASB is an Australian Government entity under the *Australian Securities and Investments Commission Act 2001*.

Main features of this [draft] Standard

Main requirements

[Draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* prescribes how an entity prepares and reports its climate-related financial disclosures that form part of its general purpose financial reporting. It sets out general requirements for the presentation of those disclosures, guidelines for their structure and minimum requirements for their content in order to provide users of general purpose financial reports with a complete set of climate-related financial disclosures. [Draft] ASRS 1 is to be read in the context of other Australian Sustainability Reporting Standards, including [draft] ASRS 2 *Climate-related Financial Disclosures* and [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.

Application date

This Standard applies to annual reporting periods beginning on or after … [1 July 2024].

This Standard may be applied to annual reporting periods beginning before … [1 July 2024]. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

Differences between this [draft] Standard and IFRS S1

The AASB developed [draft] ASRS 1 using the International Sustainability Standards Board's IFRS Sustainability Disclosure Standard IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* as the baseline. The following table summarises the main differences between the two Standards and the AASB's rationale for modifying the IFRS S1 requirements for [draft] ASRS 1.

IFRS S1	**[Draft] ASRS 1**	**Rationale for modification**
Interaction with other pronouncements		
Includes definitions and content identical to the *Conceptual Framework for Financial Reporting*	Includes references to the *Conceptual Framework for Financial Reporting* in respect to for-profit entities and references to the *Framework for the Preparation and Presentation of Financial Statements* in respect to not-for-profit entities	Conceptual Frameworks are not enforceable as part of Australian Accounting Standards and similarly their content should not be made enforceable as part of ASRS Standards (See paragraphs BC25–BC27)
Application		
Uses terminology suitable only for profit-orientated entities	Incorporates terminology suitable for not-for-profit entities	To support sector neutrality (See paragraphs BC28–BC33)
Scope		
Applies to the reporting of all sustainability-related financial information, including climate-related financial information	Applies only to the reporting of climate-related financial information	Consistent with the Treasury consultation papers, the AASB is addressing climate-related financial disclosure first and will consider the approach to broader sustainability

IFRS S1	[Draft] ASRS 1	Rationale for modification
		reporting matters in Australia at a later time (See paragraphs BC19–BC24)
No corresponding requirement in IFRS S1	Requires an entity that determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects to disclose this fact and explain how it came to this conclusion (See paragraph Aus6.2)	The AASB is of the view that where an entity assesses climate-related risks and opportunities as not material, disclosing that fact would be useful information to users (See paragraphs BC34–BC36)
Sources of guidance		
Requires an entity to apply Sustainability Accounting Standards Board (SASB) Standards in the absence of an appropriate IFRS Sustainability Disclosure Standard	Specifies that if an entity elects to make industry-based disclosures, the entity shall consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in the *Australian and New Zealand Standard Industrial Classification* (ANZSIC) (See paragraphs Aus48.1, Aus55.1, Aus58.1 and AusB20.1)	The AASB decided not to include references to SASB Standards, or to publish the industry-based guidance accompanying IFRS S2, until the content has been comprehensively internationalised by the ISSB and has undergone the AASB's own due process (See paragraphs BC39–BC42)
Location of disclosures		
Requires an entity to identify the report within which climate-related financial information is located	Further to the requirement in IFRS S1, [draft] ASRS 1 requires an entity to provide information in a manner that enables users to locate its disclosures prepared in accordance with applicable ASRS Standards (See paragraph Aus60.1)	To make it easier for users to locate an entity's climate-related financial disclosures (See paragraphs BC43–BC45)
Timing of reporting		
Gives an example of an entity preparing climate-related financial information for a period other than a 12-month period and addresses interim reporting	[Draft] ASRS 1 specifies the same reporting period for climate-related financial information as for the related financial statements, and does not address interim reporting (See paragraphs 64–65)	To avoid confusion by stakeholders about whether an entity would be permitted to prepare climate-related financial information for a length of time other than the same reporting period as the related financial statements and whether interim reporting is required (See paragraph BC46)

[Draft] Australian Sustainability Reporting Standard ASRS 1

The Australian Accounting Standards Board makes Australian Sustainability Reporting Standard ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*.

Keith Kendall
Dated … [date] Chair – AASB

[Draft] Australian Sustainability Reporting Standard ASRS 1
General Requirements for Disclosure of Climate-related Financial Information

Objective

1 [Deleted by the AASB]

Aus1.1 The objective of [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* is to require 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.[1]

Aus1.2 Primary users of general purpose financial reports for a for-profit entity are those described in paragraph 1.2 of the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*. Primary users of general purpose financial reports for a not-for-profit entity are those described in paragraph AusOB2.1 of the *Framework for Preparation and Presentation of Financial Statements*, as identified in [draft] ASRS 101.

2 [Deleted by the AASB]

Aus2.1 Material information about climate-related risks and opportunities is useful to primary users of general purpose financial reports. An entity's climate-related risks and opportunities arise out of the interactions between the entity and its stakeholders (including primary users of the entity's general purpose financial reports), society, the economy and the natural environment throughout the entity's *value chain*. These interactions—which can be direct and indirect—result from operating an entity's *business model* in pursuit of the entity's strategic purposes and from the external environment in which the entity operates. These interactions take place within an interdependent system in which an entity both depends on resources and relationships throughout its value chain to generate cash flows and affects those resources and relationships through its activities and outputs. These dependencies and impacts might give rise to climate-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, access to finance and cost of capital, and a not-for-profit entity's ability to further its objectives, over the short, medium and long term.

3 [Deleted by the AASB]

Aus3.1 This [draft] Standard requires:

(a) a for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and

(b) a not-for-profit entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

4 [Deleted by the AASB]

1 Throughout this [draft] Standard, the terms 'primary users of general purpose financial reports', 'users of general purpose financial reports', 'primary users' and 'users' are used interchangeably, with the same meaning.

Aus4.1 This [draft] Standard also prescribes how an entity prepares and reports its *climate-related financial disclosures*. It sets out general requirements for the presentation of those disclosures, guidelines for their structure and minimum requirements for their content.

Application

Aus4.2 … [To be determined, subject to Australian Government policy]

Scope

5 [Deleted by the AASB]

Aus5.1 An entity shall apply this [draft] Standard only if it applies [draft] ASRS 2 *Climate-related Financial Disclosures* at the same time. This [draft] Standard shall be read in the context of [draft] ASRS 2. [Draft] ASRS 2 specifies information an entity is required to disclose about climate-related risks and opportunities.

6 Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this [draft] Standard.

Aus6.1 A not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. A not-for-profit entity shall use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by this [draft] Standard and other applicable Australian Sustainability Reporting Standards.

Aus6.2 For the purposes of this [draft] Standard, if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general purpose financial reports.

7–9 [Deleted by the AASB]

Conceptual foundations

10 [Deleted by the AASB]

Aus10.1 The AASB issued the following Conceptual Frameworks to describe the objective of, and the concepts that apply to, general purpose financial reports:

(a) in respect to for-profit entities, the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101; and

(b) in respect to not-for-profit entities, the *Framework for Preparation and Presentation of Financial Statements*, as identified in [draft] ASRS 101.

Aus10.2 Climate-related financial disclosures form part of general purpose financial reports. The qualitative characteristics in the Conceptual Frameworks therefore are relevant to climate-related financial information. However, the nature of some of the information required to meet the objective of this [draft] Standard (see paragraphs Aus1.1–Aus4.1) differs in some respects from the information provided in financial statements.

Aus10.3 If climate-related financial information is to be useful, it should be relevant and faithfully represent what it purports to represent. The usefulness of climate-related financial information is enhanced if the information is comparable, verifiable, timely and understandable, as described in:

(a) in respect to for-profit entities, Chapter 2 of the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101; and

(b) in respect to not-for-profit entities, Appendix Chapter 3 of the *Framework for Preparation and Presentation of Financial Statements*, as identified in [draft] ASRS 101.

Fair presentation

11 [Deleted by the AASB]

Aus11.1 A complete set of climate-related financial disclosures shall present fairly climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects.

12 To identify climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity shall apply paragraphs AusB1.1–B12.

13 [Deleted by the AASB]

Aus13.1 Fair presentation requires disclosure of relevant information about climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, and their faithful representation. Entities shall refer to, and consider the applicability of, the principles set out in:

(a) in respect to for-profit entities, Chapter 2 of the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101; and

(b) in respect to not-for-profit entities, Appendix Chapter 3 of the *Framework for Preparation and Presentation of Financial Statements*, as identified in [draft] ASRS 101.

14 Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, in the context of the entity's climate-related financial disclosures.

15 [Deleted by the AASB]

Aus15.1 Further to paragraph Aus13.1, fair presentation also requires:

(a) in respect to for-profit entities, an entity to disclose additional information if compliance with the specific requirements in Australian Sustainability Reporting Standards is insufficient to enable users of general purpose financial reports to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital over the short, medium and long term; and

(b) in respect of not-for-profit entities, an entity to disclose additional information if compliance with the specific requirements in Australian Sustainability Reporting Standards is insufficient to enable users of general purpose financial reports to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital, and its ability to further its objectives, over the short, medium and long term.

16 Applying Australian Sustainability Reporting Standards, with additional information disclosed when necessary (see paragraph Aus15.1), is presumed to result in climate-related financial disclosures that achieve fair presentation.

Materiality

17 An entity shall disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

18 In the context of climate-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and climate-related financial disclosures and which provide information about a specific reporting entity.

19 To identify and disclose material information, an entity shall apply paragraphs B13–B37.

Reporting entity

20 An entity's climate-related financial disclosures shall be for the same reporting entity as the related financial statements (see paragraph AusB38.1).

Connected information

21 An entity shall provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:

(a) the connections between the items to which the information relates—such as connections between various climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

(b) the connections between disclosures provided by the entity:

(i) within its climate-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and

(ii) across its climate-related financial disclosures and other general purpose financial reports published by the entity—such as its related financial statements (see paragraphs B39–B44).

22 **An entity shall identify the financial statements to which the climate-related financial disclosures relate.**

23 **Data and assumptions used in preparing the climate-related financial disclosures shall be consistent—to the extent possible considering the requirements of Australian Accounting Standards—with the corresponding data and assumptions used in preparing the related financial statements (see paragraph B42).**

24 **When currency is specified as the unit of measure in the climate-related financial disclosures, the entity shall use the presentation currency of its related financial statements.**

Core content

25 **Unless another Australian Sustainability Reporting Standard permits or requires otherwise in specified circumstances, an entity shall provide disclosures about:**

(a) governance—the governance processes, controls and procedures the entity uses to monitor and manage climate-related risks and opportunities (see paragraphs 26–27);

(b) strategy—the approach the entity uses to manage climate-related risks and opportunities (see paragraphs 28–42);

(c) risk management—the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities (see paragraphs 43–44); and

(d) metrics and targets—the entity's performance in relation to climate-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation (see paragraphs 45–53).

Governance

26 **The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.**

27 To achieve this objective, an entity shall disclose information about:

(a) the governance body(s) (which can include a board, committee or equivalent body charged with governance) or individual(s) responsible for oversight of climate-related risks and opportunities. Specifically, the entity shall identify that body(s) or individual(s) and disclose information about:

(i) how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s);

(ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities;

(iii) how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities;

(iv) how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and

(v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets (see paragraph 51), including whether and how related performance metrics are included in remuneration policies; and

(b) management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:

(i) whether the role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or committee; and

(ii) whether management uses controls and procedures to support the oversight of climate-related risks and opportunities and, if so, how these controls and procedures are integrated with other internal functions.

Strategy

28 The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities.

29 Specifically, an entity shall disclose information to enable users of general purpose financial reports to understand:

(a) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraphs 30–31);

(b) the current and anticipated effects of those climate-related risks and opportunities on the entity's *business model* and value chain (see paragraph 32);

(c) the effects of those climate-related risks and opportunities on the entity's strategy and decision-making (see paragraphs 33–Aus33.1);

(d) the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning (see paragraphs 34–40); and

(e) the resilience of the entity's strategy and its business model to those climate-related risks (see paragraphs 41–42).

Climate-related risks and opportunities

30 An entity shall disclose information that enables users of general purpose financial reports to understand the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Specifically, the entity shall:

(a) describe climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;

(b) specify the time horizons—short, medium or long term—over which the effects of each of those climate-related risks and opportunities could reasonably be expected to occur; and

(c) explain how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.

31 Short-, medium- and long-term time horizons can vary between entities and depend on many factors, including industry-specific characteristics, such as cash flow, investment and business cycles, the planning horizons typically used in an entity's industry for strategic decision-making and capital allocation plans, and the time horizons over which users of general purpose financial reports conduct their assessments of entities in that industry.

Business model and value chain

32 An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain. Specifically, the entity shall disclose:

(a) a description of the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain; and

(b) a description of where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).

Strategy and decision-making

33 An entity shall disclose information that enables users of general purpose financial reports to understand the effects of climate-related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose information about:

(a) how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision-making;

(b) the progress against plans the entity has disclosed in previous reporting periods, including quantitative and qualitative information; and

(c) [Deleted by the AASB].

Aus33.1 An entity shall also disclose information about trade-offs between climate-related risks and opportunities that the entity considered (for example, in making a decision on the location of new operations, an entity might have considered the climate-related impacts of those operations).

Financial position, financial performance and cash flows

34 An entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects); and

(b) the anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning (anticipated financial effects).

35 Specifically, an entity shall disclose quantitative and qualitative information about:

(a) how climate-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period;

(b) the climate-related risks and opportunities identified in paragraph 35(a) for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) how the entity expects its financial position to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities, taking into consideration:

    (i) its investment and disposal plans (for example, plans for capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas, and asset retirements), including plans the entity is not contractually committed to; and

    (ii) its planned sources of funding to implement its strategy; and

(d) how the entity expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities.

36 In providing quantitative information, an entity may disclose a single amount or a range.

37 In preparing disclosures about the anticipated financial effects of a climate-related risk or opportunity, an entity shall:

(a) use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs B8–B10); and

(b) use an approach that is commensurate with the skills, capabilities and resources that are available to the entity for preparing those disclosures.

38 An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if the entity determines that:

(a) those effects are not separately identifiable; or

(b) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful (see paragraphs 77–82).

39 In addition, an entity need not provide quantitative information about the anticipated financial effects of a climate-related risk or opportunity if the entity does not have the skills, capabilities or resources to provide that quantitative information.

40 If an entity determines that it need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity applying the criteria set out in paragraphs 38–39, the entity shall:

(a) explain why it has not provided quantitative information;

(b) provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that climate-related risk or opportunity; and

(c) provide quantitative information about the combined financial effects of that climate-related risk or opportunity with other climate-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

Resilience

41 An entity shall disclose information that enables users of general purpose financial reports to understand its capacity to adjust to the uncertainties arising from climate-related risks. An entity shall disclose a qualitative and, if applicable, quantitative assessment of the resilience of its strategy and business model in relation to its climate-related risks, including information about how the assessment was carried out and its time horizon. When providing quantitative information, an entity may disclose a single amount or a range.

42 Other Australian Sustainability Reporting Standards may specify the type of information an entity is required to disclose about its resilience to specific climate-related risks and how to prepare those disclosures, including whether a *scenario analysis* is required.

Risk management

43 The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports:

(a) to understand an entity's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and

(b) to assess the entity's overall risk profile and its overall risk management process.

44 To achieve this objective, an entity shall disclose information about:

(a) the processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks, including information about:

(i) the inputs and parameters the entity uses (for example, information about data sources and the scope of operations covered in the processes);

(ii) whether and how the entity uses scenario analysis to inform its identification of climate-related risks;

(iii) how the entity assesses the nature, likelihood and magnitude of the effects of those risks (for example, whether the entity considers qualitative factors, quantitative thresholds or other criteria);

(iv) whether and how the entity prioritises climate-related risks relative to other types of risk;

(v) how the entity monitors climate-related risks; and

(vi) whether and how the entity has changed the processes it uses compared with the previous reporting period;

(b) the processes the entity uses to identify, assess, prioritise and monitor climate-related opportunities; and

(c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process.

Metrics and targets

45 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

46 An entity shall disclose, for each climate-related risk and opportunity that could reasonably be expected to affect the entity's prospects:

(a) metrics required by an applicable Australian Sustainability Reporting Standard; and

(b) metrics the entity uses to measure and monitor:

(i) that climate-related risk or opportunity; and

(ii) its performance in relation to that climate-related risk or opportunity, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

47–48 [Deleted by the AASB]

Aus48.1 Metrics disclosed by an entity applying paragraphs 45–46 may include well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in an industry, as classified in *ANZSIC*.

49 If an entity discloses a metric taken from a source other than Australian Sustainability Reporting Standards, the entity shall identify the source and the metric taken.

50 If a metric has been developed by an entity, the entity shall disclose information about:

(a) how the metric is defined, including whether it is derived by adjusting a metric taken from a source other than Australian Sustainability Reporting Standards and, if so, which source and how the metric disclosed by the entity differs from the metric specified in that source;

(b) whether the metric is an absolute measure, a measure expressed in relation to another metric or a qualitative measure (such as a red, amber, green—or RAG—status);

(c) whether the metric is validated by a third party and, if so, which party; and

(d) the method used to calculate the metric and the inputs to the calculation, including the limitations of the method used and the significant assumptions made.

51 An entity shall disclose information about the targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation. For each target, the entity shall disclose:

(a) the metric used to set the target and to monitor progress towards reaching the target;

(b) the specific quantitative or qualitative target the entity has set or is required to meet;

(c) the period over which the target applies;

(d) the base period from which progress is measured;

(e) any milestones and interim targets;

(f) performance against each target and an analysis of trends or changes in the entity's performance; and

(g) any revisions to the target and an explanation for those revisions.

52 The definition and calculation of metrics, including metrics used to set the entity's targets and monitor progress towards reaching them, shall be consistent over time. If a metric is redefined or replaced, an entity shall apply paragraph B52.

53 An entity shall label and define metrics and targets using meaningful, clear and precise names and descriptions.

General requirements

Sources of guidance

Identifying climate-related risks and opportunities

54 In identifying climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, an entity shall apply Australian Sustainability Reporting Standards.

55 [Deleted by the AASB]

Aus55.1 In addition to Australian Sustainability Reporting Standards, an entity may refer to and consider the applicability of the climate-related risks and opportunities identified by entities that operate in the same industry, as classified in ANZSIC.

Identifying applicable disclosure requirements

56 In identifying applicable disclosure requirements about a climate-related risk or opportunity that could reasonably be expected to affect an entity's prospects, an entity shall apply the Australian Sustainability Reporting Standard that specifically applies to that climate-related risk or opportunity.

57–58 [Deleted by the AASB]

Aus58.1 In the absence of an Australian Sustainability Reporting Standard that specifically applies to a climate-related risk or opportunity, an entity may—to the extent that these sources do not conflict with Australian Sustainability Reporting Standards—refer to and consider the applicability of information, including well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC. An entity shall apply judgement to identify information that:

(a) is relevant to the decision-making of users of general purpose financial reports; and

(b) faithfully represents that climate-related risk or opportunity.

Disclosure of information about sources of guidance

59 [Deleted by the AASB]

Aus59.1 If applicable, an entity shall identify the specific standards, pronouncements, industry practice and other sources of guidance that the entity has applied in preparing its climate-related financial disclosures, including in identifying applicable metrics.

Location of disclosures

60 An entity is required to provide disclosures required by Australian Sustainability Reporting Standards as part of its general purpose financial reports.

Aus60.1 Further to paragraph 60, an entity shall provide information in a manner that enables users of general purpose financial reports to locate its disclosures prepared in accordance with applicable Australian Sustainability Reporting Standards.

61 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose climate-related financial information. Climate-related financial disclosures could be included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports. Management commentary or a similar report is a required report in many jurisdictions. It might be known by or included in reports with various names, such as 'management report', 'management's discussion and analysis', 'operating and financial review', 'integrated report' or 'strategic report'.

62 An entity may disclose information required by an Australian Sustainability Reporting Standard in the same location as information disclosed to meet other requirements, such as information required by regulators. The entity shall ensure that the climate-related financial disclosures are clearly identifiable and not obscured by that additional information (see paragraph B27).

63 Information required by an Australian Sustainability Reporting Standard may be included in climate-related financial disclosures by cross-reference to another report published by the entity. If an entity includes information by cross-reference, the entity shall apply the requirements in paragraphs B45–B47.

Timing of reporting

64 An entity shall report its climate-related financial disclosures at the same time as its related financial statements. The entity's climate-related financial disclosures shall cover the same reporting period as the related financial statements.

65 [Deleted by the AASB]

66 When an entity changes the end of its reporting period and provides climate-related financial disclosures for a period longer or shorter than 12 months, it shall disclose:

(a) the period covered by the climate-related financial disclosures;

(b) the reason for using a longer or shorter period; and

(c) the fact that the amounts disclosed in the climate-related financial disclosures are not entirely comparable.

67 If, after the end of the reporting period but before the date on which the climate-related financial disclosures are authorised for issue, an entity receives information about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions in the light of the new information.

68 An entity shall disclose information about transactions, other events and conditions that occur after the end of the reporting period, but before the date on which the climate-related financial disclosures are authorised for issue, if non-disclosure of that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.

69 [Deleted by the AASB]

Comparative information

70 Unless another Australian Sustainability Reporting Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period. If such information would be useful for an understanding of the climate-related financial disclosures for the reporting period, the entity shall also disclose comparative information for narrative and descriptive climate-related financial information (see paragraphs B49–B59).

71 Amounts reported in climate-related financial disclosures might relate, for example, to metrics and targets or to current and anticipated financial effects of climate-related risks and opportunities.

Statement of compliance

72 An entity whose climate-related financial disclosures comply with all the requirements of Australian Sustainability Reporting Standards shall make an explicit and unreserved statement of compliance. An entity shall not describe climate-related financial disclosures as complying with Australian Sustainability Reporting Standards unless they comply with all the requirements of Australian Sustainability Reporting Standards.

73 This [draft] Standard relieves an entity from disclosing information otherwise required by an Australian Sustainability Reporting Standard if law or regulation prohibits the entity from disclosing that information (see paragraph B33). This [draft] Standard also relieves an entity from disclosing information about a climate-related opportunity otherwise required by an Australian Sustainability Reporting Standard if that information is commercially sensitive as described in this Standard (see paragraphs B34–B37). An entity using these exemptions is not prevented from asserting compliance with Australian Sustainability Reporting Standards.

Aus73.1 If an entity applies guidance specified in other pronouncements or legislation (e.g. the *National Greenhouse and Energy Reporting Act 2007* and related regulations, Standards issued by Greenhouse Gas Protocol Initiative, and Global Reporting Initiative Standards) without applying the requirements in Australian Sustainability Reporting Standards, the entity shall not make an explicit and unreserved statement of compliance with Australian Sustainability Reporting Standards.

Judgements, uncertainties and errors

Judgements

74 An entity shall disclose information to enable users of general purpose financial reports to understand the judgements, apart from those involving estimations of amounts (see paragraph 77), that the entity has made in the process of preparing its climate-related financial disclosures and that have the most significant effect on the information included in those disclosures.

75 In the process of preparing climate-related financial disclosures, an entity makes various judgements, apart from those involving estimations, that can significantly affect the information reported in the entity's climate-related financial disclosures. For example, an entity makes judgements in:

(a) identifying climate-related risks and opportunities that could be reasonably expected to affect the entity's prospects;

(b) determining which sources of guidance to apply in accordance with paragraphs 54–Aus58.1;

(c) identifying material information to include in the climate-related financial disclosures; and

(d) assessing whether an event or change in circumstances is significant and requires reassessment of the scope of all affected climate-related risks and opportunities throughout the entity's value chain (see paragraph B11).

76 Other Australian Sustainability Reporting Standards may require disclosure of some of the information that an entity would otherwise be required to disclose in accordance with paragraph 74.

Measurement uncertainty

77 An entity shall disclose information to enable users of general purpose financial reports to understand the most significant uncertainties affecting the amounts reported in its climate-related financial disclosures.

78 An entity shall:

(a) identify the amounts that it has disclosed that are subject to a high level of measurement uncertainty; and

(b) in relation to each amount identified in paragraph 78(a), disclose information about:

(i) the sources of measurement uncertainty—for example, the dependence of the amount on the outcome of a future event, on a measurement technique or on the availability and quality of data from the entity's value chain; and

(ii) the assumptions, approximations and judgements the entity has made in measuring the amount.

79 When amounts reported in climate-related financial disclosures cannot be measured directly and can only be estimated, measurement uncertainty arises. In some cases, an estimate involves assumptions about possible future events with uncertain outcomes. The use of reasonable estimates is an essential part of preparing climate-related financial disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information.

80 The requirement in paragraph 77 for an entity to disclose information about the uncertainties affecting the amounts reported in climate-related financial disclosures relates to the estimates that require the entity's most difficult, subjective or complex judgements. As the number of variables and assumptions increases, those judgements become more subjective and complex, and the uncertainty affecting the amounts reported in the climate-related financial disclosures increases accordingly.

81 The type and extent of the information an entity might need to disclose vary according to the nature of the amount reported in the climate-related financial disclosures—the sources of and the factors contributing to the uncertainty and other circumstances. Examples of the type of information an entity might need to disclose are:

(a) the nature of the assumption or other source of measurement uncertainty;

(b) the sensitivity of the disclosed amount to the methods, assumptions and estimates underlying its calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes for the disclosed amount; and

(d) an explanation of changes made to past assumptions concerning the disclosed amount, if the uncertainty remains unresolved.

82 Other Australian Sustainability Reporting Standards may require disclosure of some of the information that an entity would otherwise be required to disclose in accordance with paragraphs 77–78.

Errors

83 An entity shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is *impracticable* to do so.

84 Prior period errors are omissions from and misstatements in the entity's climate-related financial disclosures for one or more prior periods. Such errors arise from a failure to use, or the misuse of, reliable information that:

(a) was available when the climate-related financial disclosures for that period(s) were authorised for issue; and

(b) could reasonably be expected to have been obtained and considered in the preparation of those disclosures.

85 Corrections of errors are distinguished from changes in estimates. Estimates are approximations that an entity might need to revise as additional information becomes known.

86 If an entity identifies a material error in its prior period climate-related financial disclosures, it shall apply paragraphs B55–B59.

Appendix A
Defined terms

This appendix is an integral part of [draft] ASRS 1 and has the same authority as the other parts of the [draft] Standard.

impracticable	Applying a requirement is impracticable when an entity cannot apply it after making every reasonable effort to do so.
scenario analysis	A process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty.
value chain	The full range of interactions, resources and relationships related to a **reporting entity's business model** and the external environment in which it operates. A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Australian-specific definitions

ANZSIC	The *Australian and New Zealand Standard Industrial Classification* issued by the Australian Bureau of Statistics, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.
business model	In respect of a for-profit entity, an entity's business model is the system of transforming inputs through its activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value for the entity and hence generate cash flows over the short, medium and long term. In respect of a not-for-profit entity, an entity's business model is the system of transforming inputs through its activities into outputs and outcomes that aims to further the entity's objectives over the short, medium and long term.
climate-related financial disclosures	In respect of a for-profit entity, climate-related financial disclosures are a particular form of general purpose financial report that provides information about the reporting entity's climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets. In respect of a not-for-profit entity, climate-related financial disclosures are a particular form of general purpose financial report that provides information about the reporting entity's climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.
climate-related risks and opportunities	Climate-related risks refers to the potential negative effects of climate change on an entity. These risks are categorised as **climate-related physical risks** and **climate-related transition risks**, as defined in [draft] ASRS 2 *Climate-related Financial Disclosures*. Climate-related opportunities refers to the potential positive effects arising from climate change for an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity.

AusA1 The following terms are defined in the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101, for for-profit entities and in the *Framework for the Preparation and Presentation of Financial Statements*, as identified in [draft] ASRS 101, for not-for-profit entities, and are used in this [draft] Standard with the meanings specified in those conceptual frameworks:

(a) general purpose financial reports;

(b) material information;

(c) primary users of general purpose financial reports (primary users, users of general purpose financial reports, users); and

(d) reporting entity.

Appendix B
Application guidance

This appendix is an integral part of [draft] ASRS 1 and has the same authority as the other parts of the [draft] Standard.

Climate-related risks and opportunities (paragraphs Aus11.1–12)

B1 [Deleted by the AASB]

AusB1.1 This [draft] Standard requires an entity to disclose material information about its climate-related risks and opportunities that could reasonably be expected to affect:

(a) in respect of a for-profit entity, the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and

(b) in respect of a not-for-profit entity, the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

These risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects' (see paragraph Aus3.1).

B2–B3 [Deleted by the AASB]

B4 Resources and relationships that an entity depends on and affects by its activities and outputs can take various forms, such as natural, manufactured, intellectual, human, social or financial. They can be internal—such as the entity's workforce, its know-how or its organisational processes—or they can be external—such as materials and services the entity needs to access or the relationships it has with suppliers, distributors and customers. Furthermore, resources and relationships include, but are not limited to, the resources and relationships recognised as assets in the entity's financial statements.

B5 An entity's dependencies and impacts are not limited to resources the entity engages with directly, and to the entity's direct relationships. Those dependencies and impacts also relate to resources and relationships throughout the entity's value chain. For example, they can relate to the entity's supply and distribution channels; the effects of the consumption and disposal of the entity's products; and the entity's sources of finance and its investments, including investments in associates and joint ventures. If the entity's business partners throughout its value chain face climate-related risks and opportunities, the entity could be exposed to related consequences of its own.

Identifying climate-related risks and opportunities

B6 An entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs B8–B10):

(a) to identify the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects; and

(b) to determine the scope of its value chain, including its breadth and composition, in relation to each of those climate-related risks and opportunities.

B7 In identifying the climate-related risks and opportunities that could reasonably be expected to affect its prospects, an entity shall apply the requirements on sources of guidance in paragraphs 54–Aus55.1.

Reasonable and supportable information

B8 Reasonable and supportable information used by an entity in preparing its climate-related financial disclosures shall cover factors that are specific to the entity as well as general conditions in the external environment. In some cases—such as in identifying climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects—reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. Other Australian Sustainability Reporting Standards may specify what is reasonable and supportable information in specific cases.

B9 An entity may use various sources of data that may be both internal and external. Possible data sources include the entity's risk management processes; industry and peer group experience; and external ratings, reports and statistics. Information that is used by the entity in preparing its financial statements, operating its business model, setting its strategy and managing its risks and opportunities is considered to be available to the entity without undue cost or effort.

B10 An entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change.

Reassessment of the scope of climate-related risks and opportunities throughout the value chain

B11 On the occurrence of a significant event or significant change in circumstances, an entity shall reassess the scope of all affected climate-related risks and opportunities throughout its value chain. A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances or as a result of a change in what the entity assesses to be important to users of general purpose financial reports. For example, such significant events or significant changes in circumstances might include:

(a) a significant change in the entity's value chain (for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's greenhouse gas emissions);

(b) a significant change in the entity's business model, activities or corporate structure (for example, a merger or acquisition that expands the entity's value chain); and

(c) a significant change in an entity's exposure to climate-related risks and opportunities (for example, a supplier in the entity's value chain is affected by the introduction of a new regulation that the entity had not anticipated).

B12 An entity is permitted, but not required, to reassess the scope of any climate-related risk or opportunity throughout its value chain more frequently than required by paragraph B11.

Materiality (paragraphs 17–19)

B13 Paragraph 17 requires an entity to disclose material information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Materiality of information is judged in relation to whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports, which provide information about a specific reporting entity.

B14 The decisions of primary users relate to providing resources to the entity and involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or selling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources.

AusB14.1 In respect of a not-for-profit entity, the following are examples of decisions of primary users relating to providing resources to an entity:

(a) parliaments deciding on behalf of constituents whether to fund particular programmes for delivery by an entity;

(b) taxpayers deciding who should represent them in government;

(c) donors deciding whether to donate resources to an entity; and

(d) recipients of goods and services deciding whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers.

B15 [Deleted by the AASB]

AusB15.1 The decisions described in paragraphs B14 and AusB14.1 depend on primary users' expectations about returns, for example dividends, principal and interest payments, market price increases and a not-for-profit entity's ability to continue providing goods or services. Those expectations depend on primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and on their assessment of stewardship of the entity's economic resources by the entity's management and its governing body(s) or individual(s).

B16 Assessing whether information could reasonably be expected to influence the decisions made by primary users requires consideration of the characteristics of those users and of the entity's own circumstances.

B17 Climate-related financial disclosures are prepared for primary users who have reasonable knowledge of business and economic activities and who review and analyse information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand climate-related financial information.

B18 Individual primary users may have different, and sometimes even conflicting, information needs and desires. Information needs of primary users may also evolve over time. Climate-related financial disclosures are intended to meet common information needs of primary users.

Identifying material information

B19 Materiality judgements are specific to an entity. Consequently, this [draft] Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.

B20 [Deleted by the AASB]

AusB20.1 To identify material information about a climate-related risk or opportunity, an entity shall apply the requirements of the Australian Sustainability Reporting Standard that specifically applies to that climate-related risk or opportunity. In the absence of an Australian Sustainability Reporting Standard that specifically applies to a climate-related risk or opportunity, the entity may—to the extent that these sources do not conflict with Australian Sustainability Reporting Standards—refer to and consider the applicability of information, including well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC.

B21 An entity shall assess whether the information identified in applying paragraph AusB20.1, either individually or in combination with other information, is material in the context of the entity's climate-related financial disclosures taken as a whole. In assessing whether information is material, an entity shall consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a climate-related risk or opportunity on the entity.

B22 [Deleted by the AASB]

AusB22.1 In some cases, Australian Sustainability Reporting Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material:

(a) a for-profit entity shall consider the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short, medium and long term (referred to as 'the possible outcome'), and the range of possible outcomes and the likelihood of the possible outcomes within that range; and

(b) a not-for-profit entity shall consider the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows and ability to further its objectives over the short, medium and long term (referred to as 'the possible outcome'), and the range of possible outcomes and the likelihood of the possible outcomes within that range.

B23 When considering possible outcomes, an entity shall consider all pertinent facts and circumstances. Information about a possible future event is more likely to be judged as being material if the potential effects are significant and the event is likely to occur. However, an entity shall also consider whether information about low-probability and high-impact outcomes might be material either individually or in combination with information about other low-probability and high-impact outcomes. For example, an entity might be exposed to several climate-related risks, each of which could cause the same type of disruption—such as disruption to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

B24 If a possible future event is expected to affect an entity's cash flows, but only many years in the future, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular climate-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.

B25 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.

B26 [Deleted by the AASB]

AusB26.1 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 of:

(a) a for-profit entity to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital over the short, medium and long term; or

(b) a not-for-profit entity to understand the effects of climate-related risks and opportunities on the entity's cash flows, access to finance and cost of capital, and its ability to further its objectives, over the short, medium and long term.

B27 An entity shall identify its climate-related financial disclosures clearly and distinguish them from other information provided by the entity (see paragraph 62). An entity shall not obscure material information. Information is obscured if it is communicated in a way that would have a similar effect for primary users to omitting or misstating that information. Examples of circumstances that might result in material information being obscured include:

(a) material information is not clearly distinguished from additional information that is not material;

(b) material information is disclosed in the climate-related financial disclosures, but the language used is vague or unclear;

(c) material information about a climate-related risk or opportunity is scattered throughout the climate-related financial disclosures;

(d) items of information that are dissimilar are inappropriately aggregated;

(e) items of information that are similar are inappropriately disaggregated; and

(f) the understandability of the climate-related financial disclosures is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

B28 An entity shall reassess its materiality judgements at each reporting date to take account of changed circumstances and assumptions. Because of changes in the entity's individual circumstances, or in the external environment, some types of information included in an entity's climate-related financial disclosures for prior periods might no longer be material. Conversely, some types of information not previously disclosed might become material.

Aggregation and disaggregation

B29 When an entity applies Australian Sustainability Reporting Standards, it shall consider all facts and circumstances and decide how to aggregate and disaggregate information in its climate-related financial disclosures. The entity shall not reduce the understandability of its climate-related financial disclosures by obscuring material information with immaterial information or by aggregating material items of information that are dissimilar to each other.

B30 An entity shall not aggregate information if doing so would obscure information that is material. Information shall be aggregated if items of information have shared characteristics and shall not be aggregated if they do not have shared characteristics. The entity might need to disaggregate information about climate-related risks and opportunities, for example, by geographical location or in consideration of the geopolitical environment. For example, to ensure that material information is not obscured, an entity might need to disaggregate information about its use of water to distinguish between water drawn from abundant sources and water drawn from water-stressed areas.

Interaction with law or regulation

B31 Law or regulation might specify requirements for an entity to disclose climate-related information in its general purpose financial reports. In such circumstances, the entity is permitted to include in its climate-related financial disclosures information to meet legal or regulatory requirements, even if that information is not material. However, such information shall not obscure material information.

B32 An entity shall disclose material climate-related financial information, even if law or regulation permits the entity not to disclose such information.

B33 An entity need not disclose information otherwise required by an Australian Sustainability Reporting Standard if law or regulation prohibits the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.

Commercially sensitive information

B34 If an entity determines that information about a climate-related opportunity is commercially sensitive in the limited circumstances described in paragraph B35, the entity is permitted to omit that information from its climate-related financial disclosures. Such an omission is permitted even if information is otherwise required by an Australian Sustainability Reporting Standard and the information is material.

B35 An entity qualifies for the exemption specified in paragraph B34 if, and only if:

(a) information about the climate-related opportunity is not already publicly available;

(b) disclosure of that information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity; and

(c) the entity has determined that it is impossible to disclose that information in a manner—for example, at an aggregated level—that would enable the entity to meet the objectives of the disclosure requirements without prejudicing seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity.

B36 If an entity elects to use the exemption specified in paragraph B34, the entity shall, for each item of information omitted:

(a) disclose the fact that it has used the exemption; and

(b) reassess, at each reporting date, whether the information qualifies for the exemption.

B37 An entity is prohibited from using the exemption specified in paragraph B34 in relation to a climate-related risk or as a basis for broad non-disclosure of climate-related financial information.

Reporting entity (paragraph 20)

B38 [Deleted by the AASB]

AusB38.1 Paragraph 20 requires climate-related financial disclosures to be made for the same reporting entity as the related financial statements. For example, consolidated financial statements prepared in accordance with Australian Accounting Standards provide information about the parent and its subsidiaries as a single reporting entity. Consequently, that entity's climate-related financial disclosures shall enable users of general purpose financial reports to understand the effects of the climate-related risks and opportunities on:

(a) in respect to a for-profit consolidated group, the cash flows, access to finance and cost of capital over the short, medium and long term for the parent and its subsidiaries; and

(b) in respect to a not-for-profit consolidated group, the cash flows, access to finance and cost of capital, and the ability to further their objectives, over the short, medium and long term for the parent and its subsidiaries.

Connected information (paragraphs 21–24)

B39 Paragraph 21 requires an entity to provide information in a manner that enables users of general purpose financial reports to understand connections both between the items to which the information relates and between disclosures provided by the entity in its general purpose financial reports.

B40 Connected information provides insight into connections between the items to which the information relates. For example:

(a) if an entity pursued a particular climate-related opportunity and that resulted in an increase in the entity's revenue, connected information will depict that relationship between the entity's strategy and its financial performance;

(b) if an entity identified a trade-off between two climate-related risks it is exposed to and took action on the basis of its assessment of that trade-off, connected information will depict the relationship between those risks and the entity's strategy; and

(c) if an entity committed to a particular climate-related target, but that commitment has not yet affected the entity's financial position or financial performance because the applicable recognition criteria have not been met, connected information will depict that relationship.

B41 Connected information includes:

(a) connections between various types of information about a particular climate-related risk or opportunity, such as:

(i) between disclosures on governance, strategy and risk management; and

(ii) between narrative information and quantitative information (including related metrics and targets and information in the related financial statements); and

(b) connections between disclosures about various climate-related risks and opportunities. For example, if an entity integrates its oversight of climate-related risks and opportunities, the entity shall integrate the disclosures on governance instead of providing separate disclosures on governance for each climate-related risk and opportunity.

B42 Drawing connections between disclosures involves, but is not limited to, providing necessary explanations and cross-references and using consistent data, assumptions, and units of measure. In providing connected information, an entity shall:

(a) explain connections between disclosures in a clear and concise manner;

(b) avoid unnecessary duplication if Australian Sustainability Reporting Standards require the disclosure of common items of information; and

(c) disclose information about significant differences between the data and assumptions used in preparing the entity's climate-related financial disclosures and the data and assumptions used in preparing the related financial statements.

B43 For example, in providing connected information an entity might need to explain the effect or likely effect of its strategy on its financial statements and financial planning, or explain how that strategy relates to the metrics the entity uses to measure progress against targets. Another entity might need to explain how its use of natural resources or changes within its supply chain could amplify or, in contrast, reduce its climate-related risks and opportunities. The entity might need to link the information about its use of natural resources or changes within its supply chain to information about current or anticipated financial effects on the entity's production costs, its strategic response to mitigate those risks and its related investment in new assets. The entity might need to link narrative information to the related metrics and targets and to information in the related financial statements.

B44 Other examples of connected information include:

(a) an explanation of the combined effects of the entity's climate-related risks and opportunities and its strategy on its financial position, financial performance and cash flows over the short, medium and long term. For example, an entity might face decreasing demand for its products because of consumer preferences for lower-carbon alternatives. The entity might need to explain how its strategic response, such as closing a major factory, could affect its workforce and local communities, and the effect of such a closure on the useful lives of its assets and on impairment assessments; and

(b) a description of the alternatives that an entity evaluated in setting its strategy in response to its climate-related risks and opportunities, including a description of the trade-offs between those risks and opportunities that the entity considered (see paragraph Aus33.1). For example, an entity might need to explain the potential effects of its decision to restructure its operations in response to a climate-related risk on the future size and composition of the entity's workforce.

Information included by cross-reference (paragraph 63)

B45 Information required by an Australian Sustainability Reporting Standard might be available in another report published by the entity. For example, the required information could be disclosed in the related financial statements. Material information can be included in an entity's climate-related financial disclosures by cross-reference, provided that:

(a) the cross-referenced information is available on the same terms and at the same time as the climate-related financial disclosures; and

(b) the complete set of climate-related financial disclosures is not made less understandable by including information by cross-reference.

B46 [Deleted by the AASB]

AusB46.1 Information included by cross-reference becomes part of the complete set of climate-related financial disclosures and shall comply with the requirements of Australian Sustainability Reporting

Standards. The body(s) or individual(s) that authorises the general purpose financial reports takes the same responsibility for the information included by cross-reference as it does for the information included directly.

B47 If information required by an Australian Sustainability Reporting Standard is included by cross-reference:

(a) the climate-related financial disclosures shall clearly identify the report within which that information is located and explain how to access that report; and

(b) the cross-reference shall be to a precisely specified part of that report.

Interim reporting (paragraph 69)

B48 [Deleted by the AASB]

Comparative information (paragraphs 52, 70 and 83–86)

B49 Paragraph 70 requires an entity to disclose comparative information in respect of the preceding period for all amounts disclosed in the reporting period.

Metrics

B50 In some cases, the amount disclosed for a metric is an estimate. Except as specified in paragraph B51, if an entity identifies new information in relation to the estimated amount disclosed in the preceding period and the new information provides evidence of circumstances that existed in that period, the entity shall:

(a) disclose a revised comparative amount that reflects that new information;

(b) disclose the difference between the amount disclosed in the preceding period and the revised comparative amount; and

(c) explain the reasons for revising the comparative amount.

B51 In applying the requirement in paragraph B50, an entity need not disclose a revised comparative amount:

(a) if it is impracticable to do so (see paragraph B54); or

(b) if the metric is forward-looking. Forward-looking metrics relate to possible future transactions, events and other conditions. The entity is permitted to revise a comparative amount for a forward-looking metric if doing so does not involve the use of hindsight.

B52 If an entity redefines or replaces a metric in the reporting period, the entity shall:

(a) disclose a revised comparative amount, unless it is impracticable to do so;

(b) explain the changes; and

(c) explain the reasons for those changes, including why the redefined or replacement metric provides more useful information.

B53 If an entity introduces a new metric in the reporting period, it shall disclose a comparative amount for that metric unless it is impracticable to do so.

B54 Sometimes, it is impracticable to revise a comparative amount to achieve comparability with the reporting period. For example, data might not have been collected in the preceding period in a way that allows retrospective application of a new definition of a metric, and it might be impracticable to recreate the data. If it is impracticable to revise a comparative amount for the preceding period, an entity shall disclose that fact.

Errors

B55 Paragraph 83 requires an entity to correct material prior period errors.

B56 Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for metrics or targets, oversights or misinterpretations of facts, and fraud.

B57 Potential reporting period errors discovered in that period are corrected before the climate-related financial disclosures are authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

B58 If an entity identifies a material error in its prior period(s) climate-related financial disclosures, it shall disclose:

(a) the nature of the prior period error;

(b) the correction, to the extent practicable, for each prior period disclosed; and

(c) if correction of the error is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

B59 When it is impracticable to determine the effect of an error on all prior periods presented, the entity shall restate the comparative information to correct the error from the earliest date practicable.

Appendix C
Sources of guidance

[Deleted by the AASB]

Appendix D
Qualitative characteristics of useful climate-related financial information

[Deleted by the AASB]

Appendix E
Effective date and transition

This appendix is an integral part of [draft] ASRS 1 and has the same authority as the other parts of the [draft] Standard.

Effective date

E1 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after … [1 July 2024]. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it shall disclose that fact and apply [draft] ASRS 2 *Climate-related Financial Disclosures* at the same time.

E2 For the purposes of the following transition paragraph, the date of initial application is the beginning of the annual reporting period in which an entity first applies this [draft] Standard.

Transition

E3 An entity is not required to provide the disclosures specified in this [draft] Standard for any period before the date of initial application. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies this [draft] Standard.

E4–E6 [Deleted by the AASB]

Table of Concordance with IFRS S1

This Table of Concordance accompanies, but is not part of, [draft] ASRS 1.

The Preface to [draft] ASRS 1 outlines the main differences between that [draft] Standard and IFRS S1. This table shows how the contents of the two Standards correspond (apart from the underlying sustainability/climate scope difference). Paragraphs are treated as corresponding if they broadly address the same matter even though the requirements or guidance may differ. Where there is a notable difference between corresponding paragraphs, a brief explanation of the modification from IFRS S1 for [draft] ASRS 1 is included in the table.

IFRS S1	[draft] ASRS 1	Modification for [draft] ASRS 1
1	Aus1.1–Aus1.2	Refer to primary users described in Conceptual Frameworks
2	Aus2.1	Incorporate contents from IFRS S1 paragraph B2 to better explain the concept of value chain
3	Aus3.1	Specify the objective for not-for-profit (NFP) entities
4	Aus4.1	Clarify the scope of the [draft] Standard
–	Aus4.2	Specify the types of entities to which [draft] ASRS 1 apply
5	Aus5.1	Specify that [draft] ASRS 1 should be applied in the context of [draft] ASRS 2
6	6	
–	Aus6.1	Clarify the requirements for NFP entities
–	Aus6.2	Specify disclosure requirements for entities that do not have material climate-related risks and opportunities
7	–	Include in paragraph Aus5.1
8	–	Not relevant since all general purpose financial statements are prepared in accordance with Australian Accounting Standards
9	–	Not relevant since [draft] ASRS 1 is sector neutral
10	Aus10.1–Aus10.3	Refer to Conceptual Frameworks
11	Aus11.1	Rephrase to refer only to climate-related risks and opportunities
12	12	
13	Aus13.1	Specify requirements for NFP entities
14	14	
15	Aus15.1	Specify requirements for NFP entities
16–32	16–32	
33	33–Aus33.1	Modify text to refer only to climate-relate impacts
34–46	34–46	
47–48	Aus48.1	Modify industry-based disclosure requirements
49–54	49–54	
55	Aus55.1	Modify industry-based disclosure requirements
56	56	
57–58	Aus58.1	Modify industry-based disclosure requirements
59	Aus59.1	Omit references to SASB Standards
60	60	
–	Aus60.1	Require information to enable users to locate its disclosures prepared in accordance with applicable [draft] ASRS Standards
61–64	61–64	
65	–	Omit paragraph about 52-week periods to avoid confusion because paragraph 64 requires climate-related financial disclosures to be prepared for the same period as the related financial statements

IFRS S1	[draft] ASRS 1	Modification for [draft] ASRS 1
66–68	66–68	
69	–	Omit paragraph as an entity is not required to prepare interim climate-related financial disclosures
70–73	70–73	
C3 (part)	Aus73.1	State that if an entity applies guidance specified in other pronouncements or legislation without applying the requirements in [draft] ASRS Standards, the entity shall not make an explicit and unreserved statement of compliance with [draft] ASRS Standards
74–86	74–86	
Appendix A – Defined terms		
A	A	Extend some terms to NFP entities, add an Australian-specific term and note terms defined in the Conceptual Frameworks
Appendix B – Application guidance		
B1	AusB1.1	Specify requirements for NFP entities
B2	–	Include in paragraph Aus2.1
B3	–	Omit content not relevant to climate-related matters
B4–B14	B4–B14	
–	AusB14.1	Add guidance for NFP entities
B15	AusB15.1	Specify requirements for NFP entities
B16–B19	B16–B19	
B20	AusB20.1	Modify industry-based disclosure requirements
B21	B21	
B22	AusB22.1	Add guidance for NFP entities
B23–B25	B23–B25	
B26	AusB26.1	Specify requirements for NFP entities
B27–B37	B27–B37	
B38	AusB38.1	Specify requirements for NFP entities
B39–B45	B39–B45	
B46	AusB46.1	Omit reference to the qualitative characteristics of GPFR
B47	B47	
B48	–	Omit paragraph as an entity is not required to prepare interim climate-related financial disclosures
B49–B59	B49–B59	
Appendix C – Sources of guidance		
C1	Aus58.1	
C2–C3	Aus73.1	Omit reference to Global Reporting Initiative Standards and European Sustainability Reporting Standards
Appendix D – Qualitative characteristics of useful climate-related financial information		
D	–	Omit restatement of the qualitative characteristics as requirements
Appendix E – Effective date and transition		
E1–E3	E1–E3	
E4	–	Omit transition relief of first-year delayed provision of sustainability-related financial disclosures prepared in accordance with IFRS S1
E5–E6	–	Omit transition relief applicable only to sustainability-related financial disclosures other than climate-related financial disclosures

[Draft] ASRS 2

Climate-related Financial Disclosures

Contents

[Draft] Australian Sustainability Reporting Standard ASRS 2 *Climate-related Financial Disclosures* is set out in paragraphs 1–Aus37.1 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. [Draft] ASRS 2 is to be read in the context of other Australian Sustainability Reporting Standards, including [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.

Preface

Introduction

The Australian Accounting Standards Board (AASB) develops Australian Sustainability Reporting Standards.

The AASB is an Australian Government entity under the *Australian Securities and Investments Commission Act 2001*.

Main features of this [draft] Standard

Main requirements

[Draft] ASRS 2 *Climate-related Financial Disclosures* sets out disclosure requirements for an entity to provide useful information to primary users of its general purpose financial report about climate-related risks and opportunities that could reasonably be expected to affect:

(a) in respect of a for-profit entity, the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and

(b) in respect of a not-for-profit entity, the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

Application date

This Standard applies to annual reporting periods on or after … [1 July 2024]. Earlier application is permitted.

Differences between this [draft] Standard and IFRS S2

The AASB developed [draft] ASRS 2 using the International Sustainability Standards Board's IFRS Sustainability Disclosure Standard IFRS S2 *Climate-related Disclosures* as the baseline. The following table summarises the main differences between the two Standards and the AASB's rationale for modifying the IFRS S2 requirements for [draft] ASRS 2.

IFRS S2	[Draft] ASRS 2	Rationale for modification
Interaction with other pronouncements		
Includes definitions and content identical to the *Conceptual Framework for Financial Reporting*	Includes references to the *Conceptual Framework for Financial Reporting* in respect to for-profit entities and references to the *Framework for the Preparation and Presentation of Financial Statements* in respect to not-for-profit entities	Conceptual Frameworks are not enforceable as part of Australian Accounting Standards and similarly, their content should not be made enforceable as part of [draft] ASRS Standards (See paragraphs BC25–BC27)
Includes requirements related to general disclosures on governance, strategy and risk management identical to the requirements in IFRS S1	Identical requirements in [draft] ASRS 1 have not been replicated in [draft] ASRS 2; instead, [draft] ASRS 2 refers to the requirements in [draft] ASRS 1	To avoid unnecessary duplication of contents between [draft] ASRS 1 and [draft] ASRS 2 (See paragraphs BC21–BC24)
Application		
Uses terminology suitable only for profit-orientated entities	Incorporates terminology suitable for not-for-profit entities	To support sector neutrality (See paragraphs BC28–BC33)
Scope		
Applies to climate-related risks and opportunities	Applies to climate-related risks and opportunities in relation to climate	To clarify that [draft] ASRS 2 does not:

IFRS S2	[Draft] ASRS 2	Rationale for modification
	change (See paragraph Aus3.1)	(a) apply to other climate-related emissions, with the exception of greenhouse gas emissions; or (b) replace existing legislation or pronouncements prescribing reporting requirements related to other sustainability-related topics (e.g. water and biodiversity) (See paragraphs BC49–BC50)
Climate resilience		
Requires an entity to use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances	For an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures, [draft] ASRS 2 requires climate resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022* (See paragraphs Aus22.1 and AusB12.1)	Specifying the minimum number of scenarios and the lower-temperature scenario to assess against is expected to enhance comparability of entities' climate resilience, particularly on transition risk (See paragraphs BC51–BC54)
Greenhouse gas (GHG) emissions		
Requires an entity to convert greenhouse gases into a CO_2 equivalent value using global warming potential (GWP) values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change (IPCC) assessment available at the reporting date. This means the IPCC 6th assessment report (2023)	Requires an entity to convert greenhouse gases into a CO_2 equivalent value using the GWP values from the same IPCC assessment report as that referred to in the *National Greenhouse and Energy Reporting Act 2007* and related regulations (NGER Scheme legislation) and the Paris Agreement (See paragraphs AusB22.1–AusB22.2)	To avoid regulatory burden for Australian entities that would be required to use the GWP values in the IPCC 5th assessment report under NGER Scheme legislation (See paragraphs BC70–BC72)
IFRS S2 paragraphs 29(a)(ii) and B24 permit an entity to use a different method to *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) and *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (2011) for measuring its GHG emissions when required to do so by a jurisdictional authority or an exchange on which the entity is listed	Specifies that an entity is required to prioritise applying relevant methodologies in NGER Scheme legislation as the default methodologies in measuring its GHG emissions before referring to other GHG measurement methods or frameworks (See paragraphs Aus31.1(b) and AusB25.1)	Treasury's second consultation paper indicated that the Australian Government would require an entity to apply relevant methodologies in NGER Scheme legislation in measuring its GHG emissions. Accordingly, in accordance with IFRS S2 paragraphs 29(a)(ii) and B24, the AASB proposes that an entity is required to prioritise applying relevant methodologies in NGER Scheme legislation as the default methodologies in measuring its GHG emissions (See paragraphs BC73–BC76)
Requires an entity to disclose location-based Scope 2 GHG emissions	For an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures, [draft] ASRS 2 requires the disclosure of market-based Scope 2 GHG emissions in addition to	To align with the proposals in Treasury's second consultation (See paragraphs BC78–BC79)

IFRS S2	[Draft] ASRS 2	Rationale for modification
	location-based emissions, except in the first three annual reporting periods in which the entity applies [draft] ASRS 2 (See paragraphs Aus31.1(f) and AusC4.2)	
When the conditions outlined in paragraph B19 are met, an entity is permitted to measure its GHG emissions using information for reporting periods that are different from its own reporting period	Notwithstanding paragraph B19, when measuring Scope 3 GHG emissions, if reasonable and supportable data related to the current reporting period is not available to the entity at the reporting date without undue cost or effort, [draft] ASRS 2 permits an entity to disclose in the current reporting period Scope 3 GHG emissions measured using data for the immediately preceding reporting period (See paragraph AusB39.1)	To align with the proposals in Treasury's second consultation (See paragraphs BC80–BC81)
Requires an entity to disclose the sources of its Scope 3 GHG emissions under the 15 categories taken from the GHG Protocol Standards	Includes the 15 Scope 3 GHG emission categories as examples that an entity could consider when disclosing the sources of its Scope 3 GHG emissions, rather than requiring an entity to disclose the sources of emissions in accordance with the 15 categories (See paragraph AusB33.1)	The AASB observed that those 15 categories of Scope 3 GHG emissions are not referenced by IPCC guidelines or the Paris Agreement. The AASB is unsure whether requiring categorisation of the sources of Scope 3 GHG emissions under the 15 categories would achieve international alignment if entities in other jurisdictions are able to disclose different categories (See paragraphs BC82–BC85)
Requires an entity that participates in asset management, commercial banking or insurance activities to make additional disclosures taken from the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (2011) relating to its financed emissions	Requires an entity that participates in asset management, commercial banking or insurance activities to consider the applicability of those additional disclosures related to its financed emissions (See paragraph AusB59.1)	To support sector neutrality and align the financed emissions paragraphs with the approach taken to the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (2011) regarding the measurement of GHG emissions (See paragraph BC86)
Industry-based metrics		
Requires an entity to apply Sustainability Accounting Standards Board (SASB) Standards and consider industry-based metrics adapted from SASB Standards	Specifies that if an entity elects to make industry-based disclosures, the entity may consider the applicability of industry-based metrics disclosed by entities that operate in the same industry, as classified in the *Australian and New Zealand Standard Industrial Classification* (ANZSIC) (See paragraphs Aus32.1, Aus37.1 and AusB63.1)	The AASB decided not to publish the industry-based guidance accompanying IFRS S2, or include references to SASB Standards, until the content has been comprehensively internationalised by the ISSB and has undergone the AASB's own due process (See paragraphs BC39–BC42)

[Draft] Australian Sustainability Reporting Standard ASRS 2

The Australian Accounting Standards Board makes Australian Sustainability Reporting Standard ASRS 2 *Climate-related Financial Disclosures*.

Keith Kendall
Dated … [date] Chair – AASB

[Draft] Australian Sustainability Reporting Standard ASRS 2 *Climate-related Financial Disclosures*

Objective

1 **The objective of [draft] ASRS 2 *Climate-related Financial Disclosures* is to require 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.[1]**

2 [Deleted by the AASB]

Aus2.1 An entity applying this [draft] Standard shall apply [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* at the same time.

Aus2.2 This [draft] Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect:

(a) in respect of a for-profit entity, the entity's cash flows, access to finance or cost of capital over the short, medium or long term; and

(b) in respect of a not-for-profit entity, the entity's cash flows, access to finance or cost of capital, and its ability to further its objectives, over the short, medium or long term.

For the purposes of this [draft] Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Application

Aus2.3 … [To be determined, subject to Australian Government policy]

Scope

3 **This [draft] Standard applies to:**

(a) climate-related risks to which the entity is exposed, which are:

(i) *climate-related physical risks*; and

(ii) *climate-related transition risks*; and

(b) climate-related opportunities available to the entity.

Aus3.1 The scope of this [draft] Standard is limited to an entity's climate-related risks and opportunities in relation to climate change. Other climate-related emissions, such as ozone depleting emissions that are not *greenhouse gas* emissions, are outside the scope of this [draft] Standard.

4 **Climate-related risks and opportunities that could not reasonably be expected to affect an entity's prospects are outside the scope of this [draft] Standard.**

Aus4.1 For the purposes of this [draft] Standard, a not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be

1 Throughout this [draft] Standard, the terms 'primary users of general purpose financial reports', 'users of general purpose financial reports', 'primary users' and 'users' are used interchangeably, with the same meaning.

expected to affect the entity's prospects. A not-for-profit entity shall use all reasonable and supportable information available to the entity at the reporting date without undue cost or effort in preparing material climate-related financial information required by this [draft] Standard.

Aus4.2 For the purposes of this [draft] Standard, if an entity determines that there are no material climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, the entity shall disclose that fact, and explain how it came to that conclusion, in its general purpose financial reports.

Core content

Governance

5 **The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.**

6–7 [Deleted by the AASB]

Aus7.1 To achieve the objective in paragraph 5, an entity shall disclose in its general purpose financial reports information set out in paragraph 27 of [draft] ASRS 1.

Strategy

8 **The objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities.**

9 [Deleted by the AASB]

Aus9.1 To achieve the objective in paragraph 8, an entity shall disclose information set out in paragraphs 10–Aus22.2 to enable users of general purpose financial reports to understand:

(a) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (see paragraphs Aus10.1–11);

(b) the current and anticipated effects of those climate-related risks and opportunities on the entity's *business model* and *value chain* (see paragraph Aus13.1);

(c) the effects of those climate-related risks and opportunities on the entity's strategy and decision-making, including information about its *climate-related transition plan* (see paragraph 14);

(d) the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning (see paragraph Aus21.1); and

(e) the *climate resilience* of the entity's strategy and its business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities (see paragraphs 22–Aus22.2).

Climate-related risks and opportunities

10 [Deleted by the AASB]

Aus10.1 An entity shall disclose information set out in paragraphs 30 and 31 of [draft] ASRS 1 to enable users of general purpose financial reports to understand the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

Aus10.2 The entity shall explain, for each climate-related risk and opportunity identified under paragraph Aus10.1, whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk.

11 In identifying the climate-related risks and opportunities that could reasonably be expected to affect an entity's prospects, the entity shall use all reasonable and supportable information that is available to the entity at the

reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions.

12 [Deleted by the AASB]

Business model and value chain

13 [Deleted by the AASB]

Aus13.1 **An entity shall disclose information set out in paragraph 32 of [draft] ASRS 1 to enable users of general purpose financial reports to understand the current and anticipated effects of those climate-related risks and opportunities identified under paragraph Aus10.1 on the entity's business model and value chain.**

Strategy and decision-making

14 An entity shall disclose information that enables users of general purpose financial reports to understand the effects of climate-related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose:

(a) information about how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision-making, including how the entity plans to achieve any climate-related targets it has set and any targets it is required to meet by law or regulation. Specifically, the entity shall disclose information about:

(i) current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities (for example, these changes could include plans to manage or decommission carbon-, energy- or water-intensive operations; resource allocations resulting from demand or supply-chain changes; resource allocations arising from business development through capital expenditure or additional expenditure on research and development; and acquisitions or divestments);

(ii) current and anticipated direct mitigation and adaptation efforts (for example, through changes in production processes or equipment, relocation of facilities, workforce adjustments, and changes in product specifications);

(iii) current and anticipated indirect mitigation and adaptation efforts (for example, through working with customers and supply chains);

(iv) any climate-related transition plan the entity has, including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies; and

(v) how the entity plans to achieve any climate-related targets, including any greenhouse gas emissions targets, described in accordance with paragraphs 33–36;

(b) information about how the entity is resourcing, and plans to resource, the activities disclosed in accordance with paragraph 14(a); and

(c) quantitative and qualitative information about the progress of plans disclosed in previous reporting periods in accordance with paragraph 14(a).

Financial position, financial performance and cash flows

15–21 [Deleted by the AASB]

Aus21.1 **An entity shall disclose information set out in paragraphs 34–40 of [draft] ASRS 1 to enable users of general purpose financial reports to understand the effects of those climate-related risks and opportunities identified under paragraph Aus10.1 on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning.**

Climate resilience

22 An entity shall disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. The

entity shall use climate-related *scenario analysis* to assess its climate resilience using an approach that is commensurate with the entity's circumstances (see paragraphs B1–B18). In providing quantitative information, the entity may disclose a single amount or a range. Specifically, the entity shall disclose:

(a) the entity's assessment of its climate resilience as at the reporting date, which shall enable users of general purpose financial reports to understand:

(i) the implications, if any, of the entity's assessment for its strategy and business model, including how the entity would need to respond to the effects identified in the climate-related scenario analysis;

(ii) the significant areas of uncertainty considered in the entity's assessment of its climate resilience;

(iii) the entity's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term, including;

(1) the availability of, and flexibility in, the entity's existing financial resources to respond to the effects identified in the climate-related scenario analysis, including to address climate-related risks and to take advantage of climate-related opportunities;

(2) the entity's ability to redeploy, repurpose, upgrade or decommission existing assets; and

(3) the effect of the entity's current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience; and

(b) how and when the climate-related scenario analysis was carried out, including:

(i) information about the inputs the entity used, including:

(1) which climate-related scenarios the entity used for the analysis and the sources of those scenarios;

(2) whether the analysis included a diverse range of climate-related scenarios;

(3) whether the climate-related scenarios used for the analysis are associated with climate-related transition risks or climate-related physical risks;

(4) whether the entity used, among its scenarios, a climate-related scenario aligned with the *latest international agreement on climate change*;

(5) why the entity decided that its chosen climate-related scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties;

(6) the time horizons the entity used in the analysis; and

(7) what scope of operations the entity used in the analysis (for example, the operating locations and business units used in the analysis);

(ii) the key assumptions the entity made in the analysis, including assumptions about:

(1) climate-related policies in the jurisdictions in which the entity operates;

(2) macroeconomic trends;

(3) national- or regional-level variables (for example, local weather patterns, demographics, land use, infrastructure and availability of natural resources);

(4) energy usage and mix; and

(5) developments in technology; and

(iii) the reporting period in which the climate-related scenario analysis was carried out (see paragraph B18).

Aus22.1 Further to paragraph 22, an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures shall disclose its climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022*.

Aus22.2 For the purposes of paragraphs 22–Aus22.1, an entity need not disclose the detailed modelling adopted in carrying out its climate-related scenario analysis. An entity is required to disclose the inputs and assumptions used in its climate-related scenario analysis and the related outcomes set out in paragraph 22.

23 [Deleted by the AASB]

Risk management

24 The objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reports to understand an entity's processes to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process.

25–26 [Deleted by the AASB]

Aus26.1 To achieve the objective in paragraph 24, an entity shall disclose information set out in paragraph 44 of [draft] ASRS 1.

Metrics and targets

27 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

28 To achieve this objective, an entity shall disclose:

(a) information relevant to the cross-industry metric categories (see paragraphs 29–Aus31.1); and

(b) [Deleted by the AASB]

(c) targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets (see paragraphs 33–Aus37.1).

Aus28.1 To achieve the objective in paragraph 27, an entity may also disclose industry-based metrics consistent with the requirement in paragraph Aus32.1.

Climate-related metrics

29 An entity shall disclose information relevant to the cross-industry metric categories of:

(a) [Deleted by the AASB—see paragraph Aus31.1]

(b) climate-related transition risks—the amount and percentage of assets or business activities vulnerable to climate-related transition risks;

(c) climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks;

(d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;

(e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;

(f) *internal carbon prices*—the entity shall disclose:

 (i) an explanation of whether and how the entity is applying a carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis); and

 (ii) the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emissions; and

(g) remuneration—the entity shall disclose:

 (i) a description of whether and how climate-related considerations are factored into executive remuneration (see also [draft] ASRS 1 paragraph 27(a)(v)); and

 (ii) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

Aus29.1 For the purposes of paragraph 29(g), "executive" and "executive management" has the same meaning as "key management personnel" and "remuneration" has the same meaning as "compensation", both as defined in AASB 124 *Related Party Disclosures*.

30 In preparing disclosures to meet the requirements in paragraph 29(b)–(d), an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

31 In preparing disclosures to meet the requirements in paragraph 29(b)–(g), an entity shall refer to paragraphs B64–AusB65.1.

Aus31.1 An entity shall disclose information relevant to *greenhouse gases*. An entity shall:

(a) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of *CO_2 equivalent* (see paragraphs B19–AusB22.2), classified as:

(i) *Scope 1 greenhouse gas emissions*;

(ii) *Scope 2 greenhouse gas emissions*; and

(iii) *Scope 3 greenhouse gas emissions*;

(b) measure its greenhouse gas emissions by applying relevant methodologies set out in *NGER Scheme legislation*, to the extent practicable. If applying a methodology in NGER Scheme legislation is not practicable, an entity shall apply an appropriate methodology, as follows (see paragraph AusB25.1 and the *Australian application guidance* that accompanies this [draft] Standard):

(i) a methodology that is consistent with measurement methods otherwise required by a jurisdictional authority or an exchange on which the entity is listed that are relevant to the sources of the greenhouse gas emissions; or

(ii) in the absence of such a methodology, a relevant methodology that is consistent with the following internationally recognised greenhouse gas emission measurement frameworks, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*:

(1) *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*; and

(2) *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*;

(c) disclose the approach it uses to measure its greenhouse gas emissions (see paragraphs B26–B29) including:

(i) the measurement approach, inputs and assumptions the entity uses to measure its greenhouse gas emissions;

(ii) the reason why the entity has chosen the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions; and

(iii) any changes the entity made to the measurement approach, inputs and assumptions during the reporting period and the reasons for those changes;

(d) for Scope 1 and Scope 2 greenhouse gas emissions disclosed in accordance with paragraphs (a)(i) and (a)(ii), disaggregate emissions between:

(i) the consolidated accounting group (for example, for an entity applying Australian Accounting Standards, this group would comprise the parent and its consolidated subsidiaries); and

(ii) other investees excluded from paragraph (d)(i) (for example, for an entity applying Australian Accounting Standards, these investees would include associates, joint ventures and unconsolidated subsidiaries);

(e) for Scope 2 greenhouse gas emissions disclosed in accordance with paragraph (a)(ii), disclose its location-based Scope 2 greenhouse gas emissions, and provide information about any contractual instruments that is necessary to inform users' understanding of the entity's Scope 2 greenhouse gas emissions (see paragraphs AusB31.1–AusB31.2);

(f) further to paragraph (e), for an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures, disclose its market-based Scope 2 greenhouse gas emissions; and

(g) for Scope 3 greenhouse gas emissions disclosed in accordance with paragraph (a)(iii), and with reference to paragraphs AusB33.1–AusB63.1, disclose:

(i) the categories included within the entity's measure of Scope 3 greenhouse gas emissions (see paragraph AusB33.1);

(ii) the characteristics of the data inputs the entity used to measure its Scope 3 greenhouse gas emissions (see paragraphs B55–B57); and

(iii) additional information about the entity's greenhouse gas emissions associated with its investments (*financed emissions*), if the entity's activities include asset management, commercial banking or insurance (see paragraphs B58–AusB63.1).

32 [Deleted by the AASB]

Aus32.1 An entity may disclose well-established and understood industry-based metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry. In identifying industry-based metrics against which to report, an entity shall refer to and consider the applicability of metrics disclosed by entities that operate in the same industry, as classified in ANZSIC.

Climate-related targets

33 An entity shall disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet by law or regulation, including any greenhouse gas emissions targets. For each target, the entity shall disclose:

(a) the metric used to set the target (see paragraphs B66–AusB67.1);

(b) the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives);

(c) the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region);

(d) the period over which the target applies;

(e) the base period from which progress is measured;

(f) any milestones and interim targets;

(g) if the target is quantitative, whether it is an absolute target or an intensity target; and

(h) how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target.

34 An entity shall disclose information about its approach to setting and reviewing each target, and how it monitors progress against each target, including:

(a) whether the target and the methodology for setting the target has been validated by a third party;

(b) the entity's processes for reviewing the target;

(c) the metrics used to monitor progress towards reaching the target; and

(d) any revisions to the target and an explanation for those revisions.

35 An entity shall disclose information about its performance against each climate-related target and an analysis of trends or changes in the entity's performance.

36 For each greenhouse gas emissions target disclosed in accordance with paragraphs 33–35, an entity shall disclose:

(a) which greenhouse gases are covered by the target;

(b) whether Scope 1, Scope 2 or Scope 3 greenhouse gas emissions are covered by the target;

(c) whether the target is a gross greenhouse gas emissions target or net greenhouse gas emissions target. If the entity discloses a net greenhouse gas emissions target, the entity is also required to separately disclose its associated gross greenhouse gas emissions target (see paragraphs B68–B69);

(d) whether the target was derived using a sectoral decarbonisation approach; and

(e) the entity's planned use of *carbon credits* to offset greenhouse gas emissions to achieve any net greenhouse gas emissions target. In explaining its planned use of carbon credits the entity shall disclose information including, and with reference to paragraphs B70–B71:

(i) the extent to which, and how, achieving any net greenhouse gas emissions target relies on the use of carbon credits;

(ii) which third-party scheme(s) will verify or certify the carbon credits;

(iii) the type of carbon credit, including whether the underlying offset will be nature-based or based on technological carbon removals, and whether the underlying offset is achieved through carbon reduction or removal; and

(iv) any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the carbon credits the entity plans to use (for example, assumptions regarding the permanence of the carbon offset).

37 [Deleted by the AASB]

Aus37.1 In identifying and disclosing the metrics used to set and monitor progress towards reaching a target described in paragraphs 33–34, an entity shall refer to and consider the applicability of information, including well-established and understood metrics, disclosed by entities that operate in the same industry, as classified in ANZSIC.

Appendix A
Defined terms

This appendix is an integral part of [draft] ASRS 2 and has the same authority as the other parts of the Standard.

climate resilience	The capacity of an entity to adjust to climate-related changes, developments or uncertainties. Climate resilience involves the capacity to manage **climate-related risks** and benefit from **climate-related opportunities,** including the ability to respond and adapt to **climate-related transition risks** and **climate-related physical risks**. An entity's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments and uncertainties.
climate-related risks and opportunities	Climate-related risks refers to the potential negative effects of climate change on an entity. These risks are categorised as **climate-related physical risks** and **climate-related transition risks**. Climate-related opportunities refers to the potential positive effects arising from climate change for an entity. Efforts to mitigate and adapt to climate change can produce climate-related opportunities for an entity.
climate-related transition plan	An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its **greenhouse gas** emissions.
CO_2 equivalent	The universal unit of measurement to indicate the ***global warming potential*** of each **greenhouse gas**, expressed in terms of the **global warming potential** of one unit of carbon dioxide. This unit is used to evaluate releasing (or avoiding releasing) different **greenhouse gases** against a common basis.
global warming potential	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given **greenhouse gas** relative to one unit of CO_2.
greenhouse gases	The seven greenhouse gases listed in the Kyoto Protocol—carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs) and sulphur hexafluoride (SF_6).
indirect greenhouse gas emissions	Emissions that are a consequence of the activities of an entity, but occur at sources owned or controlled by another entity.
internal carbon price	Price used by an entity to assess the financial implications of changes to investment, production and consumption patterns, and of potential technological progress and future emissions- abatement costs. An entity can use internal carbon prices for a range of business applications. Two types of internal carbon prices that an entity commonly uses are: (a) a shadow price, which is a theoretical cost or notional amount that the entity does not charge but that can be used to understand the economic implications or trade- offs for such things as risk impacts, new investments, the net present value of projects, and the cost and benefit of various initiatives; and (b) an internal tax or fee, which is a carbon price charged to a business activity, product line, or other business unit based on its **greenhouse gas** emissions (these internal taxes or fees are similar to intracompany transfer pricing).
latest international agreement on climate change	An agreement by states, as members of the United Nations Framework Convention on Climate Change, to combat climate change. The agreements set norms and targets for a reduction in **greenhouse gases**.
Scope 1 greenhouse gas emissions	Direct **greenhouse gas** emissions that occur from sources that are owned or controlled by an entity.

Scope 2 greenhouse gas emissions	***Indirect greenhouse gas emissions*** from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated.

Australian-specific definitions

ANZSIC	The *Australian and New Zealand Standard Industrial Classification*, as identified in ASRS 101 *References in Australian Sustainability Reporting Standards*.
carbon credit	An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of **greenhouse gases**. Carbon credits are uniquely serialised, issued, tracked and cancelled by means of an electronic registry or otherwise are recognised under the Australian Carbon Credit Unit Scheme.
climate-related physical risks	Risks resulting from climate change that can be event-driven (acute physical risk) or from longer-term shifts in climatic patterns (chronic physical risk). Acute physical risks arise from weather-related events such as storms, floods, drought or heatwaves, which are increasing in severity and frequency. Chronic physical risks arise from longer-term shifts in climatic patterns including changes in precipitation and temperature which could lead to sea level rise, reduced water availability, biodiversity loss and changes in soil productivity. These risks could carry financial implications for an entity, such as costs resulting from direct damage to assets or indirect effects of supply-chain disruption. A for-profit entity's financial performance and a not-for-profit entity's ability to further its objectives could also be affected by changes in water availability, sourcing and quality; and extreme temperature changes affecting the entity's premises, operations, supply chains, transportation needs and employee health and safety.
climate-related transition risks	Risks that arise from efforts to transition to a lower-carbon economy. Transition risks include policy, legal, technological, market and reputational risks. These risks could carry financial implications for an entity, such as increased operating costs or asset impairment due to new or amended climate-related regulations. A for-profit entity's financial performance and a not-for-profit entity's ability to further its objectives could also be affected by shifting demands from recipients of its goods and services (e.g. consumers) and the development and deployment of new technology.
financed emissions	The portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an entity to the investee or counterparty.
NGER Scheme legislation	For the purposes of this [draft] Standard, NGER Scheme legislation means: (a) the *National Greenhouse and Energy Reporting Act 2007*; (b) the *National Greenhouse and Energy Reporting Regulations 2008*; and (c) the *National Greenhouse and Energy Reporting (Measurement) Determination 2008*.
Scope 3 greenhouse gas emissions	**Indirect greenhouse gas emissions** (not included in **Scope 2 greenhouse gas emissions**) that occur in the **value chain** of an entity, including both upstream and downstream emissions.

AusA1 The following terms are defined in Appendix A of [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, and are used in this [draft] Standard with the same meaning:

(a) business model;

(b) impracticable;

(c) scenario analysis; and

(d) value chain.

AusA2 The following terms are defined in the *Conceptual Framework for Financial Reporting*, as identified in [draft] ASRS 101, for for-profit entities and in the *Framework for the Preparation and Presentation of Financial Statements,* as identified in [draft] ASRS 101, for not-for-profit entities, and are used in this [draft] Standard with the meanings specified in those conceptual frameworks:

(a) general purpose financial reports;

(b) material information;

(c) primary users of general purpose financial reports (primary users, users of general purpose financial reports, users); and

(d) reporting entity.

Appendix B
Application guidance

This appendix is an integral part of [draft] ASRS 2 and has the same authority as the other parts of the [draft] Standard.

Climate resilience (paragraph 22)

B1 Paragraph 22 requires an entity to use climate-related scenario analysis to assess its climate resilience, using an approach that is commensurate with its circumstances.[1] The entity is required to use an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. Paragraphs B2–B18 provide guidance on how an entity uses scenario analysis to assess the entity's climate resilience. Specifically:

(a) paragraphs B2–B7 set out the factors the entity shall consider when assessing its circumstances;

(b) paragraphs B8–B15 set out the factors the entity shall consider when determining an appropriate approach to climate-related scenario analysis; and

(c) paragraphs B16–B18 set out additional factors for the entity to consider when determining its approach to climate-related scenario analysis over time.

Assessing the circumstances

B2 An entity shall use an approach to climate-related scenario analysis that is commensurate with its circumstances as at the time the entity carries out its climate-related scenario analysis (see paragraph B3). To assess its circumstances the entity shall consider:

(a) the entity's exposure to climate-related risks and opportunities (see paragraphs B4–B5); and

(b) the skills, capabilities and resources available to the entity for the climate-related scenario analysis (see paragraphs B6–B7).

B3 An entity shall assess its circumstances each time it carries out its climate-related scenario analysis. For example, an entity that carries out its climate-related scenario analysis every three years to align with its strategic planning cycle (see paragraph B18) would be required to reconsider for this purpose its exposure to climate-related risks and opportunities and the skills, capabilities and resources available at that time.

Exposure to climate-related risks and opportunities

B4 An entity shall consider its exposure to climate-related risks and opportunities in its assessment of its circumstances and when determining the approach to use for its climate-related scenario analysis. This consideration provides essential context for understanding the potential benefits of using a particular approach to climate-related scenario analysis. For example, if an entity has a high degree of exposure to climate-related risk then a more quantitative or technically sophisticated approach to climate-related scenario analysis would be of greater benefit to the entity and users of general purpose financial reports. Users of general purpose financial reports would be less likely to benefit from quantitative or technically sophisticated climate-related scenario analysis if the entity is exposed to few or relatively less severe climate-related risks and opportunities. This means that—with all else being equal—the greater the entity's exposure to climate-related risks or opportunities, the more likely it is the entity would determine that a more technically sophisticated form of climate-related scenario analysis is required.

B5 This [draft] Standard requires an entity to identify the climate-related risks and opportunities to which it is exposed (see paragraphs Aus10.1 and Aus10.2) and to disclose information about the process the entity uses to identify, assess, prioritise and monitor those risks and opportunities (see paragraph Aus26.1). The information the entity discloses in accordance with paragraphs Aus10.1, Aus10.2 and Aus26.1 can inform the entity's consideration of its exposure to climate-related risks and opportunities.

1 This application guidance (paragraphs B1–B18) draws on the range of practice outlined in documents published by the Task Force on Climate-related Financial Disclosures (TCFD), including *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities* (2017) and *Guidance on Scenario Analysis for Non-Financial Companies* (2020).

Skills, capabilities and resources available

B6 An entity shall consider the available skills, capabilities and resources when determining an appropriate approach to use for its climate-related scenario analysis. These skills, capabilities and resources might include both internal and external skills, capabilities and resources. The entity's available skills, capabilities and resources provide context to inform its consideration of the potential cost and level of effort required by a particular approach to climate-related scenario analysis. For example, if an entity has only just begun to explore the use of climate-related scenario analysis to assess its climate resilience, it might be unable to use a quantitative or technically sophisticated approach to climate-related scenario analysis without undue cost or effort. For the avoidance of doubt, if resources are available to the entity then it will be able to invest in obtaining or developing the necessary skills and capabilities.

B7 Climate-related scenario analysis can be resource intensive and might—through an iterative learning process—be developed and refined over multiple planning cycles. As an entity repeats the climate-related scenario analysis, it is likely to develop skills and capabilities that will enable the entity to strengthen its approach to climate-related scenario analysis over time. For example, if an entity has not yet used climate-related scenario analysis or participates in an industry where climate-related scenario analysis is not commonly used, the entity might need more time to develop its skills and capabilities. In contrast, an entity in an industry where climate-related scenario analysis is established practice—such as extractives and mineral processing—would be expected to have strengthened its skills and capabilities through its experience.

Determining the appropriate approach

B8 An entity shall determine an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The determination of the approach shall be informed by the assessments of the entity's exposure to climate-related risks and opportunities (see paragraphs B4–B5) and its available skills, capabilities and resources (see paragraphs B6–B7). Making such a determination involves:

(a) selecting inputs to the climate-related scenario analysis (see paragraphs B11–B13); and

(b) making analytical choices about how to carry out the climate-related scenario analysis (see paragraphs B14–B15).

B9 Reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. It also includes quantitative or qualitative information, and information that is obtained from an external source or owned or developed internally.

B10 An entity will need to use judgement to determine the mix of inputs and analytical choices that will enable the entity to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The degree of judgement that is required depends on the availability of detailed information. As the time horizon increases and the availability of detailed information decreases, the degree of judgement required increases.

Selecting inputs

B11 When an entity selects the inputs to use in its climate-related scenario analysis, the entity shall consider all reasonable and supportable information—including scenarios, variables and other inputs—available to the entity at the reporting date without undue cost or effort. The inputs used in scenario analysis might include information that is qualitative or quantitative, and is obtained from an external source or developed internally. For example, publicly available climate-related scenarios—from authoritative sources—that describe future trends and a range of pathways to plausible outcomes are considered to be available to the entity without undue cost or effort.

B12 When selecting scenarios, variables and other inputs to use in climate-related scenario analysis, an entity might, for example, use one or more climate-related scenarios—including international and regional scenarios—that are publicly and freely available from authoritative sources. The entity shall have a reasonable and supportable basis for using a particular scenario or set of scenarios. For example, an entity with operations concentrated in a jurisdiction where emissions are regulated—or are likely to be regulated in the future—might determine that it is appropriate to carry out its analysis using a scenario consistent with an orderly transition to a lower-carbon economy or consistent with relevant jurisdictional commitments to the latest international agreement on climate change. Elsewhere, for example, an entity with heightened exposure to physical climate-related risks might determine that it is appropriate to carry out its analysis using a localised climate-related scenario that takes into account current policies.

AusB12.1 Notwithstanding paragraph B12, consistent with paragraph Aus22.1, an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures shall disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022*.

B13 In considering whether the selected inputs are reasonable and supportable, an entity shall consider the objective of paragraph 22, which requires the entity to disclose information that enables users of general purpose financial reports to understand the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities. This means that the inputs to the entity's climate-related scenario analysis shall be relevant to the entity's circumstances, for example, to the particular activities the entity undertakes and the geographical location of those activities.

Making analytical choices

B14 An entity's resilience assessment will be informed not only by the individual inputs to its climate-related scenario analysis, but also by the information it develops in combining those inputs to carry out the analysis. The entity shall prioritise the analytical choices (for example, whether to use qualitative analysis or quantitative modelling) that will enable it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. For example, if an entity is able—without undue cost or effort—to incorporate multiple carbon price pathways associated with a given outcome (for example, a 1.5 degree Celsius outcome), this analysis is likely to strengthen the entity's resilience assessment, assuming such an approach is warranted by the entity's risk exposure.

B15 Quantitative information will often enable an entity to carry out a more robust assessment of its climate resilience. However, qualitative information (including scenario narratives), either alone or combined with quantitative data, can also provide a reasonable and supportable basis for the entity's resilience assessment.

Additional considerations

B16 Climate-related scenario analysis is an evolving practice and, therefore, the approach that an entity uses is likely to change over time. As described in paragraphs B2–B7, the entity shall determine its approach to climate-related scenario analysis based on its particular circumstances, including the entity's exposure to climate-related risks and opportunities and the skills, capabilities and resources available for the scenario analysis. Those circumstances are also likely to change over time. Therefore, the entity's approach to climate-related scenario analysis need not be the same from one reporting period or strategic planning cycle to the next (see paragraph B18).

B17 An entity might use a simpler approach to climate-related scenario analysis, such as qualitative scenario narratives, if such an approach is appropriate to the entity's circumstances. For example, if an entity does not currently have the skills, capabilities or resources to carry out quantitative climate-related scenario analysis but has a high degree of exposure to climate-related risk, the entity might initially use a simpler approach to climate-related scenario analysis, but would build its capabilities through experience and, therefore, would apply a more advanced quantitative approach to climate-related scenario analysis over time. An entity with a high degree of exposure to climate-related risks and opportunities, and with access to the necessary skills, capabilities or resources, is required to apply a more advanced quantitative approach to climate-related scenario analysis.

B18 Although paragraph 22 requires an entity to disclose information about its climate resilience at each reporting date, the entity might carry out its climate-related scenario analysis in line with its strategic planning cycle, including a multi-year strategic planning cycle (for example, every three to five years). Therefore, in some reporting periods the entity's disclosures in accordance with paragraph 22(b) could remain unchanged from the previous reporting period if the entity does not conduct a scenario analysis annually. The entity shall—at a minimum—update its climate-related scenario analysis in line with its strategic planning cycle. However, an assessment of the entity's resilience is required to be carried out annually to reflect updated insight into the implications of climate uncertainty for the entity's business model and strategy. As such, an entity's disclosure in accordance with paragraph 22(a)—that is, the results of the entity's resilience assessment—shall be updated at each reporting period.

Greenhouse gases (paragraphs Aus31.1 and Aus31.2)

Greenhouse gas emissions

Permission to use information from a reporting period that is different from the entity's reporting period, in specific circumstances

B19 An entity might have a different reporting period from some or all of the entities in its value chain. Such a difference would mean that greenhouse gas emissions information from these entities in its value chain for the entity's reporting period might not be readily available for the entity to use for its own disclosure. In such circumstances, the entity is permitted to measure its greenhouse gas emissions in accordance with paragraph Aus31.1(a) using information for reporting periods that are different from its own reporting period if that information is obtained from entities in its value chain with reporting periods that are different from the entity's reporting period, on the condition that:

(a) the entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose its greenhouse gas emissions;

(b) the length of the reporting periods is the same; and

(c) the entity discloses the effects of significant events and changes in circumstances (relevant to its greenhouse gas emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reports.

Aggregation of greenhouse gases into CO_2 equivalent using global warming potential values

B20 Paragraph Aus31.1 requires an entity to disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO_2 equivalent. To meet this requirement, the entity shall aggregate the seven constituent greenhouse gases into CO_2 equivalent values.

B21–B22 [Deleted by the AASB]

AusB22.1 If an entity uses direct measurement to measure its greenhouse gas emissions, the entity is required to convert the seven constituent greenhouse gases into a CO_2 equivalent value using global warming potential values based on a 100-year time horizon from the Intergovernmental Panel on Climate Change Assessment Report, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.

AusB22.2 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 an entity uses emission factors that are not converted into CO_2 equivalent values, the entity shall use the global warming potential values based on a 100-year time horizon from the Intergovernmental Panel on Climate Change Assessment Report, as identified in [draft] ASRS 101.

Greenhouse Gas Protocol

B23–B25 [Deleted by the AASB]

Greenhouse gas emission measurement methodologies

AusB25.1 For the purposes of paragraph Aus31.1(b), an entity shall consider the measurement of the following classifications of greenhouse gas emissions separately and apply methodologies set out in NGER Scheme legislation, using Australian-specific data sources and factors for the estimation of greenhouse gas emissions, to the extent practicable before applying other methodologies under the measurement hierarchy set out in paragraph Aus31.1(b):

(a) Scope 1 greenhouse gas emissions;

(b) location-based Scope 2 greenhouse gas emissions;

(c) market-based Scope 2 greenhouse gas emissions (when applicable); and

(d) Scope 3 greenhouse gas emissions.

Measurement approach, inputs and assumptions

B26 [Deleted by the AASB]

AusB26.1 Paragraph Aus31.1(c) requires an entity to disclose the measurement approach, inputs and assumptions it uses to measure its greenhouse gas emissions. As part of this requirement, the entity shall disclose:

(a) the applicable method and measurement approach the entity uses to determine its greenhouse gas emissions;

(b) the reason, or reasons, for the entity's choice of method and measurement approach and how that approach relates to the disclosure objective in paragraph 27; and

(c) the emission factors the entity uses (see paragraph B29).

The measurement approach set out in the Greenhouse Gas Protocol

B27 [Deleted by the AASB]

Other methods and measurement approaches

B28 [Deleted by the AASB]

Emission factors

B29 As part of an entity's disclosure of the measurement approach, inputs and assumptions, the entity shall disclose information to enable users of general purpose financial reports to understand which emission factors the entity uses in its measurement of its greenhouse gas emissions. This [draft] Standard does not specify emission factors an entity is required to use in its measurement of its greenhouse gas emissions. Instead, this [draft] Standard requires an entity to use emission factors that best represent the entity's activity as its basis for measuring its greenhouse gas emissions.

Scope 2 greenhouse gas emissions

B30–B31 [Deleted by the AASB]

AusB31.1 Paragraph Aus31.1(e) requires an entity to disclose its location-based Scope 2 greenhouse gas emissions. An entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures is also required to disclose its market-based Scope 2 greenhouse gas emissions in accordance with paragraph Aus31.1(f).

AusB31.2 Additionally, an entity is required to provide information about contractual instruments if such instruments exist and information about them informs users' understanding of the entity's Scope 2 greenhouse gas emissions. Contractual instruments are any type of contract between an entity and another party for the sale and purchase of energy bundled with attributes about the energy generation or for unbundled energy attribute claims (unbundled energy attribute claims relate to the sale and purchase of energy that is separate and distinct from the greenhouse gas attribute contractual instruments).

Scope 3 greenhouse gas emissions

B32–B33 [Deleted by the AASB]

AusB33.1 In accordance with paragraph Aus31.1(g), an entity shall disclose information about its Scope 3 greenhouse gas emissions to enable users of general purpose financial reports to understand the source of these emissions. The entity shall consider its entire value chain (upstream and downstream) and identify and disclose the categories it has included in its Scope 3 greenhouse gas emissions disclosures. For example, the entity may consider categorising the sources of its Scope 3 greenhouse gas emissions under the following categories:

(a) purchased goods and services;

(b) capital goods;

(c) fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions;

(d) upstream transportation and distribution;

(e) waste generated in operations;

(f) business travel;

(g) employee commuting;

(h) upstream leased assets;

(i) downstream transportation and distribution;

(j) processing of sold products;

(k) use of sold products;

(l) end-of-life treatment of sold products;

(m) downstream leased assets;

(n) franchises; and

(o) investments.

B34 In accordance with paragraph B11 in [draft] ASRS 1, on the occurrence of a significant event or a significant change in circumstances, an entity shall reassess the scope of all affected climate-related risks and opportunities throughout its value chain, including reassessing which Scope 3 categories and entities throughout its value chain to include in the measurement of its Scope 3 greenhouse gas emissions. A significant event or significant change in circumstances can occur without the entity being involved in that event or change in circumstances or as a result of a change in what the entity assesses to be important to users of general purpose financial reports. For example, such significant events or significant changes in circumstances might include:

(a) a significant change in the entity's value chain (for example, a supplier in the entity's value chain makes a change that significantly alters the supplier's greenhouse gas emissions);

(b) a significant change in the entity's business model, activities or corporate structure (for example, a merger or acquisition that expands the entity's value chain); and

(c) a significant change in the entity's exposure to climate-related risks and opportunities (for example, a supplier in the entity's value chain is affected by the introduction of an emissions regulation that the entity had not anticipated).

B35 An entity is permitted, but not required, to reassess the scope of any climate-related risk or opportunity throughout its value chain more frequently than required by paragraph B11 in [draft] ASRS 1.

B36 In accordance with paragraph B6(b) in [draft] ASRS 1, to determine the scope of the value chain, which includes its breadth and composition, an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort.

B37 An entity that participates in one or more financial activities associated with asset management, commercial banking and insurance shall disclose additional information about the financed emissions associated with those activities as part of the entity's disclosure of its Scope 3 greenhouse gas emissions (see paragraphs B58–AusB63.1).

Scope 3 measurement framework

B38 An entity's measurement of Scope 3 greenhouse gas emissions is likely to include the use of estimation rather than solely comprising direct measurement. In measuring Scope 3 greenhouse gas emissions an entity shall use a measurement approach, inputs and assumptions that result in a faithful representation of this measurement. The measurement framework described in paragraphs B40–B54 provides guidance for an entity to use in preparing its Scope 3 greenhouse gas emissions disclosures.

B39 An entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the measurement approach, inputs and assumptions it uses in measuring Scope 3 greenhouse gas emissions.

AusB39.1 An entity shall measure its Scope 3 greenhouse gas emissions using data for the same reporting period as its related financial statements, unless reasonable and supportable data related to that reporting period (i.e. the current reporting period) is not available to the entity at the reporting date without undue cost or effort. Notwithstanding paragraph B19, if reasonable and supportable data related to the current reporting period is unavailable, an entity is permitted to disclose in the current reporting period its Scope 3 greenhouse gas emissions using data for the immediately preceding reporting period. An entity measuring and disclosing Scope 3 greenhouse gas emissions using data for the immediately preceding reporting period shall disclose that fact.

B40 An entity's measurement of Scope 3 greenhouse gas emissions relies upon a range of inputs. This [draft] Standard does not specify the inputs the entity is required to use to measure its Scope 3 greenhouse gas emissions, but does require the entity to prioritise inputs and assumptions using these identifying characteristics (which are listed in no particular order):

(a) data based on direct measurement (paragraphs B43–B45);

(b) data from specific activities within the entity's value chain (paragraphs B46–B49);

(c) timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its greenhouse gas emissions (paragraphs B50–B52); and

(d) data that has been verified (paragraphs B53–B54).

B41 [Deleted by the AASB]

B42 An entity's prioritisation of the measurement approach, inputs and assumptions and the entity's considerations of associated trade-offs—based on the characteristics in paragraph B40—requires management to apply judgement. For example, an entity might need to consider the trade-offs between timely data and data that is more representative of the jurisdiction and technology used for the value chain activity and its emissions. More recent data might provide less detail about the specific activity, including the technology that was used in the value chain and the location of that activity. On the other hand, older data that is published infrequently might be considered more representative of the specific activity and its greenhouse gas emissions.

Data based on direct measurement

B43 Two methods are used to quantify Scope 3 greenhouse gas emissions: direct measurement and estimation. Of these two methods—and with all else being equal—an entity shall prioritise direct measurement.

B44 'Direct measurement' refers to the direct monitoring of greenhouse gas emissions and, in theory, provides the most accurate evidence. However, it is expected that Scope 3 greenhouse gas emissions data will include estimation due to the challenges associated with direct measurement of Scope 3 greenhouse gas emissions.

B45 Estimation of Scope 3 greenhouse gas emissions involves approximate calculations of data based on assumptions and appropriate inputs. An entity that measures its Scope 3 greenhouse gas emissions using estimation is likely to use two types of input:

(a) data that represents the entity's activity that results in greenhouse gas emissions (activity data). For example, the entity might use distance travelled as activity data to represent the transport of goods within its value chain; and

(b) emission factors that convert activity data into greenhouse gas emissions. For example, the entity will convert the distance travelled (activity data) into greenhouse gas emissions data using emission factors.

Data from specific activities within the entity's value chain

B46 An entity's measurement of its Scope 3 greenhouse gas emissions will be based on data obtained directly from specific activities within the entity's value chain (primary data), data not obtained directly from activities within the entity's value chain (secondary data), or a combination of both.

B47 In measuring an entity's Scope 3 greenhouse gas emissions, primary data is more likely to be representative of the entity's value chain activity and its greenhouse gas emissions than secondary data. Therefore, the entity shall prioritise—with all else being equal—the use of primary data.

B48 Primary data for Scope 3 greenhouse gas emissions includes data provided by suppliers or other entities in the value chain related to specific activities in an entity's value chain. For example, primary data could be sourced from meter readings, utility bills or other methods that represent specific activities in the entity's value chain. Primary data could be collected internally (for example, through the entity's own records), or externally from suppliers and other value chain partners (for example, supplier-specific emission factors for purchased goods or services). Data from specific activities within an entity's value chain provides a more accurate representation of the entity's specific value chain activities and, therefore, will provide a better basis for measuring the entity's Scope 3 greenhouse gas emissions.

B49 Secondary data for Scope 3 greenhouse gas emissions is data that is not obtained directly from specific activities within an entity's value chain. Secondary data is often supplied by third-party data providers and includes industry-average data (for example, from published databases, government statistics, literature studies and industry associations). Secondary data includes data used to approximate the activity or emission factors. Additionally, secondary data includes primary data from a specific activity (proxy data) used to estimate greenhouse gas emissions for another activity. If an entity uses secondary data to measure its Scope 3 greenhouse gas emissions, it shall consider the extent to which the data faithfully represents the entity's activities.

Timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its greenhouse gas emissions

B50 If an entity uses secondary data, it shall prioritise the use of activity or emissions data that is based on, or represents, the technology used in the value chain activity the data is intended to represent. For example, an entity might obtain primary data from its activities (for example, the specific aircraft model, distance travelled and travel-class used by employees when travelling) and would then use secondary data that represents the greenhouse gas emissions arising from those activities to convert the primary data into an estimate of its greenhouse gas emissions from air travel.

B51 If an entity uses secondary data, it shall prioritise activity or emissions data that is based on, or represents, the jurisdiction in which the activity happened. For example, an entity shall prioritise emission factors that relate to the jurisdiction in which the entity operates or in which the activity has taken place.

B52 If an entity uses secondary data, it shall prioritise activity or emissions data that is timely and representative of the entity's value chain activity during the reporting period. In some jurisdictions, and for some technologies, secondary data is collected annually and, therefore, the data is likely to be representative of the entity's current practice. However, some secondary data sources rely on information collected in a reporting period that is different from the entity's own reporting period.

Verified data

B53 An entity shall prioritise Scope 3 greenhouse gas emissions data that is verified. Verification can provide users of general purpose financial reports with confidence that the information is complete, neutral and accurate.

B54 Verified data might include data that has been internally or externally verified. Verification can take place in several ways, including on-site checking, reviewing calculations, or cross-checking of data against other sources. However, in some cases an entity might be unable to verify its Scope 3 greenhouse gas emissions without undue cost or effort. For example, the entity might be prevented from obtaining a complete set of verified data due to the volume of data or because the data is obtained from entities in the value chain that are separated by many tiers from the reporting entity, that is, entities that the reporting entity does not interact with directly. In such cases, an entity might need to use unverified data.

Disclosure of inputs to Scope 3 greenhouse gas emissions

B55 An entity shall disclose information about the measurement approach, inputs and assumptions it uses to measure its Scope 3 greenhouse gas emissions in accordance with paragraph Aus31.1(c). This disclosure shall include information about the characteristics of the data inputs as described in paragraph B40. The purpose of this disclosure is to provide users of general purpose financial reports with information about how the entity has prioritised the highest quality data available, which faithfully represents the value chain activity and its Scope 3 greenhouse gas emissions. This disclosure also helps users of general purpose financial reports to understand why the measurement approach, inputs and assumptions the entity uses to estimate its Scope 3 greenhouse gas emissions are relevant.

B56 As part of the requirement in paragraph Aus31.1(c), and to reflect how an entity prioritises Scope 3 data in accordance with the measurement framework set out in paragraphs B40–B54, the entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the extent to which the entity's Scope 3 greenhouse gas emissions are measured using inputs from specific activities within the entity's value chain; and

(b) the extent to which the entity's Scope 3 greenhouse gas emissions are measured using inputs that are verified.

B57 This [draft] Standard includes the presumption that Scope 3 greenhouse gas emissions can be estimated reliably using secondary data and industry averages. In those rare cases when an entity determines it is *impracticable* to estimate its Scope 3 greenhouse gas emissions, the entity shall disclose how it is managing its Scope 3 greenhouse gas emissions. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Financed emissions

B58 Entities participating in financial activities face risks and opportunities related to the greenhouse gas emissions associated with those activities. Counterparties, borrowers or investees with higher greenhouse gas emissions might be susceptible to risks associated with technological changes, shifts in supply and demand and policy change, which in turn can affect the financial institution that is providing financial services to these entities. These risks and opportunities can arise in the form of credit risk, market risk, reputational risk and other financial and operational risks. For example, credit risk might arise in relation to financing clients affected by increasingly stringent carbon taxes, fuel efficiency regulations or other policies; credit risk might also arise through technological shifts. Reputational risk might arise from financing fossil-fuel projects. Entities participating in financial activities, including commercial and investment banks, asset managers and insurance entities, are increasingly monitoring and managing such risks by measuring their financed emissions. This measurement serves as an indicator of an entity's exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time.

B59 [Deleted by the AASB]

AusB59.1 Paragraph Aus31.1(a)(iii) requires an entity to disclose its absolute gross Scope 3 greenhouse gas emissions generated during the reporting period, including upstream and downstream emissions. An entity that participates in one or more of the following activities shall refer to and consider the applicability of paragraphs AusB61.1–AusB63.1, which describe additional and specific disclosures about emissions associated with those activities (also known as 'financed emissions'):

(a) asset management (see paragraph AusB61.1);

(b) commercial banking (see paragraph AusB63.1); and

(c) insurance (see paragraph AusB63.1).

B60 An entity shall apply the requirements for disclosing greenhouse gas emissions in accordance with paragraph Aus31.1 when disclosing information about its financed emissions.

Asset management

B61 [Deleted by the AASB]

AusB61.1 An entity that participates in asset management activities shall consider disclosing:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions;

(b) for each of the disaggregated items in paragraph (a), the total amount of assets under management (AUM) that is included in the financed emissions disclosure, expressed in the presentation currency of the entity's financial statements;

(c) the percentage of the entity's total AUM included in the financed emissions calculation. If the percentage is less than 100%, the entity shall disclose information that explains the exclusions, including types of assets and associated amount of AUM; and

(d) the methodology used to calculate the financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of investments.

Commercial banking

B62 [Deleted by the AASB]

Insurance

B63 [Deleted by the AASB]

Commercial banking and insurance

AusB63.1 An entity that participates in commercial banking activities or financial activities associated with insurance shall consider disclosing:

(a) its absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry by asset class. When disaggregating by:

(i) industry—the entity shall apply ANZSIC for classifying counterparties; and

(ii) asset class—the disclosure shall include loans, bonds, equity investments and undrawn loan commitments. An entity that participates in commercial banking shall also consider disaggregating greenhouse gas emissions by a "project finance" asset class. If the entity calculates and discloses financed emissions for other asset classes, it shall include an explanation of why the inclusion of those additional asset classes provides relevant information to users of general purpose financial reports;

(b) the gross exposure for each industry by asset class, expressed in the presentation currency of the entity's financial statements. For:

(i) funded amounts—gross exposure shall be calculated as the funded carrying amounts (before subtracting the loss allowance, when applicable) prepared in accordance with Australian Accounting Standards; and

(ii) undrawn loan commitments—the entity shall disclose the full amount of the commitment separately from the drawn portion of loan commitments;

(c) the percentage of the entity's gross exposure included in the financed emissions calculation. The entity shall:

(i) if the percentage of the entity's gross exposure included in the financed emissions calculation is less than 100%, disclose information that explains the exclusions, including type of assets excluded; and

(ii) disclose separately the percentage of its undrawn loan commitments included in the financed emissions calculation; and

(d) the methodology the entity used to calculate its financed emissions, including the method of allocation the entity used to attribute its share of emissions in relation to the size of its gross exposure.

Cross-industry metric categories (paragraph 29(b)–(g))

B64 In addition to information about an entity's greenhouse gas emissions, the entity is required to disclose information relevant to the cross-industry metric categories set out in paragraph 29(b)–(g).

B65 [Deleted by the AASB]

AusB65.1 In preparing disclosures to fulfil the requirements in paragraph 29(b)–(g), an entity shall consider:

(a) the time horizons over which the effects of climate-related risks and opportunities could reasonably be expected to occur, described in accordance with paragraph 30 of [draft] ASRS 1;

(b) where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets) (see paragraph 32 of [draft] ASRS 1);

(c) the information disclosed in accordance with paragraph 35(a)–(b) of [draft] ASRS 1 in relation to the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period; and

(d) the connections between the information disclosed to fulfil the requirements in paragraph 29(b)–(g) with the information disclosed in the related financial statements, in accordance with paragraph 21(b)(ii) of [draft] ASRS 1. These connections include consistency in the data and assumptions used—to the extent possible—and linkages between the amounts disclosed in accordance with paragraph 29(b)–(g) and the amounts recognised and disclosed in the financial statements. For example, an entity would consider whether the carrying amount of assets used is consistent with amounts included in the financial statements and would explain the connections between information in these disclosures and amounts in the financial statements.

Climate-related targets (paragraphs 33–Aus37.1)

Characteristics of a climate-related target

B66 Paragraph 33 requires an entity to disclose the quantitative or qualitative climate-related targets it has set, and any it is required to meet by law or regulation, including any greenhouse gas emissions targets. In disclosing these climate-related targets, the entity is required to disclose information about the characteristics of these targets as described in paragraph 33(a)–(h). If the climate-related target is quantitative, an entity is required to describe whether the target is an absolute target or an intensity target. An absolute target is defined as a total amount of a measure or a change in the total amount of a measure, whereas an intensity target is defined as a ratio of a measure, or a change in the ratio of a measure, to a business metric.

B67 [Deleted by the AASB]

AusB67.1 In identifying and disclosing the metric used to set a climate-related target and measure progress, an entity shall consider the cross-industry metrics and, where available, may also consider well-established and understood industry-based metrics disclosed by entities that operate in the same industry, as classified in ANZSIC. If the metric has been developed by the entity to measure progress towards a target, the entity shall disclose information about that metric in accordance with paragraph 50 of [draft] ASRS 1.

Greenhouse gas emissions targets

Gross and net greenhouse gas emissions targets

B68 If an entity has a greenhouse gas emissions target, the entity is required to specify whether the target is a gross greenhouse gas emissions target or a net greenhouse gas emissions target. Gross greenhouse gas emissions targets reflect the total changes in greenhouse gas emissions planned within the entity's value chain. Net greenhouse gas emissions targets are the entity's targeted gross greenhouse gas emissions minus any planned offsetting efforts (for example, the entity's planned use of carbon credits to offset its greenhouse gas emissions).

B69 Paragraph 36(c) specifies that if an entity has a net greenhouse gas emissions target it is required to also disclose a gross greenhouse gas emissions target. For the avoidance of doubt, if the entity discloses a net greenhouse gas emissions target, this target cannot obscure information about its gross greenhouse gas emissions targets.

Carbon credits

B70 Paragraph 36(e) requires an entity to describe its planned use of carbon credits—which are transferable or tradeable instruments—to offset emissions to achieve any net greenhouse gas emissions targets the entity has set, or any it is required to meet by law or regulation. Any information about the planned use of carbon credits shall clearly demonstrate the extent to which these carbon credits are relied on to achieve the net greenhouse gas emissions targets.

B71 In accordance with paragraph 36(e), an entity is required to disclose only its planned use of carbon credits. However, as part of this disclosure, the entity might also include information about carbon credits it has already purchased that the entity is planning to use to meet its net greenhouse gas emissions target, if the information enables users of general purpose financial reports to understand the entity's greenhouse gas emissions target.

Appendix C
Effective date and transition

This appendix is an integral part of [draft] ASRS 2 and has the same authority as the other parts of the [draft] Standard.

Effective date

C1 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after … [1 July 2024]. Earlier application is permitted. If an entity applies this [draft] Standard earlier, it shall disclose that fact and apply [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information* at the same time.

C2 For the purposes of applying paragraphs C3–AusC5.1, the date of initial application is the beginning of the annual reporting period in which an entity first applies this [draft] Standard.

Transition

C3 An entity is not required to provide the disclosures specified in this [draft] Standard for any period before the date of initial application. Accordingly, an entity is not required to disclose comparative information in the first annual reporting period in which it applies this [draft] Standard.

C4 [Deleted by the AASB]

AusC4.1 Notwithstanding paragraph Aus31.1, in the first annual reporting period in which an entity applies this [draft] Standard, the entity is not required to disclose its Scope 3 greenhouse gas emissions. In subsequent reporting periods, the entity is permitted to not disclose its Scope 3 greenhouse gas emissions relating to that first reporting period as comparative information.

AusC4.2 Notwithstanding paragraph Aus31.1(f), in the first three annual reporting periods in which an entity applies this [draft] Standard, the entity is not required to disclose its market-based Scope 2 greenhouse gas emissions. In the second and subsequent reporting periods, the entity is permitted to not disclose its market-based Scope 2 greenhouse gas emissions relating to those three reporting periods as comparative information.

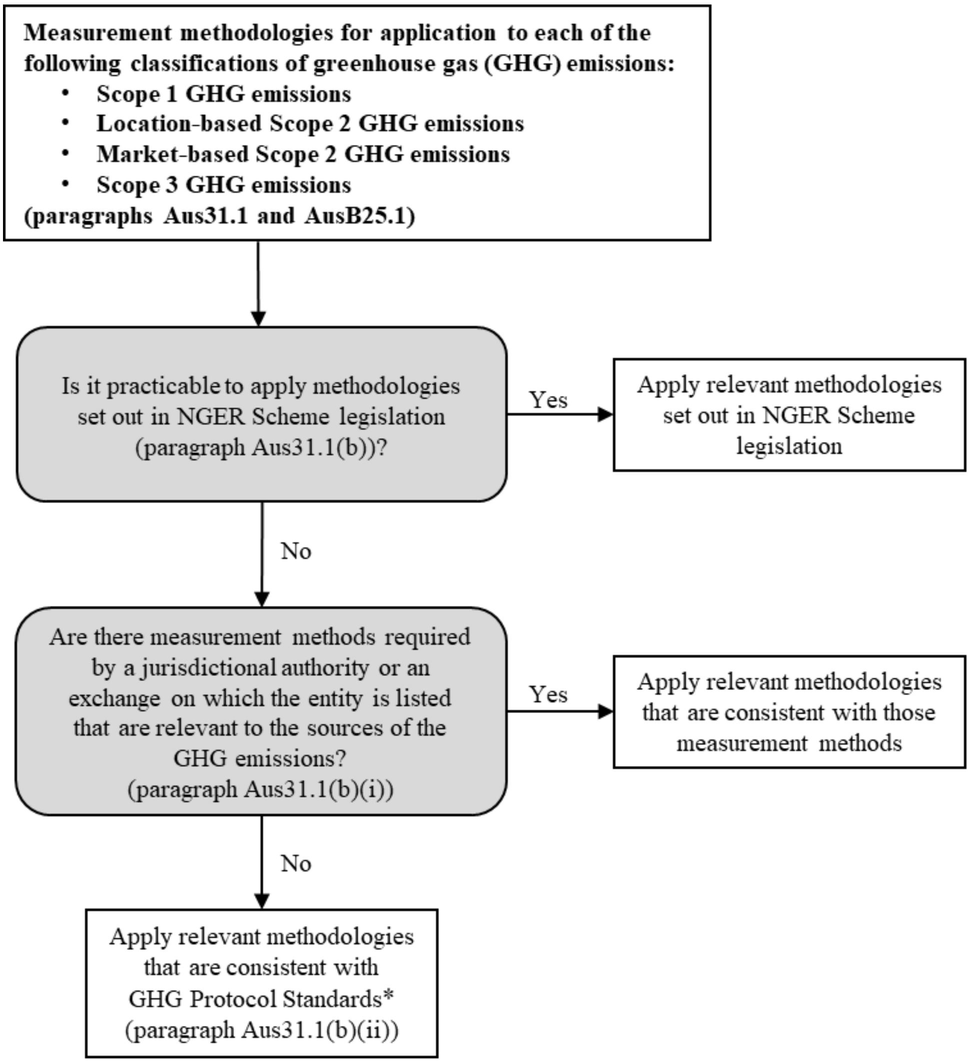
C5 [Deleted by the AASB]

Australian application guidance

This Australian application guidance accompanies, but is not part of, [draft] ASRS 2.

Greenhouse gas measurement methodologies (paragraphs Aus31.1(b) and AusB25.1)

AG1 Paragraph Aus31.1(b) requires an entity to measure its greenhouse gas emissions by applying relevant methodologies set out in NGER Scheme legislation, to the extent practicable. If applying a methodology in NGER Scheme legislation is not practicable, an entity shall apply a methodology that is consistent with the hierarchy of measurement methods and frameworks set out in paragraph Aus31.1(b). The diagram below illustrates the application of paragraphs Aus31.1(b) and AusB25.1.



* *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* and *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, as identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.

Table of Concordance with IFRS S2

This Table of Concordance accompanies, but is not part of, [draft] ASRS 2.

The Preface to [draft] ASRS 2 outlines the main differences between that [draft] Standard and IFRS S2. This table shows how the contents of the two Standards correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the requirements or guidance may differ. Where there is a notable difference between corresponding paragraphs, a brief explanation of the modification from IFRS S2 for [draft] ASRS 2 is included in the table.

IFRS S2	[Draft] ASRS 2	Modification for [draft] ASRS 2
1	1	
2	Aus2.1–Aus2.2	Specify the objective for not-for-profit (NFP) entities
–	Aus2.3	Specify the types of entities to which [draft] ASRS 2 applies
3	3	
–	Aus3.1	Specify the scope of [draft] ASRS 2 is limited to climate-related risks and opportunities in relation to climate change, and that [draft] ASRS 2 does not apply to other climate-related emissions, with the exception of greenhouse gas (GHG) emissions
4	4	
–	Aus4.1	Clarify the requirements for NFP entities
–	Aus4.2	Specify disclosure requirements for entities that do not have material climate-related risks and opportunities
5	5	
6–7	Aus7.1	Refer to corresponding requirements in [draft] ASRS 1
8	8	
9	Aus9.1	Refer to corresponding requirements in [draft] ASRS 1
10	Aus10.1–Aus10.2	Refer to corresponding requirements in [draft] ASRS 1
11	11	
12	–	Omit industry-based disclosure requirements
13	Aus13.1	Refer to corresponding requirements in [draft] ASRS 1
14	14	
15–21	Aus21.1	Refer to corresponding requirements in [draft] ASRS 1
22	22	
–	Aus22.1	Specify a requirement, for an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures, to undertake climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022*
–	Aus22.2	Clarify that an entity need not disclose the detailed modelling adopted in carrying out its climate-related scenario analysis
23	–	Omit industry-based disclosure requirements
24	24	
25–26	Aus26.1	Refer to corresponding requirements in [draft] ASRS 1
27	27	
28	28–Aus28.1	Modify guidance on industry-based disclosures
29(a)(i)	Aus31.1(a)	
29(a)(ii)	–	Omit requirements to apply Standards issued by the Greenhouse Protocol Initiative (GHG Protocol Standards)

IFRS S2	[Draft] ASRS 2	Modification for [draft] ASRS 2
–	Aus31.1(b)	Specify the use of relevant methodologies set out in NGER Scheme legislation as the default methodologies for measuring GHG emissions before applying other methodologies
29(a)(iii)–29(a)(v)	Aus31.1(c)–Aus31.1(e)	
–	Aus31.1(f)	Specify the disclosure of market-based Scope 2 GHG emissions by an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures
29(a)(vi)	Aus31.1(g)	Specify the disclosure of the characteristics of the data inputs the entity used to measure its Scope 3 GHG emissions, with reference to paragraphs B55–B57
29(b)–29(g)	29(b)–29(g)	
–	Aus29.1	Specify "executive" and "executive management", and "remuneration", have the same meaning as "key management personnel" and "compensation", respectively, as defined in AASB 124 *Related Party Disclosures*
30–31	30–31	
32	Aus32.1	Modify industry-based disclosure requirements
33–36	33–36	
37	Aus37.1	Modify industry-based disclosure requirements
Appendix A – Defined terms		
A	A	Extend some terms to NFP entities, add Australian-specific terms and note terms defined in [draft] ASRS 1 and the Conceptual Frameworks
Appendix B – Climate resilience		
B1–B18	B1–B18	Specify a requirement, for an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures, to undertake climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the *Climate Change Act 2022* (see paragraph AusB12.1)
Appendix B – Greenhouse gases		
B19–B20	B19–B20	
B21–B22	AusB22.1–AusB22.2	Specify the use of global warming potential values from the Intergovernmental Panel on Climate Change assessment report identified in [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*
B23–B25	–	Omit requirements to apply GHG Protocol Standards directly
–	AusB25.1	Clarify measurement methodologies for the application of paragraph Aus31.1(b)
B26	AusB26.1	Omit requirements to apply GHG Protocol Standards directly
B27–B28	–	Omit requirements to apply GHG Protocol Standards directly
B29	B29	
B30–B31	AusB31.1–AusB31.2	Specify the disclosure of market-based Scope 2 GHG emissions, for an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures
B32–B33	AusB33.1	Modify the requirement to identify and disclose categories of the sources of Scope 3 GHG emissions
B34–B39	B34–B39	
–	AusB39.1	Permit the use of data for the immediately preceding reporting period in measuring the current-period Scope 3 GHG emissions
B40	B40	
B41	–	Omit requirements based on GHG Protocol Standards
B42–B58	B42–B58	

IFRS S2	[Draft] ASRS 2	Modification for [draft] ASRS 2
B59	AusB59.1	Omit reference to Scope 3 GHG emission category 15 in GHG Protocol Standards and require an entity to consider the applicability of paragraphs AusB61.1 and AusB63.1 for financed emissions
B60	B60	
B61	AusB61.1	Require an entity to consider making financed emission disclosures in relation to asset management activities
B62–B63	AusB63.1	Combine the financed emission disclosures that entities participating in commercial banking and insurance activities are required to consider. Omit reference to the Global Industry Classification Standard and instead require ANZSIC to be used in classifying counterparties
Appendix B – Cross-industry metric categories		
B64	B64	
B65	AusB65.1	Refer to corresponding requirements in [draft] ASRS 1 and omit industry-based disclosure requirements
B66	B66	
B67	AusB67.1	Modify industry-based disclosure requirements
B68–B71	B68–B71	
Appendix C – Effective date and transition		
C1–C3	C1–C3	
C4	AusC4.1	Omit one-year transition relief for GHG measurement methods other than GHG Protocol Standards
–	AusC4.2	Add three-year transition relief for market-based Scope 2 GHG emissions
C5	–	Include in paragraphs AusC4.1 and AusC4.2
Australian application guidance		
–	(attachment)	Illustrate the GHG measurement approach

[Draft] ASRS 101

References in Australian Sustainability Reporting Standards

Contents

[Draft] Australian Sustainability Reporting Standard ASRS 101 *References in Australian Sustainability Reporting Standards* is set out in paragraphs 1–18. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. [Draft] ASRS 101 is to be read in the context of other [draft] Australian Sustainability Reporting Standards.

Preface

Introduction

The Australian Accounting Standards Board (AASB) develops Australian Sustainability Reporting Standards.

The AASB is an Australian Government entity under the *Australian Securities and Investments Commission Act 2001*.

What does this [draft] Standard require?

Australian Sustainability Reporting Standards (ASRS Standards) set out the information entities are required to disclose in preparing climate-related financial disclosures.

In setting out these requirements, ASRS Standards include references to Australian legislation. They also refer to non-legislative documents published in Australia and to foreign standards and frameworks.

For the purposes of this [draft] Standard, the documents other than Australian legislation are divided into four types of external documents: Australian conceptual framework pronouncements (tables 1 and 2), other Australian external documents (table 3), foreign greenhouse gas measurement frameworks and standards (table 4) and other foreign external documents (table 5).

Entities are required to apply each relevant external document in preparing climate-related financial disclosures as specified in ASRS Standards to be able to make an explicit and unreserved statement of compliance with ASRS Standards.

This [draft] Standard will be reissued or amended when necessary to keep the tables up to date.

Application date

This [draft] Standard applies to annual reporting periods beginning on or after … [1 July 2024]. Earlier application is permitted.

Why have we issued this [draft] service Standard?

This [draft] Standard clarifies that all external documents referred to in ASRS Standards have the same authoritative status as the Standards and are required to be applied as specified in ASRS Standards to achieve compliance with ASRS Standards.

In the Australian context, the *Acts Interpretation Act 1901* and the *Legislation Act 2003* do not treat a reference to an external document in ASRS Standards as having the same legal status as a reference to Australian legislation (including delegated legislation such as ASRS Standards and other legislative instruments).

Although references in ASRS Standards to Australian legislation are ambulatory (automatically moving forward to refer to the most recently issued version), references in an ASRS Standard to external documents are stationary (being fixed in time to refer to the contents of the external document when the ASRS Standard was made by the AASB). A simple reference in an ASRS Standard to an external document can refer only to that external document as it existed when the ASRS Standard was issued. It cannot refer to any revised version of the external document that may exist at a later reporting date. However, an ASRS Standard can refer to Australian legislation and, when the ASRS Standard is applied at a later reporting date, the reference will be to the then-current version of the Australian legislation, even if it has been reissued since the ASRS Standard was issued.

The service Standard approach, as applied to external documents, involves issuing this [draft] Standard to list the versions of Australian and foreign external documents, and referring to this [draft] Standard in every other ASRS Standard where necessary to refer to an external document. This enables references to external documents in all other ASRS Standards to be updated by reissuing this [draft] service Standard.

This approach preserves the status of non-legislative documents published in Australia and foreign standards and frameworks as external documents referred to in an ASRS Standard. It does not treat the external documents as delegated legislation or confer ambulatory status on the reference. In each ASRS Standard where there is a need to refer to an external document, the reference will be to this [draft] Standard by adding “as identified in ASRS 101” (or similar) after or with the title of the external document. This reference, being to another ASRS Standard, is ambulatory and will refer to the version of this [draft] Standard that is in force from time to time. ASRS 101 will contain the direct references to the external documents and will be reissued periodically as required.

Comparison with international pronouncements

There is no International Sustainability Standards Board (ISSB) Standard that directly corresponds to ASRS 101. This is because the IFRS Sustainability Disclosure Standards are not developed and issued within a national legislative context.

[Draft] Australian Sustainability Reporting Standard ASRS 101

The Australian Accounting Standards Board makes Australian Sustainability Reporting Standard ASRS 101 *References in Australian Sustainability Standards*.

Keith Kendall
Dated … [date] Chair – AASB

[Draft] Australian Sustainability Reporting Standard ASRS 101 *References in Australian Sustainability Reporting Standards*

Objective

1 Australian Sustainability Reporting Standards (ASRS Standards) set out the information entities are required to disclose in presenting climate-related financial disclosures. ASRS Standards refer to Australian legislation (including delegated legislation, such as ASRS Standards). They also refer to non-legislative documents published in Australia and foreign standards and frameworks. For the purposes of this [draft] Standard, referenced documents other than Australian legislation are divided into a number of types of external documents.

2 Entities are required to apply each relevant external document to the extent specified in ASRS Standards in preparing and presenting climate-related financial disclosures in order for an entity to be able to make an explicit and unreserved statement of compliance with ASRS Standards.

3 The objective of this [draft] Standard is to provide an up-to-date listing of these external documents and to ensure the effectiveness of references in ASRS Standards to external documents.

4 Some paragraphs included in this [draft] Standard apply only to:

(a) not-for-profit entities; and

(b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in this [draft] Standard).

Such entities are referred to as 'AusCF entities'. For-profit entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the Conceptual Framework) shall not apply paragraphs for AusCF entities.

Application

5 This [draft] Standard applies to annual reporting periods beginning on or after … [1 July 2024].

6 This [draft] Standard may be applied to annual reporting periods beginning before … [1 July 2024].

Australian external documents

7 This [draft] Standard refers to non-legislative documents published in Australia that, where relevant, are required to be applied by an entity to the extent specified in ASRS Standards in order to claim compliance with ASRS Standards.

8 Each reference to an Australian external document in a row in each of Tables 1–3 is to be treated as a separate provision of this [draft] Standard.

Conceptual framework pronouncements

9 Each reference to the *Conceptual Framework for Financial Reporting* (or *Conceptual Framework*) in other ASRS Standards is taken to be a reference to the relevant pronouncement listed in Table 1 below.

Table 1: Australian Conceptual Framework pronouncements

Issue Date	Title	Application Date (annual reporting periods)
December 2021 [as amended to]	Conceptual Framework for Financial Reporting (or Conceptual Framework) *Note* – for-profit entities applying the Conceptual Framework are set out in paragraph Aus1.1. of the Conceptual Framework	(beginning) 1 January 2022

10 This [draft] Standard updates references to the *Conceptual Framework* in ASRS Standards to the relevant amended version of the *Conceptual Framework*. The principal application date listed in each row of Table 1 is a reference to annual reporting periods beginning or ending (as indicated) on or after the date specified. An entity may elect to apply an amended version of the pronouncement to annual reporting periods in advance of that stated in Table 1, subject to any early application paragraphs.

11 In respect of AusCF entities, each reference to the *Framework for the Preparation and Presentation of Financial Statements* (or *Framework*) in other ASRS Standards is taken to be a reference to the relevant pronouncement listed in Table 2 below.

Table 2: Australian Framework pronouncements

Issue Date	Title	Application Date (annual reporting periods)
March 2020 [as amended to]	Framework for the Preparation and Presentation of Financial Statements (or Framework)	(beginning) 1 July 2021

12 In respect of AusCF entities, this [draft] Standard updates references to the *Framework* in ASRS Standards to the relevant amended version of the *Framework*. The principal application date listed in each row of Table 2 is a reference to annual reporting periods beginning or ending (as indicated) on or after the date specified. An entity may elect to apply an amended version of the pronouncement to annual reporting periods in advance of that stated in Table 2, subject to any early application paragraphs.

Other Australian external documents

13 Each reference in other ASRS Standards to an Australian external document listed in Table 3 below is taken to be a reference to the relevant document as listed in the table.

Table 3: Other Australian external documents

Title	Issuer	Issue Date/Version
The Australian and New Zealand Standard Industrial Classification (ANZSIC)	The Australian Bureau of Statistics	2006

Foreign external documents

14 This [draft] Standard refers to foreign standards and frameworks that an entity might elect to apply in accordance with ASRS Standards.

15 Each reference to a foreign external document in a row in each of Tables 4 and 5 is to be treated as a separate provision of this [draft] Standard.

Foreign greenhouse gas emission measurement frameworks

16 [Draft] ASRS 2 *Climate-related Financial Disclosures* requires an entity to apply a methodology from an internationally recognised greenhouse gas emission measurement framework to measure its Scope 1, Scope 2 and Scope 3 greenhouse gas emissions when applying a methodology in the *National Greenhouse and Energy Reporting Act 2007* and related regulations is not practicable and a relevant local

methodology is not available. Internationally recognised greenhouse gas emission measurement frameworks are listed in Table 4.

17 **Each reference in other ASRS Standards to a foreign external document listed in Table 4 below is taken to be a reference to the relevant document as listed in the table.**

Table 4: Internationally recognised greenhouse gas emission measurement frameworks

Title	**Issuer**	**Issue Date/Version**
Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard	The Greenhouse Gas Protocol Initiative	March 2004
Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard	The Greenhouse Gas Protocol Initiative	September 2011

Other foreign external documents

18 **Each reference in other ASRS Standards to a foreign external document listed in Table 5 below is taken to be a reference to the relevant document as listed in the table.**

Table 5: Other foreign external documents

Title	**Issuer**	**Issue Date/Version**
Intergovernmental Panel on Climate Change Assessment Report	Intergovernmental Panel on Climate Change (IPCC)	2014 – Fifth Assessment Report (AR5)

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] ASRS 1 and [draft] ASRS 2.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB's) considerations in reaching the conclusions in the Exposure Draft. Individual Board members gave greater weight to some factors than to others.

Reasons for undertaking the Climate-related Financial Disclosures project

BC2 Entities preparing general purpose financial statements (GPFS), which are a particular form of general purpose financial reports (GPFR), are required under Australian Accounting Standards to consider climate-related matters in their GPFS when the effect of those matters is material information to primary users of GFPS (see paragraph BC95). However, because Accounting Standards do not refer explicitly to climate-related matters and material climate-related financial information is not always within the scope of GPFS, there is a global demand for Standard-setters to provide additional guidance or requirements to promote consistent reporting on climate-related matters both in the GPFS and, more broadly, general purpose financial reporting.

BC3 Feedback to Invitation to Comment ITC 46 *AASB Agenda Consultation 2022–2026* indicated that Australian stakeholders were:[1]

(a) supportive of the AASB expanding its scope of activities to include sustainability reporting;

(b) of the view that such a project should be considered a high priority by the AASB; and

(c) of the view that such a project should prioritise international alignment.

BC4 Upon considering feedback to ITC 46, in February 2022, the AASB formally added the Sustainability Reporting project to its work plan as a high-priority project.

BC5 In March 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation published for consultation Exposure Draft on [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and Exposure Draft on [draft] IFRS S2 *Climate-related Disclosures*, which integrated and built on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), created by the Financial Stability Board (FSB).

BC6 The AASB considered the ISSB's proposals and, in April 2022, published Exposure Draft ED 321 *Request for Comment on ISSB [Draft] IFRS S1* General Requirements for Disclosure of Sustainability-related Financial Information *and [Draft] IFRS S2* Climate-related Disclosures to obtain stakeholders' input on the suitability of the proposals in [Draft] IFRS S1 and [Draft] IFRS S2 for use as a baseline on which to develop Australian-equivalent standards and requirements, and on the approach to developing sustainability-related financial reporting requirements in Australia. Paragraphs BC10–BC11 provide a high-level overview of the feedback to ED 321 related to using the work of the ISSB as the baseline for developing Australian climate-related financial disclosure requirements.

BC7 The Australian Government has announced its commitment to introducing internationally-aligned mandatory climate-related financial reporting for large businesses and financial institutions. As part of this commitment, the Government decided:

(a) the Australian Government Department of the Treasury (Treasury) will lead the development of a broad sustainable finance framework for large businesses and financial institutions, of which climate-related financial disclosure will form one part, and the Department of Finance will lead the related work to implement appropriate arrangements for comparable Commonwealth public sector entities to disclose their exposure to climate-related risks and opportunities;

(b) to introduce standardised reporting requirements for large businesses and financial institutions to make disclosures regarding governance, strategy, risk management, targets and metrics—the four

1 See the Feedback Statement on the agenda consultation.

pillars in the TCFD Recommendations, which have been applied by some Australian entities since 2017;[2]

(c) to align as far as possible with IFRS S2 *Climate-related Disclosures* issued by the ISSB;[3] and

(d) to amend the *Australian Securities and Investments Commission Act 2001* to empower the AASB to deliver Australian Sustainability Reporting Standards to meet the Government's commitment.[4]

BC8 Considering the commitment from the Australian Government to introduce internationally-aligned mandatory climate-related financial reporting for large businesses and financial institutions and feedback to ED 321, the AASB decided:

(a) to develop Australian sustainability-related reporting requirements as a separate suite of standards to Accounting Standards;

(b) to use the work of the ISSB as a foundation, with modifications for Australian matters and requirements where necessary to meet the needs of Australian stakeholders; and

(c) in aligning with the Australian Government's direction to address climate-related financial disclosures first, to develop climate-related financial disclosure requirements that can, at least initially, be applied independently of any broader sustainability reporting framework. This approach would permit additional time to consider the development of reporting requirements for other sustainability-related risks in Australia over time.

BC9 Accordingly, the AASB decided to undertake the Climate-related Financial Disclosure project to explore the development of Australian climate-related financial disclosure requirements using IFRS S1 and IFRS S2 as a foundation.

Reasons for aligning with IFRS Sustainability Disclosure Standards

BC10 The ISSB issued the IFRS Sustainability Disclosure Standards IFRS S1 and IFRS S2 in June 2023. The Standards integrate the TCFD Recommendations, which are globally accepted as being the benchmark for climate-related financial disclosures. The AASB decided that Australian climate-related financial disclosure requirements should align with the concepts in those Standards because many ED 321 respondents commented that the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2:

(a) broadly align with existing or anticipated requirements, guidance or practice in Australia;

(b) would result in useful information for primary users of GPFR;

(c) would be in the best interests of the Australian economy; and

(d) would be sufficient in addressing most domestic matters and therefore Australian-specific amendments would likely be limited.

BC11 Additionally, despite expressing significant concerns on certain proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2, overall most ED 321 respondents expressed support for the ISSB's approach to:

(a) focus on sustainability-related financial matters only. Some respondents supported the focus on financial matters only as a starting point for achieving broader sustainability reporting in Australia in the long term and many encouraged the AASB to consider developing multi-stakeholder sustainability reporting requirements that would include the ISSB's work, but not be limited to it;

(b) use the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (GHG Protocol Standard) as the global standard for measuring and disclosing greenhouse gas (GHG) emissions where jurisdictional GHG measurement standards or frameworks are not already established or required. For example, many respondents highlighted the existing reporting requirements required under the *National Greenhouse and Energy Reporting Act 2007* and related regulations (NGER Scheme legislation) and recommended that the AASB works with the Clean Energy Regulator to provide guidance on how the GHG Protocol Standard interacts with NGER Scheme legislation, to avoid duplicate reporting of GHG emissions;

(c) require entities to disclose Scope 3 GHG emissions in addition to their Scope 1 and Scope 2 GHG emissions, even though entities currently reporting GHG emissions under NGER Scheme legislation are not required to disclose Scope 3 GHG emissions; and

2 See Treasury's consultations on Climate-related financial disclosure in December 2022 and June 2023.

3 The Australian Treasurer's address to the Australian Sustainable Finance Institute on 12 December 2022.

4 See the Australian Government's consultation *Empowering the AASB to deliver sustainability standards* (November 2022).

(d) develop industry-based climate-related financial disclosure requirements. However, those respondents also commented that the proposals in Appendix B to [draft] IFRS S2 (which had been adapted from Sustainability Accounting Standards Board (SASB) Standards) and the SASB Standards were not appropriate for use in Australia and that further work needed to be done to appropriately internationalise the proposals.

BC12 To support the Government's commitment described in paragraphs BC7(b) and BC7(c), Treasury undertook two public consultations relating to introducing standardised and internationally-aligned reporting requirements for businesses to disclose climate-related financial information.[5] Those consultations indicated that the Australian Government supports:

(a) the development of Australian climate-related financial disclosure requirements using IFRS S2 as the baseline; and

(b) changes to the baseline, including additional climate-related financial reporting requirements for Australian entities and further clarity on how to apply requirements in IFRS S2 in the Australian context.

BC13 Overall, the AASB is of the view that, despite the modifications made to the baseline of IFRS S2, [draft] Australian Sustainability Reporting Standards (ASRS Standards) predominantly align with IFRS Sustainability Disclosure Standards. Excluding industry-based metrics disclosure, the AASB anticipates that the outcomes from applying the [draft] ASRS Standards would be the same as if an Australian entity were to apply IFRS S2.[6] However, [draft] ASRS Standards provide additional clarity and guidance on how the requirements apply within the context of the Australian legislative and regulatory environment.

Proposals in this Exposure Draft

BC14 The AASB proposed three draft ASRS Standards in this Exposure Draft:

(a) [draft] ASRS 1 *General Requirements for Disclosure of Climate-related Financial Information*, developed using the requirements of IFRS S1 as the baseline but with a scope limitation to climate-related financial disclosure;

(b) [draft] ASRS 2 *Climate-related Financial Disclosures*, developed using the requirements of IFRS S2 as the baseline; and

(c) [draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service Standard that would be updated periodically to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in ASRS Standards.

BC15 The AASB developed [draft] ASRS 1 and [draft] ASRS 2 based on consideration of Treasury's Consultation Paper *Climate-related Financial Disclosure* (June 2023) (Treasury's second consultation paper) and informal feedback from stakeholders, including staff members of Treasury, the Australian Government Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the CSIRO.

BC16 The proposals in ED SR1 are subject to change based on the anticipated Australian Government policy announcement, exposure draft legislation and final amendments to that legislation.

BC17 The following paragraphs summarise the key matters considered by the AASB in reaching the conclusions in ED SR1, including its rationale for proposing modifications and additions to certain concepts and requirements that are set out in IFRS S1 and IFRS S2.

Application of [draft] ASRS Standards and effective date

BC18 The AASB considered the proposed roadmap for mandatory disclosure requirements set out in Treasury's second consultation paper (see the Introduction section of this Exposure Draft). To support the Government's proposals set out in that consultation, the AASB is proposing [draft] ASRS 1, [draft] ASRS 2 and [draft] ASRS 101 would apply to annual reporting periods beginning on or after 1 July 2024. However, the financial period in which an entity is first required to apply those ASRS Standards would be subject to decisions of the Australian Government.

5 See Treasury's consultations on Climate-related financial disclosure in December 2022 and June 2023.

6 This is because IFRS S2 permits an entity to use a method required by a jurisdictional authority for measuring its greenhouse gas (GHG) emissions (IFRS S2 paragraphs 29(a)(ii) and B24). Therefore, if an entity is required by Australian legislation to apply a method set out in NGER Scheme legislation in measuring and disclosing GHG emissions in its GPFR, doing so would not mean that the entity has departed from IFRS S2 in preparing its GPFR.

Limiting the scope of [draft] ASRS 1 to climate-related financial information

BC19 IFRS S1 is designed to be applied to the reporting of all sustainability-related financial disclosures. It is not limited to climate-related financial disclosures.

BC20 When developing [draft] ASRS Standards, the AASB decided to use IFRS S1 as the baseline but limit the scope of the Standard to climate-related financial disclosures, at least initially. This is because:

(a) as noted in paragraph BC8(c), to align with the Government's direction and stakeholder feedback to ED 321, the AASB decided to address climate-related financial disclosure first and consider the approach to broader sustainability reporting matters in Australia at a later time; and

(b) the AASB observed from Treasury's second consultation paper and the Treasurer's address to the Australian Sustainable Finance Institute that:

(i) the imminent disclosure requirements that the Australian Government was considering imposing were related to climate-related financial risks and opportunities and not to broader sustainability-related financial reporting;

(ii) Treasury's preference for having strong international alignment specifically referred to IFRS S2; and

(iii) there was a strong emphasis amongst stakeholders that responded to Treasury's first consultation on the need for any climate-related financial disclosure requirements to be developed quickly. Limiting the scope of IFRS S1-based requirements to climate-related financial disclosures when developing [draft] ASRS Standards would allow the AASB to finalise the Standard(s) quickly and permit additional time to consider the approach to broader sustainability reporting in Australia in the long term.

Presenting the core content of IFRS S1 in [draft] ASRS Standards

BC21 Because the AASB decided to limit the scope of disclosure requirements based on IFRS S1 to climate-related financial disclosures, all references to "sustainability" in IFRS S1 have been replaced with "climate" in developing [draft] ASRS Standards. However, the AASB observed that after making that change, the requirements in IFRS S2 in respect to disclosures of governance, strategy and risk management would duplicate the requirements in IFRS S1. To minimise unnecessary duplication, the AASB considered the following options regarding how to present the contents of a limited-scope IFRS S1 in [draft] ASRS Standards.

(a) Option 1 – Issue one ASRS Standard that would combine the relevant contents of IFRS S1 relating to general requirements and judgements, uncertainties and errors (i.e. all relevant requirements other than those relating to the core content that are exactly the same as the requirements in IFRS S2) within an Australian equivalent of IFRS S2;

(b) Option 2 – Issue two ASRS Standards ([draft] ASRS 1, to be developed based on IFRS S1, and [draft] ASRS 2, to be developed based on IFRS S2). Under this option, the same requirements in respect to disclosures of governance, strategy and risk management would be included in both [draft] ASRS Standards; and

(c) Option 3 – This option is a variation of Option 2. Issue two ASRS Standards, and to better future-proof the [draft] Standards, include in [draft] ASRS 1 the requirements relating to disclosures of governance, strategy and risk management, and in [draft] ASRS 2, replace duplicated content with Australian-specific paragraphs cross-referencing to corresponding paragraphs in [draft] ASRS 1.

BC22 While the AASB is of the view that Option 1 may provide a better reading experience for readers, the AASB rejected this option. The AASB considered that, if in future it progressed to considering other sustainability-related reporting topics, it would need to remove IFRS S1-related contents from that ASRS Standard and re-issue it as a separate standard addressing general requirements. That process would require re-exposure of relevant content that has been previously agreed upon by the AASB for public comment. The AASB considered that it would not be helpful, or useful to stakeholders, to go through another round of due process on the same content just to remove the IFRS S1-related content from an ASRS Standard.

BC23 While the AASB acknowledged that under both Options 2 and 3 a reader would need to read both [draft] ASRS 1 and [draft] ASRS 2 in order to prepare climate-related financial disclosures, the AASB decided to develop this Exposure Draft based on Option 3 (with the proposed ASRS Standards in one Exposure Draft) and add a Specific Matter for Comment to obtain input from stakeholders on whether to include the duplication in [draft] ASRS 2 (see Question 1 in the Introduction to this ED). The AASB came to this conclusion because, in the joint AASB-AUASB response to the ISSB's Exposure Drafts on [draft] IFRS S1 and [draft] IFRS S2, it highlighted the significant degree of duplication between the proposed requirements in [draft] IFRS S1 and [draft] IFRS S2 and the cost of maintaining future Standards if the core content in IFRS S1 is to be duplicated in each future topic-specific IFRS Sustainability Disclosure Standard.

BC24 The International Accounting Standards Board (IASB) has previously recognised this level of duplication between Standards as a significant issue and, where possible, it seeks to remove duplication from IFRS Accounting Standards. For example, as part of its Definition of Material project in October 2018, the IASB removed the duplicated definition of 'material' from IAS 8 *Accounting Policies, Changes to Accounting Estimates and Errors* so that it would only appear once in IFRS Accounting Standards, in IAS 1 *Presentation of Financial Statements*.

Replacing duplicated content with references to the Conceptual Frameworks

BC25 IFRS S1 includes definitions and content identical to the IASB's *Conceptual Framework for Financial Reporting*. When developing [draft] ASRS 1, the AASB noted that the AASB's *Conceptual Framework for Financial Reporting* (in respect to for-profit entities) and the *Framework for the Preparation and Presentation of Financial Statements* (in respect to not-for-profit entities) are not legislative instruments and do not form part of the authoritative Australian Accounting Standards. While some Australian Accounting Standards make reference to aspects of those Frameworks, the Frameworks themselves are not enforceable as, consistent with their objectives, they explain the foundational concepts underpinning GPFR, including GPFS.

BC26 The AASB is of the view that, given those Frameworks are not enforceable as part of Australian Accounting Standards, they should not be made enforceable as part of [draft] ASRS Standards. Accordingly, where components of those Frameworks have been duplicated within IFRS S1 and IFRS S2 as requirements with which entities must comply, the AASB has replaced the relevant paragraphs in IFRS S1 and IFRS S2 with Australian-specific paragraphs to cross-reference to the Frameworks.

BC27 This approach is consistent with the approach the AASB takes in developing Australian Accounting Standards.

Modifying the baseline of IFRS S1 and IFRS S2 to support sector neutrality

BC28 Using IFRS S1 and IFRS S2 as the baseline for developing Australian climate-related financial disclosure requirements includes aligning to the whole-of-value-chain concept. Under the whole-of-value-chain concept, it is possible that for-profit entities might require not-for-profit entities in the private and public sectors to provide data consistent with the requirements in [draft] ASRS Standards to comply with those Standards. Furthermore, the AASB observed that there are large not-for-profit entities that meet the reporting thresholds for mandatory GHG emissions reporting under the *National Greenhouse and Energy Reporting Act 2007* (NGER Act) and for which climate-related risks and opportunities would likely be material. Additionally, as part of the Australian Public Service (APS) Net Zero 2030 policy, the Department of Finance of the Australian Government intends to require all Commonwealth government entities to publicly report on GHG emissions from their operations, commencing from the 2022–23 financial year. This would include requiring all Commonwealth government entities to report their GHG emissions in their 2022–23 annual reports, with the Department of Finance publishing a consolidated whole of government report before the end of 2023.[7]

BC29 Since IFRS Sustainability Disclosure Standards are developed for for-profit entities, the AASB decided to modify certain aspects of IFRS Sustainability Disclosure Standards to better support sector-neutral Australian climate-related financial disclosure requirements and assist not-for-profit entities in the private and public sectors to apply the requirements voluntarily. The AASB considered:

(a) the information needs of users of not-for-profit entity's GPFR – paragraph AusOB3.1 of the *Framework for the Preparation and Presentation of Financial Statements* states that the common information needs of users of not-for-profit entities' GPFR are generally not concerned with obtaining a financial return on an investment in the entity, but rather the ability of the entity to achieve its objectives; and

(b) the scalability of climate-related financial disclosure requirements for not-for-profit entities and cost-benefit concerns – feedback to ED 321 highlighted the lack of proportionality of IFRS Sustainability Disclosure Standards as a significant barrier to implementation for small-to-medium sized entities and not-for-profit private and public sector entities. It also indicated that the significant skill and resource gap in the domestic and international markets for preparing climate-related

7 As noted in the webpage of the Australian Department of Finance about APS Net Zero 2023.

financial information is an issue that would be exacerbated in the not-for-profit sector due to entities' more limited resources.

BC30 Consequently, the AASB decided to:

(a) clarify the concepts of "the entity's prospects" and "business model" so that not-for-profit entities would be required to consider the effect of climate-related risks and opportunities on "the entity's ability to further its objectives" in addition to considering the effect on the entity's cash flows and its access to finance or cost of capital over the short, medium and long term (see [draft] ASRS 1 paragraph Aus3.1(b) and Appendix A and [draft] ASRS 2 paragraph Aus2.2(b) and Appendix A);

(b) modify the definitions of "climate-related physical risks" and "climate-related transition risks" in [draft] ASRS 2 to clarify that those risks could also affect a not-for-profit entity's ability to further its objectives (see [draft] ASRS 2 Appendix A); and

(c) address the stakeholder concern noted in paragraph BC29(b), consistent with the concept in paragraph B10 of IFRS S1, by clarifying that a not-for-profit entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, but is required to prepare material climate-related financial information for which reasonable and supportable information is available to the entity at the reporting date without undue cost or effort (see [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1).

BC31 In forming the view noted in paragraph BC30(c), the AASB observed that disclosing material information relating to:

(a) governance – as set out in paragraphs 26–27 of [draft] ASRS 1 and paragraphs 5–Aus7.1 of [draft] ASRS 2 – would not be onerous to preparers of GPFR; and

(b) certain disclosure requirements on the entity's strategy and risk management would not require exhaustive costs or effort, if a not-for-profit entity has reasonable and supportable information available at the reporting date, such as:

(i) qualitative information on the current effects of climate-related risks and opportunities on the entity's business model, and strategy and decision making – particularly since the current effects of those risks and opportunities on the entity's financial position, financial performance and cash flows would have been considered in accordance with Australian Accounting Standards (see paragraph BC95); and

(ii) qualitative information on the entity's overall risk profile and risk management processes to identify, assess, prioritise and monitor climate-related risks and opportunities.

BC32 Nonetheless, the AASB concluded that a not-for-profit entity should be required to disclose material information set out in applicable [draft] ASRS Standards for which reasonable and supportable information is available to the entity at the reporting date without undue cost or effort.

BC33 The AASB considered that the clarification in [draft] ASRS 1 paragraph Aus6.1 and [draft] ASRS 2 paragraph Aus4.1, together with the practical expedients provided in the baseline of IFRS S1 and IFRS S2 relating to certain quantitative disclosures (which have been retained in [draft] ASRS 1 and [draft] ASRS 2), would be sufficient in addressing the stakeholder concerns noted in paragraph BC29(b).

Entities that do not have material climate-related risks and opportunities

BC34 In accordance with the nature of GPFR reporting and disclosing information limited to matters that are material to the reporting entity, the AASB observed that entities that do not have significant assets or operations vulnerable to climate change or that give rise to material greenhouse gas (GHG) emissions would likely determine that they do not have material climate-related financial information to disclose. However, without any explanation in the GPFR of those entities, it might be difficult for users to understand whether those entities have considered climate-related risks and opportunities in their operations.

BC35 Treasury's second consultation paper indicated that, for almost all entities in the scope of mandatory climate-related financial reporting, climate-related risks and opportunities are expected to be material. However, Treasury staff informed the AASB that feedback to that consultation indicated that where an entity assesses climate-related risks and opportunities as not material, disclosing that fact would be useful information to users.

BC36 Accordingly, to provide better information to users, the AASB added paragraph Aus6.2 in [draft] ASRS 1 and paragraph Aus4.2 in [draft] ASRS 2 to require an entity that assessed climate-related risks and opportunities as immaterial to disclose that fact and explain how it came to this conclusion. The AASB considered that the additional disclosure would not be onerous for entities to prepare.

Modifying the baseline of IFRS S1 for [draft] ASRS 1

BC37 In addition to the modifications described in paragraphs BC19–BC36, the main modifications made to [draft] ASRS 1 from the baseline of IFRS S1 relate to:

(a) in respect to requirements about sources of guidance set out in paragraphs 54–59 and Appendix C of IFRS S1, omitting the references and requirements relating to Sustainability Accounting Standards Board (SASB) Standards and industry-based metrics adapted from SASB Standards. However, the AASB acknowledges that an entity that wishes to make additional, voluntary disclosures using SASB Standards, or the Standards listed in Appendix C of IFRS S1, would be able to do so (see paragraphs BC39–BC42);

(b) requiring an entity to disclose the location of its climate-related financial disclosures prepared in accordance with applicable requirements in [draft] ASRS Standards (see paragraphs BC43–BC45); and

(c) to avoid confusion, removing the guidance and options in IFRS S1 paragraphs 65, 69 and B48 relating to preparing interim climate-related financial information or preparing information for a period other than a 12-month period (see paragraph BC46).

BC38 The AASB's approach to developing [draft] ASRS 1 is based on modifying relevant paragraphs of IFRS S1 by:

(a) replacing references to "sustainability" with "climate" to limit its scope to climate-related financial information, and "IFRS Sustainability Disclosure Standards" with "Australian Sustainability Reporting Standards", while retaining the IFRS S1 paragraph numbering; and

(b) replacing IFRS S1 paragraphs with Australian-specific paragraphs (with an 'Aus' prefix in the paragraph numbering) to propose modifying certain requirements, including requirements for not-for-profit entities and public sector entities.

Sources of guidance and Sustainability Accounting Standards Board (SASB) Standards

BC39 Feedback to ED 321 highlighted that, while most stakeholders supported the development of industry-based requirements as a part of sustainability reporting, they did not support the proposals in [draft] IFRS S1 and [draft] IFRS S2 that would require an entity to:

(a) apply the SASB Standards in the absence of a relevant IFRS Sustainability Disclosure Standard; and

(b) disclose the industry-based metrics proposed in Appendix B to [draft] IFRS S2 (issued by the ISSB as *Industry-based Guidance on Implementing IFRS S2*), which had been adapted from SASB Standards.

BC40 The AASB decided not to incorporate in [draft] ASRS 1 the requirements in IFRS S1 relating to SASB Standards and the industry-based metrics adapted from SASB Standards that entities are required to consider because:

(a) the ISSB's public consultation period was too short for Australian stakeholders to appropriately consider the proposals in Appendix B to [draft] IFRS S2 and for the AASB to appropriately apply its own due process;

(b) feedback to ED 321 indicated that the SASB Standards are US-centric and not representative of the Australian or global market; and

(c) not all of the proposals in Appendix B to [draft] IFRS S2 (issued by the ISSB as *Industry-based Guidance on Implementing IFRS S2*) are related to climate-related risks and opportunities.

BC41 Consequently, the AASB decided not to publish the industry-based guidance accompanying IFRS S2, or include references to SASB Standards, until the content has been comprehensively internationalised by the ISSB and has undergone the AASB's own due process. However, the AASB acknowledges that an entity that wishes to make additional, voluntary disclosures using SASB Standards, or the Standards listed in Appendix C of IFRS S1, would be able to do so.

BC42 Additionally, the AASB observed that entities in Australia are required to apply the industrial classification system, the *Australian and New Zealand Standard Industrial Classification* (ANZSIC), issued by the Australian Bureau of Statistics under existing Australian legislation and regulations. The AASB also observed that ANZSIC and the SASB Sustainable Industry Classification System (SICS) are not aligned. Accordingly, to avoid introducing requirements that would require an entity to use an industrial classification system that is not aligned with ANZSIC, the AASB decided to introduce an Australian-specific requirement that if an entity elects to make industry-based disclosures, the entity should consider the applicability of well-established and understood metrics associated with particular business models, activities or other common features that characterise participation in the same industry, as classified in ANZSIC (see paragraphs [draft] ASRS 1 paragraphs Aus48.1, Aus55.1 and Aus58.1 and [draft] ASRS 2 paragraphs Aus32.1 and Aus37.1).

Disclosing the location of the entity's climate-related financial disclosures

BC43 IFRS S1 paragraph 21(b) requires an entity to provide information in a manner that enables users of GPFR to understand the connections between disclosures provided by the entity in its sustainability-related financial disclosures and in other GPFR published by the entity. Treasury's second consultation paper proposed to require entities to include an index table in its annual report that displays climate-related financial disclosure requirements (i.e. governance, strategy, risk management, and metrics and targets) and the relevant disclosure section and page number. Feedback to that consultation indicated that there was overall support for such an index table and that it would provide useful information to users. The AASB concurs that such an index table would assist in avoiding material information about a climate-related risk or opportunity being obscured by relevant information being scattered throughout the climate-related financial disclosures or other reports published by the entity.

BC44 However, the AASB was concerned that requiring an entity to include a detailed index table in its GPFR would be onerous to prepare. Some AASB members considered that such a requirement is akin to including a financial statements disclosure checklist in the entity's GPFR, which could be very time consuming to prepare and is not a requirement in Australian Accounting Standards. The AASB is of the view that the benefits of having such a detailed index table presented in an entity's GPFR would not outweigh the cost and effort required to prepare the index table.

BC45 Instead of requiring a detailed index table to be included in GPFR, the AASB added paragraph Aus60.1 in [draft] ASRS 1 to propose requiring an entity to apply judgement in providing information in a manner that enables users to locate its climate-related financial disclosures.

Interim reporting and guidance on reporting climate-related information for a period other than a 12-month period

BC46 In feedback received on the second consultation paper, Treasury staff observed that because IFRS S1 included optional requirements on interim reporting, there was a significant degree of confusion over whether interim reporting is mandatory. Accordingly, to help avoid creating confusion around whether interim reporting is mandated and whether an entity would be permitted to prepare climate-related financial information for a period different to the reporting period of the related financial statements, the AASB omitted IFRS S1 paragraphs 65, 69 and B48 from [draft] ASRS 1.

Modifying the baseline of IFRS S2 for [draft] ASRS 2

BC47 In addition to the modifications described in paragraphs BC19–BC36, the main modifications the AASB made to [draft] ASRS 2 from the baseline of IFRS S2 related to:

(a) clarification of the scope of the Standard (see paragraphs BC49–BC50);

(b) assessment of an entity's climate resilience (see paragraphs BC51–BC56); and

(c) the cross-industry remuneration disclosure (see paragraphs BC57–BC63).

BC48 The AASB's approach to developing [draft] ASRS 2 is based on modifying relevant paragraphs of IFRS S2 by:

(a) replacing references to "IFRS Sustainability Disclosure Standards" with "Australian Sustainability Reporting Standards", and "IFRS S1" with "ASRS 1", while retaining the IFRS S2 paragraph numbering;

(b) replacing IFRS S2 paragraphs that duplicate requirements in IFRS S1 with Australian-specific paragraphs to cross-reference to the corresponding paragraphs in [draft] ASRS 1 (see paragraphs BC21–BC24); and

(c) replacing IFRS S2 paragraphs with Australian-specific paragraphs to propose modifying certain requirements, including requirements for not-for-profit entities and public sector entities.

Clarify the scope of [draft] ASRS 2 (paragraph Aus3.1)

BC49 IFRS S2 applies to climate-related risks and opportunities within the context of climate change. Feedback to ED 321 highlighted that there was a significant degree of confusion on what was meant by "climate" and the boundary of [draft] IFRS S2. Given that IFRS S2 makes no reference to climate-related financial disclosures beyond climate change or other climate-related emissions, the AASB considered that it would be necessary to clarify the scope of [draft] ASRS 2 by specifying that the Standard:

(a) is limited to climate-related risks and opportunities related to climate change; and

(b) does not apply to other climate-related emissions (e.g. ozone depleting emissions) that are not GHG emissions.

BC50 Clarifying the scope of [draft] ASRS 2 also has the benefit of clarifying that the [draft] Standard does not replace existing legislation or pronouncements that prescribe reporting requirements related to other sustainability-related topics (e.g. water and biodiversity).

Modifications regarding assessment of climate resilience (paragraphs Aus22.1–Aus22.2 and AusB12.1)

BC51 In respect to the requirements to use climate-related scenario analysis in assessing an entity's climate resilience, IFRS S2 does not prescribe the number of scenarios an entity is required to assess to meet the disclosure objective of IFRS S2 paragraph 22. In its second consultation, Treasury indicated that the Australian Government is considering requiring an entity to disclose its climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the *Climate Change Act 2022*. Treasury staff informed the AASB that feedback to that consultation indicated that there was overall support for this proposed position. At the time of issuing [draft] ASRS 2, the global temperature goal set out in paragraphs 3(a)(i) and 3(a)(ii) of the *Climate Change Act 2022* is to contribute to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels; and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."

BC52 The AASB considers that specifying the lower-temperature scenario consistent with the Climate Change Act, which is aligned with the Paris Agreement, would assist users in assessing an entity's resilience to climate-related transition risk. However, since the Climate Change Act provides a range between 1.5°C and 2°C, some AASB members were concerned that some entities may incur unnecessary costs and effort in determining, and agreeing with their auditors, the temperature goal within that range to use in its climate scenario analysis in order to comply with the requirement. To avoid this issue, the AASB decided to propose in paragraph Aus22.1 of [draft] ASRS 2 that an entity required by the *Corporations Act 2001* to prepare climate-related financial disclosures would be required to disclose its climate resilience assessments against the most ambitious global temperature goal set out in the Climate Change Act (i.e. 1.5°C above pre-industrial levels, at the time of issuing this Exposure Draft).

BC53 The AASB contemplated whether it might be useful to also specify an upper-temperature scenario for an entity to assess against, to enable a more comprehensive assessment of climate-related physical risks, but decided not to do so. This is because:

(a) the AASB noted that the ISSB's reasons for not specifying particular scenarios that an entity would be required to use in its climate-related scenario analysis is because it is of the view that relevant scenarios would depend on the entity's facts and circumstances, including the nature and location of its operations and the physical and transition risks to which it is exposed (paragraphs BC66–BC69 of the Basis for Conclusions for IFRS S2). The AASB concurs with the ISSB's view related to specifying an upper-temperature scenario for assessing climate-related physical risks; and

(b) some AASB members were of the view that, in respect to physical risks, the entity's explanation of why they have chosen a particular scenario to assess against would be more important to users than having an assessment based on a general temperature goal without considering the specific facts and circumstances of the entity.

BC54 Treasury staff advised the AASB that some respondents to the Treasury's second consultation paper expressed concern about the potential volume of disclosure that would result if an entity were to disclose its detailed modelling adopted in carrying out climate-related scenario analysis. Therefore, the AASB added paragraph

Aus22.2 in [draft] ASRS 2 to clarify that, consistent with paragraph 22 of [draft] ASRS 2, an entity would disclose the inputs and assumptions used in its climate-related scenario analysis and the related outcomes but not the detailed modelling adopted in carrying out its climate-related scenario analysis.

The use of quantitative approach to scenario analysis

BC55 IFRS S2 permits an entity to use an approach that is commensurate with the entity's circumstances in assessing its climate resilience. That is, an entity is not prohibited from using only a qualitative approach in carrying out its climate scenario analysis. However, in its second consultation, Treasury indicated that the Australian Government would specify a phased-in approach to requiring an entity to use a quantitative approach in carrying out its climate scenario analysis.

BC56 When developing [draft] ASRS 2, the AASB contemplated whether there would be a need to specify the use of a quantitative approach in assessing climate resilience for entities that would be required to prepare climate-related financial disclosures, but decided not to do so. This is because:

(a) Treasury staff advised the AASB that some respondents to the Treasury's second consultation paper expressed concern about certain entities being required to provide quantitative disclosures at the commencement of reporting climate-related financial information;

(b) paragraph B7 of IFRS S2 states that "Climate-related scenario analysis can be resource intensive and might—through an iterative learning process—be developed and refined over multiple planning cycles. As an entity repeats the climate-related scenario analysis, it is likely to develop skills and capabilities that will enable the entity to strengthen its approach to climate-related scenario analysis over time." The AASB considered that entities that would be required to prepare climate-related financial disclosures would most likely have refined their processes to using a quantitative approach in carrying out its climate scenario analysis over time; and

(c) some AASB members were of the view that, even if not specified in [draft] ASRS Standards, it is expected that an entity would need to use qualitative analysis in addition to quantitative analysis (e.g. sensitivity analysis), or a combination of both, in assessing its climate resilience.

Cross-industry remuneration disclosure (paragraphs 29(g) and Aus29.1)

BC57 IFRS S2 paragraph 29(g) requires an entity to disclose information relevant to the cross-industry metric category of remuneration, including:

(a) a description of whether and how climate-related considerations are factored into executive remuneration; and

(b) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations.

BC58 The AASB, in the joint AASB-AUASB response to the ISSB's Exposure Drafts on [draft] IFRS S1 and [draft] IFRS S2, disagreed with requiring entities to prepare such disclosures. This was mainly because:

(a) the AASB Staff Paper *Review of Executive Remuneration Disclosure Requirements* highlighted that Australia and many other nations already have detailed remuneration disclosure or reporting requirements that are heavily regulated and subject to audit or assurance (for example, in Australia, remuneration reporting requirements for an entity's key management personnel are legislated in s. 300A of the *Corporations Act 2001* and reg. 2M.3.03 of the *Corporations Regulations 2001* and include requirements for a discussion of the relationship between the remuneration policy and the entity's performance);

(b) explicitly linking executive remuneration to climate or other sustainability-related topics would not necessarily affect an entity's climate or sustainability-related performance;

(c) there does not appear to be strong evidence indicating that information about executive remuneration in relation to climate or other sustainability-related topics would influence users' decisions; and

(d) if similar requirements are incorporated into future IFRS Sustainability Disclosure Standards on other sustainability topics, it would be difficult for an entity subject to multiple significant sustainability-related risks to demonstrate performance through metrics related to executive remuneration—that is, an entity cannot be expected to link executive remuneration to its performance against every significant sustainability-related risk to which they are exposed.

BC59 When considering IFRS S2, AASB members formed two views regarding whether to require Australian entities to disclose the information outlined in paragraph BC57, as required by IFRS S2 paragraph 29(g).

BC60 A minority of AASB members continued to support the AASB and AUASB's opinion described in paragraph BC58 and considered that the requirements of IFRS S2 paragraph 29(g) should not be incorporated in [draft] ASRS 2, because:

(a) even if those requirements are not incorporated in [draft] ASRS 2, in accordance with the *Corporations Act 2001* applicable entities would be required to disclose the information outlined in paragraph BC57 in their GPFR, although that information would be prepared for the entity's key management personnel (which includes executives and non-executives) and not limited to its executives; and

(b) for entities that do not currently have climate-related considerations linked to their executive remuneration policies, those AASB members were concerned that incorporating in [draft] ASRS 2 the requirement to disclose the information outlined in paragraph BC57(b) might inadvertently (and at significant cost to those entities) compel those entities to re-negotiate executive remuneration to factor in climate-related considerations, even if:

(i) climate-related financial risks and opportunities are not identified as being material to the entity; or

(ii) executive remuneration is not a tool utilised by the entity to achieve its climate-related performance objectives and targets.

BC61 However, despite the considerations described in paragraphs BC58 and BC60, the majority of AASB members concluded that the perceived benefits of aligning to the baseline of IFRS S2 outweigh the potential unintended consequences of introducing remuneration reporting requirements outside existing regulatory requirements. This is because:

(a) a few AASB members observed examples where executive remuneration of some Australian entities is linked to climate-related considerations and that, in their view, this information would be important to users;

(b) further to point (a), if this information is important to users, then the absence of a link to climate-related considerations in an entity's executive remuneration policy might also be considered important information to users; and

(c) if an entity's executive remuneration policy does not factor in climate-related considerations, the entity would simply need to disclose this fact to comply with the requirements outlined in paragraph BC57.

BC62 On balance, the AASB decided to incorporate in [draft] ASRS 2 the requirements of IFRS S2 paragraph 29(g), and to add a Specific Matter for Comment (see Question 13) to seek further input from stakeholders.

BC63 To avoid potential conflicts with existing regulatory requirements or entities attempting to define which of their key management personnel is considered an "executive", the AASB decided to clarify that, in the context of [draft] ASRS 2, "executive" and "executive management" has the same meaning as "key management personnel" and "remuneration" has the same meaning as "compensation", both as defined in AASB 124 *Related Party Disclosures*.

Greenhouse gas emissions (paragraphs Aus31.1 and B19–AusB63.1)

BC64 IFRS S2 paragraph B24 states "An entity is required to use the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* unless the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions. **If the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions, the entity is permitted to use this method** rather than using the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)* for as long as the jurisdictional or exchange requirement applies to the entity" [emphasis added]. Accordingly, if an entity is required by an Australian authority (e.g. Australian legislation) to use a specific method for measuring its GHG emissions (e.g. methodologies in NGER Scheme legislation), doing so would mean that such an entity has not departed from IFRS S2 in preparing its GPFR. Furthermore, considering paragraph B24 of IFRS S2, the modifications made to the baseline of IFRS S2 regarding the measurement and disclosure of GHG emissions for Australian entities would therefore not result in a departure from that baseline.

BC65 Treasury's second consultation paper indicated that the Australian Government would require an entity to apply methodologies set out in NGER Scheme legislation as the default methodologies in measuring its GHG emissions. Consequently, the AASB considered the following matters when developing Australian-specific requirements relating to GHG emissions:

(a) definition of greenhouse gases (see paragraphs BC66–BC69);

(b) converting greenhouse gases into a CO_2 equivalent value (see paragraphs BC70–BC72);

(c) GHG emission measurement methodologies (see paragraphs BC73–BC76);

(d) disaggregate Scope 1 and Scope 2 GHG emissions between the consolidated accounting group and other investees (see paragraph BC77);

(e) market-based Scope 2 GHG emissions (see paragraphs BC78–BC79);

(f) measuring Scope 3 GHG emissions (see paragraphs BC80–BC85); and

(g) financed emissions (see paragraphs BC86–BC89).

Definition of greenhouse gases

BC66 IFRS S2 defines greenhouse gases as the seven greenhouse gases listed in the Kyoto Protocol. However, the AASB was informed by:

(a) the CSIRO that one of those gases, nitrogen trifluoride (NF_3), is not listed in NGER Scheme legislation as a class of greenhouse gas; and

(b) the DCCEEW that Australia is a party to the Paris Agreement, and it may be more relevant to Australian entities if the definition of greenhouse gases refers to the Paris Agreement instead of the Kyoto Protocol.

BC67 In respect to the point noted in paragraph BC66(a), the AASB considered whether there would be a need to modify the requirements—that is, to require an entity to measure the six classes of gases listed in NGER Scheme legislation without requiring the measurement of NF_3. The AASB observed that because NF_3 is primarily produced in the manufacture of semiconductors, liquid crystal display (LCD) panels and certain types of solar panels and chemical lasers, and Australia does not have a significant presence in the manufacturing of these items, there has been negligible amounts of electronic cooling fluids containing NF_3 consumed in Australia.[8] Therefore, it is expected that not many Australian entities would have material NF_3 emissions to report. Consequently, the AASB decided to incorporate in [draft] ASRS 2 the definition of greenhouse gases from IFRS S2 without any modification.

BC68 In respect to the point noted in paragraph BC66(b), the AASB decided not to depart from IFRS S2 and to maintain that definition of greenhouse gases in [draft] ASRS 2, which refers to the Kyoto Protocol. Referring to the Paris Agreement would have no effect on the outcome as its definition of greenhouse gases refers to the same seven classes of gases as the Kyoto Protocol.

BC69 The AASB observed that the definitions of Scope 1 and Scope 2 GHG emissions in NGER Scheme legislation are expressed differently to how the ISSB has defined Scope 1 and Scope 2 GHG emissions. The AASB considered that despite the different expressions, Scope 1 and Scope 2 GHG emissions as defined in NGER Scheme legislation should be taken to be the same as Scope 1 and Scope 2 GHG emissions as defined in IFRS S2 (and therefore as in [draft] ASRS 2).

Converting greenhouse gases into a CO_2 equivalent value

BC70 Paragraphs B21 and B22 of IFRS S2 require an entity to convert greenhouse gases into a CO_2 equivalent value using global warming potential (GWP) values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change (IPCC) assessment available at the reporting date. The IPCC has undertaken its 6th assessment in 2023. Therefore, if an entity is preparing climate-related financial disclosures for the financial period beginning on 1 July 2024, under IFRS S2 the entity would be required to convert greenhouse gases using the GWP values in the IPCC 6th assessment report (AR6).

BC71 However, the DCCEEW has informed the AASB that the reporting obligations for parties to the Paris Agreement require converting greenhouse gases using the GWP values in the IPCC 5th assessment report (AR5). They commented that it is unlikely that the Paris Agreement reporting requirements would be amended in the near future to require the use of the GWP values in AR6. They were concerned that if Australian entities were required to convert greenhouse gases 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.

8 As stated on page 66 of the *Australia's emissions projections 2022*.

BC72 To avoid regulatory burden for certain Australian entities, the AASB added paragraphs AusB22.1 and AusB22.2 to [draft] ASRS 2 to require an entity to convert greenhouse gases using the GWP values in the IPCC assessment report identified in [draft] ASRS 101. The [draft] ASRS 101 refers to AR5 rather than AR6. In the future, if the Paris Agreement and NGER Scheme legislation are updated to require the use of the GWP values in a different IPCC assessment report, the AASB will amend [draft] ASRS 101 to refer to that report.

GHG emission measurement methodologies

BC73 The AASB noted the following information in Treasury's second consultation paper (page 16):

(a) Scope 1 and Scope 2 Australian-based GHG emissions would need to be calculated consistently with methods set out in NGER Scheme legislation;

(b) NGER Scheme legislation does not provide methods for the estimation of emissions from agricultural sources or land use, land use change and forestry. Guidance on the estimation of emissions from these sources would be provided over time, drawing on Australia's national greenhouse gas inventory methods; and

(c) Scope 3 GHG emissions should incorporate material emissions both upstream and downstream from the reporting entity, in line with a recognised emissions accounting framework (i.e. Standards issued by the Greenhouse Gas Protocol Initiative (GHG Protocol Standards)) and draw on Australian-specific emission factors where relevant (i.e. National Greenhouse Accounts Factors).

BC74 The DCCEEW provided the following comments:

(a) although the methods for Scope 1 GHG emissions prescribed in NGER Scheme legislation may be useful in some instances in the process of estimating Scope 3 GHG emissions, NGER Scheme legislation does not prescribe measurement methods specific to Scope 3 GHG emissions;

(b) to promote greater accuracy of GHG emission estimates, an Australian entity should prioritise using Australian guidance, data sources and emission factors in estimating GHG emissions over foreign data. For example, when estimating GHG emissions from agricultural sources or land use, land use change and forestry—for which NGER Scheme legislation does not prescribe specific measurement methods—the entity should nevertheless attempt to apply Australian-specific methods, using Australian data sources and emission factors, to the maximum extent practicable before referring to foreign GHG measurement frameworks and foreign data; and

(c) the National Greenhouse Accounts Factors, which the DCCEEW publishes every year, provide guidance and emission factors for estimating GHG emissions.

BC75 In light of the above information, and consistent with IFRS S2 paragraph B24 (quoted in paragraph BC64)—that if the entity is required by a jurisdictional authority to use a different method for measuring its GHG emissions, the entity is permitted to use that method instead of applying GHG Protocol Standards—the AASB added paragraphs Aus31.1(b) and AusB25.1 in [draft] ASRS 2 to specify that an entity would be required to:

(a) consider the measurement of its Scope 1 GHG emissions, location-based Scope 2 GHG emissions, market-based Scope 2 GHG emissions (when applicable) and Scope 3 GHG emissions separately;

(b) apply methodologies set out in NGER Scheme legislation, using Australian-specific data sources and factors for the estimation of GHG emissions, to the extent practicable; and

(c) when applying a methodology in NGER Scheme legislation is not practicable, apply:

   (i) a methodology that is consistent with measurement methods otherwise required by a jurisdictional authority or an exchange on which the entity is listed that are relevant to the sources of the GHG emissions; or

   (ii) in the absence of such a methodology, a relevant methodology that is consistent with GHG Protocol Standards, as identified in [draft] ASRS 101.

BC76 The AASB added *Australian Application Guidance* to illustrate the application of paragraphs Aus31.1(b) and AusB25.1.

Disaggregate Scope 1 and Scope 2 GHG emissions between the consolidated accounting group and other investees

BC77 [Draft] ASRS 1 paragraphs 20 and AusB38.1 specify that an entity's climate-related financial disclosures shall be for the same reporting entity as the related financial statements. Further to that requirement, in respect to reporting GHG emissions, [draft] ASRS 2 paragraph Aus31.1(d) requires an entity to disaggregate its Scope 1 and Scope 2 GHG emissions between its consolidated accounting group and other investees. The AASB supported these requirements, which are drawn from IFRS S1 and IFRS S2.

Market-based Scope 2 GHG emissions

BC78 IFRS S2 paragraph 29(a)(v) requires an entity to disclose its location-based Scope 2 GHG emissions. The AASB observed that Treasury's second consultation paper indicated that the Australian Government is considering a phased-in approach to requiring an entity to also disclose its market-based Scope 2 GHG emissions.

BC79 Consistent with Treasury's proposal, the AASB added paragraphs Aus31.1(f) and AusC4.2 in [draft] ASRS 2 to propose that an entity that would be required by the *Corporations Act 2001* to prepare climate-related financial disclosures disclose its market-based Scope 2 GHG emissions in addition to its location-based Scope 2 GHG emissions, except for the first three annual reporting periods in which such an entity applies [draft] ASRS 2. That exemption continues for those periods as comparative periods in subsequent annual reporting periods, consistent with the transition relief in IFRS S2.

Measuring Scope 3 GHG emissions

Providing relief relating to Scope 3 GHG emissions

BC80 In respect to Scope 3 GHG emissions, the AASB noted the following information in Treasury's second consultation paper (pages 15–17):

(a) Scope 3 emissions are important to determine the level of interconnectedness for transition risk, including whether and where risks sit within an entity's supply chain, which if realised could have significant flow-on effects to the reporting entity and the broader financial system;

(b) it is expected that in the immediate term most Scope 3 GHG emission disclosures would be estimates, reflecting information that is accessible to the reporting entity at the time of disclosure. As some reporting entities may lack the internal capability to undertake Scope 3 estimation to a high level of sophistication, the requirements would take a proportional approach, in line with what has been indicated by the ISSB. As entities become more practised in Scope 3 GHG emission estimation and available methodologies and data improve over time, disclosures would be expected to improve;

(c) consistent with the relief in IFRS S2, the Australian Government would support relief in the form of a temporary one-year exemption from reporting Scope 3 GHG emissions, following the commencement of mandatory disclosure requirements for that entity; and

(d) the reporting entity's Scope 3 GHG emissions disclosed in GPFR could have accrued in any one-year period that ended up to 12 months prior to the current reporting period. For example, Scope 3 emissions reported in the 2027–28 financial year could be those incurred (either actual or estimated) in the entity's supply chain in the 2026–27 financial year. This recognises that other reporting entities' Scope 1 and Scope 2 GHG emissions may form inputs for the reporting entity's Scope 3 GHG emissions estimation. This is particularly important for financed Scope 3 emissions where banks, superannuation funds and insurers are likely to need to model or estimate a significant proportion of the economy.

BC81 In view of that information, the AASB added the following paragraphs in [draft] ASRS 2:

(a) paragraph AusB39.1, to specify that if reasonable and supportable data related to the current reporting period is unavailable, an entity is permitted to disclose in the current reporting period its Scope 3 GHG emissions using data for the immediately preceding reporting period; and

(b) paragraph AusC4.1, to specify that in the first annual reporting period in which an entity applies [draft] ASRS 2, the entity is not required to disclose its Scope 3 GHG emissions.

Scope 3 GHG emission categories

BC82 IFRS S2 paragraphs B32–B33 require an entity to categorise the sources of its Scope 3 GHG emissions under the 15 categories listed in the IFRS S2 definition taken from the GHG Protocol Standards. However, the AASB observed that those 15 categories of Scope 3 GHG emissions are not referenced by IPCC guidelines or the Paris Agreement. That is, the AASB was unsure whether categorising the sources of Scope 3 GHG emissions under the 15 categories listed in the IFRS S2 definition would achieve international alignment if entities in other jurisdictions that are parties to the Paris Agreement would use different categories.

BC83 The AASB considered whether it would be more appropriate to require Australian entities to categorise the sources of their Scope 3 GHG emissions consistent with the categories outlined in IPCC guidelines and

National Greenhouse Gas Inventory reporting requirements, which would require categorising the sources of GHG emissions based on the following sectoral emission classifications:

(a) Energy sector (IPCC Sector 1);

(b) Non-energy related industrial production and processes (IPCC sector 2);

(c) Agriculture sector (IPCC Sector 3);

(d) Land Use, Land Use Change and Forestry (LULUCF) sector (IPCC sector 4); and

(e) Waste sector (IPCC Sector 5).

BC84 However, the AASB considered that the objective of IFRS S2 paragraphs B32–B33 is to disclose information about the entity's activities that give rise to Scope 3 GHG emissions, and the sectoral classifications described in paragraph BC83 do not appear to be sufficient in identifying the entity's activities. For example, it is unclear whether the sectoral categories would provide information about emissions arising from business travel, employee commuting and investments as required by IFRS S2.

BC85 The AASB decided to add IFRS S2's Scope 3 GHG emission categories to [draft] ASRS 2 as examples of categories that an entity could consider when measuring its Scope 3 GHG emissions, rather than requiring an entity to categorise the sources of emissions in accordance with the categories of the GHG Protocol Standards (see [draft] ASRS 2 paragraph AusB33.1).

Financed emissions

BC86 IFRS S2 paragraphs 29(a)(vi)(2) and B58–B63 require an entity that participates in asset management activities, commercial banking activities or financial activities associated with insurance to provide additional disclosures relating to its financed emissions. When incorporating those IFRS S2 requirements relating to financed emissions, the AASB made the following changes:

(a) instead of requiring an entity to disclose the information outlined in IFRS S2 paragraphs B62–B63, [draft] ASRS 2 requires an entity to consider the applicability of those disclosures related to its financed emissions (see [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1). This is because IFRS S2 paragraphs B62 and B63 are based on GHG Protocol Standards requirements, which require an entity to disaggregate its Scope 1 and Scope 2 GHG emissions, in addition to its Scope 3 GHG emissions, for each industry by asset class. Entities that apply methodologies set out in NGER Scheme legislation to measure Scope 1 and Scope 2 GHG emissions may not have the information necessary for those disaggregated disclosures. However, an entity is required to disclose the information outlined in [draft] ASRS 2 paragraphs AusB61.1 and AusB63.1 if those disclosures are applicable to the entity; and

(b) IFRS S2 paragraphs B62 and B63 require an entity that participates in commercial banking and insurance activities to disaggregate its Scope 1, Scope 2 and Scope 3 GHG emissions by applying the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties. The GICS is not an industry classification system widely used in Australia. Consistent with the AASB's views on industry-based disclosure requirements discussed in paragraphs BC39–BC42, the AASB specified in [draft] ASRS 2 paragraph AusB63.1(a)(i) that an entity is required to apply ANZSIC for classifying counterparties.

Superannuation entities

BC87 The AASB has been informed that some superannuation entities are concerned about the cost and effort required for them to comply with [draft] ASRS Standards that would have the same requirements as IFRS S1 and IFRS S2, particularly with the requirement to prepare Scope 3 GHG emissions. Some of those entities requested the AASB to consider issuing a separate Standard to set out superannuation-specific climate-related finance disclosure requirements.

BC88 The AASB considered that without an in-depth understanding of which specific requirements in IFRS S1 and IFRS S2 superannuation entities might find challenging, it would be inappropriate to decide at this stage whether a separate standard-setting project is justified to assist superannuation entities. Moreover, the AASB observed that:

(a) [draft] ASRS 1 paragraph B10 (which is based on IFRS S1 paragraph B10) states that "An entity need not undertake an exhaustive search for information to identify climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change."

That is, a superannuation entity would be required to prepare climate-related financial disclosures based on the information available without undue cost or effort, depending on its specific circumstances; and

(b) as stipulated in Treasury's second consultation paper (see paragraph BC80(d)), it is expected that superannuation funds would be likely to need to model or estimate a significant proportion of the economy in order to estimate their financed Scope 3 GHG emissions. That is, superannuation entities would not necessarily be required to get information directly from their policyholders and other participants in their value chain.

BC89 Nevertheless, the AASB decided to add a Specific Matter for Comment (Question 21) to request further input from superannuation stakeholders.

Carbon credits

BC90 IFRS S2 defines a carbon credit as "An emissions unit that is issued by a carbon crediting programme and represents an emission reduction or removal of greenhouse gases. Carbon credits are **uniquely serialised**, issued, tracked and cancelled by means of an electronic registry." [emphasis added]

BC91 At the time of issuing [draft] ASRS 2, there are two forms of Australian carbon credit units (ACCUs) issued under the Australian Carbon Credit Unit Scheme: Kyoto ACCUs and non-Kyoto ACCUs.[9] The AASB has been informed by the CSIRO that Kyoto ACCUs would meet the IFRS S2 definition of a carbon credit. However, because non-Kyoto ACCUs are not uniquely serialised, they would not meet the IFRS S2 definition.

BC92 To ensure non-Kyoto ACCUs can also be recognised as carbon credits in the context of [draft] ASRS 2, the AASB amended the definition of a carbon credit in [draft] ASRS 2 to refer explicitly to the Australian Carbon Credit Unit Scheme while retaining the reference to "uniquely serialised" in the general definition.

Other matters considered by the AASB in developing [draft] ASRS 1 and [draft] ASRS 2

BC93 Paragraphs BC94–BC104 summarise other key matters considered in developing [draft] ASRS 1 and [draft] ASRS 2 but for which the AASB decided that no modification or addition to the baseline of IFRS S1 and IFRS S2 is warranted at present.

Current financial effects

BC94 IFRS S1 paragraph 34(a) requires an entity to disclose information that enables users to understand the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period. When developing [draft] ASRS Standards, the AASB considered whether additional guidance is needed to support the application of those requirements.

BC95 The AASB decided that at this stage additional guidance is unnecessary because, in April 2019, the AASB and the AUASB issued a joint bulletin *Climate-related and other emerging risks disclosures: Assessing financial statement materiality using AASB/IASB Practice Statement 2* to assist entities applying materiality judgements in relation to climate-related and other emerging risks. The joint bulletin noted that potential financial implications arising from climate-related and other emerging risks may include, but are not limited to:

(a) asset impairment – increased cost and/or reduced demand for products and services affecting impairment calculations and/or requiring recognition of provisions for onerous contracts (see AASB 136 *Impairment of Assets* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*);

(b) changes in the useful life of assets (see AASB 116 *Property, Plant and Equipment*);

(c) changes in fair values of assets due to climate-related risks (see AASB 13 *Fair Value Measurement*);

(d) potential provisions and contingent liabilities arising from fines and penalties (see AASB 137); and

(e) changes in expected credit losses for loans and other financial assets (see AASB 9 *Financial Instruments*).

9 Kyoto ACCUs and non-Kyoto ACCUs are explained on this webpage of the Clean Energy Regulator's website.

BC96 However, the AASB plans to use feedback from this public consultation to identify and prioritise additional guidance that might be needed to better support implementation of [draft] ASRS Standards (see Questions 24 and 27).

Whether to incorporate the cross-industry internal carbon prices disclosure requirement

BC97 In paragraph BC107 of the Basis for Conclusions to [draft] IFRS S2, the ISSB cited a TCFD-led public consultation in June 2021, which indicated that only 42% of respondents found internal carbon price-related metrics to be very useful for their decision making. That is, the ISSB acknowledged that internal carbon price-related metrics are not as useful to investors as the other cross-industry metrics for GHG emissions, physical or transition risk, climate-related opportunities and capital deployment. Given this metric is not as useful to investors as other metrics, the AASB considered whether to incorporate in [draft] ASRS 2 the requirement in IFRS S2 paragraph 29(f) for an entity to disclose internal carbon prices.

BC98 The AASB received mixed feedback on the requirements related to internal carbon prices from respondents to ED 321. Although most stakeholders were supportive of disclosing internal carbon prices, some stakeholders disagreed with it because they consider internal carbon prices to be internal transfer prices, which an entity is not required to disclose under IFRS Accounting Standards or Australian Accounting Standards.

BC99 In the absence of adequate evidence that supports removing the disclosure requirement, the AASB decided to maintain alignment with the baseline of IFRS S2 in this respect and incorporated in [draft] ASRS 2 the cross-industry carbon prices disclosure requirement. In making this decision, the AASB noted that:

(a) information about an entity's internal carbon prices may be useful to users; and

(b) an entity that uses internal carbon pricing in managing its operations is expected to have access to the necessary information to comply with the disclosure requirements and therefore is unlikely to have significant barriers to disclosing the specified information.

Whether to add the cross-industry GHG emissions intensity disclosure requirement initially proposed by the ISSB

BC100 In the joint AASB-AUASB response to the ISSB's Exposure Drafts on [draft] IFRS S1 and [draft] IFRS S2, the AASB expressed support for the proposals relating to absolute GHG emissions and related intensity disclosure requirements. The submission to the ISSB also included a suggestion for the ISSB to consider referring specifically to emissions intensity per dollar of revenue instead of referring to 'per unit of economic output' for the GHG emissions intensity disclosure proposed in paragraph 21(a)(ii) of [draft] IFRS S2.

BC101 The ISSB did not include in the final version of IFRS S2 that GHG emissions intensity disclosure requirement. When developing [draft] ASRS 2, the AASB considered whether to add that disclosure requirement to the baseline of IFRS S2 since feedback to ED 321 indicated strong support from Australian stakeholders for those disclosures. Those stakeholders commented 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) and would enable them to compare GHG emissions between different entities.

BC102 The AASB considered the ISSB's reasons for not requiring the GHG emissions intensity disclosure and decided to maintain alignment with the baseline of IFRS S2 in this respect and not add the GHG emissions intensity disclosure requirement in [draft] ASRS 2. This is because:

(a) comparability of GHG emissions intensity would likely be achieved only if entities within the same industry used the same denominator to calculate their GHG emissions intensity, as the ISSB encountered challenges in prescribing a specific denominator that is relevant and would provide a faithful representation of an entity's GHG emission intensity at a cross-industry level;

(b) users of GPFR would be able to calculate an entity's GHG emissions intensity using information already disclosed in GPFR or information that would be required to be disclosed under other sections of [draft] ASRS 2. Specifically, the most important information needed to calculate GHG emissions intensity is absolute GHG emissions. Therefore, the disclosure of absolute GHG emissions under [draft] ASRS 2 paragraph Aus31.1(a) should enable users to calculate GHG emissions intensity when combined with other information; and

(c) an entity may choose voluntarily to disclose its GHG emissions intensity using a denominator they consider appropriate and useful in communicating its climate-related risks and opportunities to users.

Non-authoritative guidance accompanying IFRS S1 and IFRS S2

BC103 In addition to issuing IFRS S1 and IFRS S2, the ISSB also published the following non-authoritative guidance:

(a) ISSB *Accompanying Guidance on General Requirements for Disclosure of Sustainability-related Financial Information*; and

(b) ISSB *Accompanying Guidance on Climate-related Disclosures*.

BC104 The AASB deliberated its approach to the non-authoritative guidance accompanying the baseline of IFRS Sustainability Disclosure Standards. The AASB decided that it will use feedback from this Exposure Draft to identify what aspects of climate-related financial disclosure requirements need additional guidance to support implementation. Consequently, the AASB decided to defer work on developing Australian non-authoritative guidance until after [draft] ASRS 1 and [draft] ASRS 2 have been issued.

Not-for-profit public sector entities

BC105 The AASB considered a submission from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) on ED 321, the submissions the IPSASB received from other Australian stakeholders on its Consultation Paper *Advancing Public Sector Sustainability Reporting*, and submissions Treasury received on its first Consultation Paper *Climate-related Financial Disclosure* (December 2022) from preparers of public sector entities' financial statements.

BC106 The AASB observed that, among other concerns raised by those stakeholders, the two matters described in (a) and (b) below would need to be considered in developing Australian climate-related financial disclosure requirements applicable to not-for-profit public sector entities:

(a) whether climate-related financial disclosure requirements should be provided by public sector entities on a mandatory or voluntary basis, and by which level of government entities. Stakeholders provided the following comments:

(i) mandatory versus voluntary – preparers of public sector entities' financial statements commented to the Treasury that climate-related financial disclosures should not be mandated for not-for-profit public sector entities until the requirements have been appropriately tailored for the not-for-profit context and can be implemented in a cost effective and meaningful manner;

(ii) user needs and practical application – some stakeholders are of the view that users of public sector sustainability-related and climate-related information would focus on the activities at the whole-of-government level rather than on an individual entity level. Additionally, because investment in sustainable development would usually be funded from a combination of reductions in other expenditure, additional taxes or debt, opportunities and risks for sustainable development may not always be able to be assessed at the individual entity level or a department level and may need to be assessed at the whole-of-government level; and

(iii) cost-benefits – preparers of public sector entities' financial statements commented that many public sector entities, including local governments, manage a high number of assets and have diverse services to the community; therefore, the cost of preparing climate-related financial disclosures would be high. The cost of preparing such disclosures needs to be balanced with the benefits of such disclosures, particularly when climate-related impact reporting rather than financial disclosures seems to be the main interest of users; and

(b) how to determine the value chain of a government and public sector entities with multi-stakeholder groups. Value chain is defined as the "full range" of interactions, resources and relationships related to an entity's business model and the external environment in which it operates. The cost to comply with the whole-of-value-chain reporting requirements would likely outweigh the benefits, if governments and public sector entities were required to undertake extensive analysis of the underlying sources of taxation and grant revenue, and certain types of expenses such as grants, subsidies and social benefits, in determining their value chain.

Climate-related impact reporting

BC107 The requirements in [draft] ASRS 2, developed using IFRS S2 as the baseline, are limited to disclosures of information about climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects (i.e. entity-specific climate-related financial disclosures). However, some stakeholders noted in paragraph BC105 have expressed the view that users of not-for-profit public sector entity's financial reports are likely to focus on how climate-related risks and opportunities, and governments' actions related to those risks and opportunities, would affect the Australian economy, environment and people.

BC108 That is, the AASB observed that there is an information need not addressed in IFRS Sustainability Disclosure Standards for not-for-profit public sector entities to report the effects of climate-related risks and opportunities, and related government policies, on the economy, environment and people (i.e. climate-related impact reporting).

BC109 The AASB noted that the IPSASB is undertaking its own Climate-related Disclosures project, which is expected to address both climate-related financial disclosures and climate-related impact reporting from a not-for-profit public sector perspective based on IFRS S2. The AASB decided to defer consideration of whether to undertake a domestic standard-setting project to develop Australian climate-related impact reporting requirements until it has considered the results of the IPSASB's project in due course.

Timing of publishing this Exposure Draft

BC110 Treasury staff informed AASB staff that the Australian Government is planning to publish a policy announcement after October 2023 that specifies which entities will need to comply with Australian Sustainability Reporting Standards, the effective dates, and proposed legislative changes to the *Australian Securities and Investments Commission Act 2001*. This policy announcement may supersede some elements of prior Government announcements. In meetings prior to October 2023, the AASB had unanimously agreed to develop ED SR1 based on information provided by Treasury staff and other stakeholders, including DCCEEW and CSIRO, and to publish the Exposure Draft after the Australian Government policy announcement. At the October 2023 AASB meeting, four AASB members voted against publication of this Exposure Draft prior to the Government policy announcement, however the remaining ten members of the AASB voted in favour of its immediate publication.