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Submitted via email: commentletters@ifrs.org

Dear Mr Faber,

Subject: Feedback on ISSB/ED/2025/1 Amendments to Greenhouse Gas Emissions Disclosures ("ISSB Exposure Draft")

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide feedback on the International Sustainability Standards Board's (ISSB's) proposed amendments to IFRS S2 *Climate-related Disclosures* (IFRS S2)—which forms the baseline for AASB S2 *Climate-related Disclosures* (AASB S2). This project is highly relevant to Australian entities as Australia is among the first jurisdictions to mandate IFRS S2-aligned disclosures, with certain entities required to report under AASB S2 for annual reporting periods beginning on or after 1 January 2025.

In formulating its comments, the AASB was informed by Australian stakeholder feedback on AASB ED SR2 *Amendments to Greenhouse Gas Emissions Disclosures* (ED SR2), which incorporated the ISSB Exposure Draft. An array of Australian stakeholders provided both formal and informal feedback to ED SR2, including government agencies, preparers, users, industry associations and individuals.

In summary, the AASB broadly supports the proposed clarifications and amendments, noting that some clarifications and drafting refinements are necessary to enhance comprehension and consistency. However, we do not support the proposed GICS hierarchy and consider that a more principles-based approach is necessary to respond to application challenges.

The AASB's responses to the questions in the ISSB Exposure Draft are included in **Appendix A** to this letter. If you require any further information or clarification regarding the AASB's comments, please contact Lachlan McDonald-Kerr (lmcdonald-kerr@aasb.gov.au) and Charis Halliday (challiday@aasb.gov.au), who co-lead the AASB's sustainability reporting team.

Yours sincerely,

Dr Keith Kendall
Chair of the AASB

APPENDIX A

AASB DETAILED COMMENTS ON ISSB EXPOSURE DRAFT

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

(a) Do you agree with the proposal to add a new paragraph 29A(a) that would permit entities to limit disclosure of Scope 3 Category 15 greenhouse gas emissions to financed emissions (excluding derivatives-related, banking-facilitated, and insurance-associated emissions), while permitting voluntary disclosure of the excluded categories? Why or why not?

The AASB supports clarifying the existing IFRS S2 Scope 3 GHG emissions disclosure requirements in relation to derivatives, facilitated emissions, and insurance-associated emissions, including confirming that these emissions are not required to be disclosed. The AASB agrees that the proposals would remove ambiguity about whether such disclosures are mandatory and supports the rationale for permitting their exclusion, given the lack of established methodologies and differing interpretations of what these emissions represent.

Notwithstanding our support, the AASB strongly encourages the ISSB to clarify four key areas in the revised IFRS S2.

1. **Clarifying the ISSB's future intent regarding relief**. Australian stakeholders, particularly users, expressed concern about the potential permanency of the relief, noting that it could hinder progress toward developing more established methodologies. The AASB considers it would be helpful for the ISSB to clarify its future intent, including the conditions under which the relief might be revisited, to provide market certainty about potential triggers for narrowing or removing the relief. The AASB notes that the ISSB has discussed potential triggers for revisiting the relief, such as a post-implementation review of AASB S2 and other factors discussed in ISSB Agenda Paper 9B, January 2025. We consider it would be useful to make these triggers more visible through inclusion in the Basis for Conclusions.

2. **Consistency in drafting the relief for "derivatives", "facilitated emissions" and "insurance-associated emissions"**. While paragraph 29A(a) of the ISSB Exposure Draft explicitly excludes derivatives from an entity's Scope 3 GHG measurement, the relief for excluding facilitated emissions and insurance-associated emissions is only implied in the body of the Standard. These emissions fall under Scope 3 Category 15 but are excluded because the ISSB Exposure Draft limits required disclosures to financed emissions only. Paragraph BC15 confirms that all three types—emissions associated with derivatives, facilitated emissions and insurance-associated emissions—are excluded, even if material. However, some stakeholders have questioned whether emissions associated with derivatives may be treated differently in practice from facilitated emissions and insurance-associated emissions because of drafting inconsistencies between the Standard and its Basis for Conclusions within the proposed amendments. The AASB observes that differences in drafting between the Standard and the Basis for Conclusions in IFRS S2 contributed to the need for the current proposed amendments. To support clarity and consistency, the AASB encourages more precise drafting in the proposed revisions. Specifically, we recommend that IFRS S2 state that only loans, project finance, bonds, equity investments, and loan commitments are subject to Scope 3 Category 15 disclosure requirements (i.e. consistent with an 'in scope' approach). Emissions associated with derivatives and other excluded items should not be listed individually in the body of the Standard, aligning with the ISSB's approach to drafting via an 'in scope' approach.

3. **Clarifying the distinction between 'financed emissions' and 'insurance-associated emissions'**. The AASB appreciates that proposed paragraph 29A(a) defines 'financed emissions' as "greenhouse gas emissions attributed to loans and investments made by an entity to an investee or counterparty," and that "the term 'loans and investments' includes loans, project finance, bonds, equity investments and undrawn loan commitments." To avoid doubt, the AASB considers it helpful to clarify that 'insurance-associated emissions' do not include any items described as 'financed emissions'. In this context, we note that some insurance products combine insurance and investment components, which are accounted for in their entirety as insurance contracts under IFRS 17 *Insurance Contracts*.

4. **Clarifying the scope of relief from Scope 3 Category 15 disclosures**. The AASB considers it helpful to explicitly note in the Basis for Conclusions that the relief from measuring and disclosing certain Scope 3 Category 15 GHG emissions does not extend to other disclosure requirements. In this respect, please also refer to our comment on Question 1(b).

(b) Do you agree with the requirement for entities applying the above limitation to disclose the 'amount' of excluded derivatives alongside an explanation of what they treat as derivatives for the purpose of limiting disclosure of Scope 3 Category 15 greenhouse gas emissions, and also the 'amount' of other financial activities excluded? Why or why not?

The AASB supports requiring disclosures to help users understand the amount of the derivatives and financial activities excluded from the entity's measurement of Scope 3 Category 15 GHG emissions. We consider that the proposed disclosure requirement would provide useful information to users while not imposing undue costs or burdens on entities.

Some Australian stakeholders—particularly users—raised concerns that information to understand the amount alone of Scope 3 Category 15 GHG emissions disclosures excluded by an entity may result in disclosures that do not provide useful information to users. For example, an investment bank specialising in high-transition-risk customers would have vastly different risk exposure compared to an investment bank with a markedly different customer base—yet their disclosed amount of excluded emissions might be similar.

The AASB considers that there is no need for specific additional disclosure requirements on the amount beyond that proposed. However, the ISSB should clearly explain—likely in the Basis for Conclusions—that excluded Scope 3 Category 15 GHG emissions, if material, would still be subject to other disclosure requirements (e.g. IFRS S2 disclosure requirements related to identifying climate-related risks and opportunities, risk management and so forth). This would help clarify that the relief only extends to the measurement and disclosure of Scope 3 Category 15 GHG emissions and does not provide wholesale relief from considering such emissions in the context of other requirements in IFRS S2.

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

(a) Do you agree with the proposal to permit the use of alternative industry classification systems to GICS, in specified circumstances, when disaggregating financed emissions? Why or why not?

The AASB agrees with the need to provide relief to use an alternative industry-classification system instead of GICS for classifying counterparties when disaggregating financed emissions information. However, the AASB has significant concerns about the proposed hierarchy of alternative industry-classification systems and **does not support the proposal in its current form**. We consider that the

proposed amendment does not go far enough to address the potential costs and related challenges, and that the proposed hierarchy is unnecessarily complex.

The AASB strongly encourages the ISSB to pursue a more principles-based and less prescriptive approach to industry-classification when disaggregating financed emissions information. Later in this section, we describe an alternative approach that would provide users with useful information while affording preparers flexibility in appropriately classifying counterparties using an industry-classification system based on their particular facts and circumstances.

Key reasons we consider the proposal problematic—in its current form—are summarised below.

1. **Coverage and relevance.** The AASB understands that GICS does not address some investment classes, such as sovereign bonds and many exchange-traded and mutual funds, nor does it adequately cover various types of loan counterparties, such as those belonging to a sector (e.g. the household sector) and not an industry. While other classification systems may also fall short of covering all investment or counterparty types, a principles-based approach would be expected to lead an entity with, for example, material sovereign debt investments to provide useful information on that class of investment—such as the sovereign countries or regions concerned. Furthermore, GICS was developed as a taxonomy for classifying companies for investment purposes and may not be the most effective industry-classification system for effectively disaggregating financed emissions disclosures. Therefore, while GICS may be the most relevant basis for some entities to classify counterparties, it lacks the features necessary to be regarded as the default system for all types of entities—particularly those that currently apply GICS only to part of their operations.

2. **Cost.** GICS is a commercial product offered by a single proprietary company. This creates financial costs and legal implications for an entity required to use the system. Relative to the existing IFRS S2 requirement, the proposed amendment would reduce costs for entities not currently applying GICS in any part of the entity. However, we understand that GICS licensing costs are not fixed and will likely increase if an entity that currently uses GICS within only a part of the entity is required to extend the license to cover the whole entity (e.g., from a subsidiary to the entire group).[1] The AASB is also mindful that jurisdictional industry-classification requirements other than GICS are applied at the whole of entity level, while if part of the entity uses GICS, the proposed amended requirement would mean duplication in reporting which has an associated cost. Australian banks that are required by legislation to apply the Australia and New Zealand Standard Industrial Classification (ANZSIC) system across most of their operations could be particularly affected.

3. **Comparability.** The AASB considers that industry-classification policy decisions made at the whole of entity level are more likely to result in an entity applying the same industry-classification system as its peers. This would, therefore, result in greater comparability than the proposal to apply GICS when it is applied in only a part of the entity.

4. **Inconsistency with accounting policy choices.** It is common practice to make accounting policy decisions at the parent entity level rather than being driven by practice at the subsidiary level.[2] The proposed amendment could result in a subsidiary's practice effectively

1 Staff note that alternative instances where third-party materials are relied on in IFRS/AASB S2 (e.g. the Global GHG Protocol) are freely available and accessible.

2 For example, IFRS 10 *Consolidated Financial Statements* requires subsidiary accounting policies to be uniform with the polices of the consolidated group.

determining the parent entity's disclosure approach. For example, a parent entity that does not otherwise use GICS but owns a small offshore subsidiary that uses GICS would be required to apply GICS across the entire group for classifying counterparties when disaggregating financed emissions.[3]

5. **Granularity for industry-level classification.** GICS has four levels of granularity of classification: Industry Sectors (2-digit), Industry Groups (4-digit), Industries (6-digit) and Sub-Industries (8-digit). IFRS S2 currently specifies the 6-digit level of granularity; however, the current proposal does not provide any similar content on selecting an appropriate granularity level if an entity uses an industry-classification system other than GICS. Excessive granularity in classifying counterparties when disaggregating financed emissions information may inadvertently cause disclosure of commercially sensitive information about investments.

6. **Requiring the use of mandated industry-classification systems in the hierarchy of industry-classification systems to be applied.** The AASB also has concerns regarding the inclusion of an industry-classification system—used to meet a jurisdictional or exchange requirement—within the hierarchy described in proposed paragraphs B62B(b) and (c) and B63(b) and (c) of the ISSB Exposure Draft, for the following reasons:

    - *an individual entity within a group may be subject to jurisdictional or exchange requirements to use a specific industry-classification system.* Under the proposals, this could result in the entire group being required to use that industry-classification system to classify counterparties when disaggregating financed emissions information, even if it does not produce the most relevant disclosures.

    - *multiple entities within a group may be subject to different jurisdictional or exchange requirements.* The proposals would require selecting a single industry-classification system for the entire group to classify counterparties when disaggregating financed emissions information, which may not yield the most relevant or decision-useful disclosures.

For reasons summarised above, we agree that relief is needed but do not support the current proposal. We contend that the proposed hierarchy is unnecessarily complex and does not go far enough to address potential application challenges. We recommend an alternative approach to the proposal.

Alternative to the proposal described in Question 2(a)

The AASB supports a more **principles-based** and **less prescriptive approach** to classifying counterparties when disaggregating financed emissions information, that would more effectively and holistically resolve the challenges identified by the ISSB and the matters raised above. We believe this could be achieved by simplifying the hierarchy and retaining substantially the same wording as described in paragraphs B62D(d) and B63B(d) of the ISSB Exposure Draft:

> *When disaggregating by industry, the entity shall classify counterparties … [via] an industry-classification system that enables the entity to classify counterparties by industry in a manner that results in information that is useful to users of general purpose financial reports …*

3 In other words, the 'part' (the subsidiary) would determine the choice for the 'whole' (the parent and all subsidiaries).

The AASB considers that each entity should be able to select any industry-classification system to apply across the whole entity that would enable it to classify counterparties when disaggregating financed emissions information in a manner that would result in disclosure of useful information to users of general purpose financial reports. Each entity should also be required to explain the basis for selecting that specific industry-classification system.

We consider that affording an entity flexibility to determine an appropriate industry-classification system based on their particular facts and circumstances would help address application challenges identified by stakeholders related to the prescription of GICS, while not undermining the quality of information provided to users of climate-related disclosures.

We accept that the use of GICS may be widespread in certain entities—particularly large, listed entities—globally. Therefore, under a principles-based approach, it is reasonable to expect that such entities would determine that GICS is the most suitable industry classification system for meeting users' information needs. The AASB considers that this principles-based approach would result in the classification of counterparties in a manner that:

- is more relevant, as an entity would be expected to classify counterparties using an industry-classification system that best suits the entity's specific circumstances—particularly when an alternative industry-classification system is designed to comprehensively address the types of investees and counterparties the entity engages with, which may fall outside the scope of GICS classifications;

- would typically involve minimal or no additional cost to the entity, beyond any costs already incurred in applying an existing industry-classification system;

- enhances comparability among industry groups, particularly within a jurisdiction, which would mitigate the potential loss of comparability across industries relative to the ISSB Exposure Draft proposal; and

- is consistent with the industry-classification approach for classifying counterparties when disaggregating financed emissions information applied across the whole entity, rather than being influenced by an industry-classification system that is only suitable for a part of the entity that may not be material to the entity as a whole.

The AASB also notes that a principles-based approach to industry-classification requirements is consistent with the principles-based approach typically adopted in IFRS Accounting Standards[4] and would avoid mandating a proprietary industry-classification system.

(b) Do you agree that entities not using GICS should be required to disclose the industry-classification system used to disaggregate their financed emissions information and explain the basis for their industry-classification system selection? Why or why not?

The AASB supports proposed paragraphs B62C and B63C in the ISSB Exposure Draft, which require the disclosure of an entity's industry-classification system to classify counterparties when disaggregating financed emissions information. If the ISSB were to implement a more principles-based approach—as suggested by the AASB in response to Question 2(a)—we consider that an entity should disclose the industry-classification system used to classify counterparties when

4 For example, IFRS 18 *Presentation and Disclosure in Financial Statements* requires the classification and aggregation of assets, liabilities, equity, income, expenses or cash flows based on their shared characteristics

disaggregating financed emissions information and explain the basis for selecting that system, including if an entity uses GICS.

We consider that the proposed disclosure requirements described above would provide useful information to users while not imposing undue costs or burdens on entities.

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

Do you agree with the proposed clarification that the existing jurisdictional relief from using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) is permitted to an entity in whole or in part if a jurisdictional authority or an exchange on which it is listed mandates an alternative method? Why or why not?

The AASB supports relieving entities from measuring its GHG emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard) when the entity is required, in whole or in part, by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its GHG emissions.

The AASB views the proposed amendment as a practical solution that removes or reduces the need for duplicative reporting. Without the proposed amendment, the jurisdictional relief set out in paragraph 29(a)(ii) of IFRS S2 refers to the 'entity' and does not clearly identify whether the relief is available when the jurisdictional or exchange requirement to measure GHG emissions using a method other than the GHG Protocol Corporate Standard applies to part of the entity, or if the relief is only available when such a requirement applies to the entity as a whole. The AASB considers this issue crucial for entities operating in multiple jurisdictions that may be subject to various requirements for measuring their GHG emissions.

This targeted amendment is particularly important in the Australian context considering the National Greenhouse and Energy Reporting (NGER) Scheme—Australia's longstanding national framework for reporting GHG emissions, energy production, and energy consumption. For context, the NGER Scheme requires entities that meet certain thresholds to report annually on their emissions, energy production and consumption. Two types of thresholds determine an entity's obligation to report under the NGER Scheme: facility thresholds and corporate group thresholds. In circumstances where a facility-level threshold is triggered, reporting under the NGER Scheme is only required for those individual facilities, rather than at the corporate group level. The AASB welcomes the proposed clarification because it would allow an entity to apply the relief "in part" (e.g. facility-level or subsidiary-level) or "in whole" (group-level), depending on the circumstances, and thereby remove or reduce the need for duplicative reporting.

Some Australian stakeholders have expressed concerns that the proposed relief may not be sufficiently comprehensive and have encouraged the ISSB to consider exploring approaches to extending it under defined circumstances. For example, an entity with operations predominantly in Australia, and required to report under the NGER Scheme, may have elected to apply the NGER Scheme's GHG measurement approaches to domestic operations (not subject to NGER requirements) and overseas operations where no specific jurisdictional requirements exist. This practice may have emerged for various reasons, including a historical practice of voluntary reporting that predates IFRS S2 or the desire for consistency across the entity's GHG inventory.

The AASB acknowledges that IFRS S2 provides transitional relief for entities currently employing a GHG measurement method other than the GHG Protocol, enabling them to continue utilising that method for the first year of reporting. This relief helps mitigate the immediate impact on certain

entities required to apply the GHG Protocol to some parts of their operations. To address stakeholder concerns described above, the ISSB should consider extending the transition relief in paragraph C4(a), which is tied to existing practice, beyond the first annual reporting period.

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

Do you agree with the proposal to extend the jurisdictional relief that would allow an entity in whole or in part to use global warming potential values that are mandated by a jurisdictional authority or an exchange on which it is listed? Why or why not?

The AASB supports the proposed amendments to relieve entities from 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 when the entity is required, in whole or in part, by a jurisdictional authority or an exchange on which it is listed to use different values.

The AASB views this relief as a practical solution that reduces duplication and aligns with existing jurisdictional frameworks, such as Australia's NGER Scheme. The AASB understands that reporting obligations for parties to the Paris Agreement require the use of GWP values from the IPCC's Fifth Assessment Report (AR5) to convert GHG emissions. Australia's NGER Scheme currently mandates the use of GWP values from the IPCC AR5. The proposed amendment would help reduce the regulatory burden for Australian entities by allowing the continued use of GWP values from AR5, which aligns with existing NGER scheme requirements. This alignment would support more streamlined and consistent reporting practices for entities subject to multiple frameworks.

Some Australian stakeholders have expressed concerns that the proposed relief regarding the use of GWP values may not be sufficiently comprehensive and have encouraged the ISSB to explore ways to extend it under defined circumstances—for example—due to historical practice of voluntary reporting that predates IFRS S2 or the desire for consistency across the entity's GHG inventory. To respond to these concerns, the ISSB should consider drafting transition relief similar to that suggested in our response to Question 3.

Question 5—Effective date

Do you agree with the proposed approach for setting the effective date of the amendments and permitting early application? Why or why not?

The AASB supports specifying an effective date so that the amendments become effective as early as possible and permit early application.

The AASB strongly encourages the ISSB to finalise the proposals as soon as possible as Australia is among the first jurisdictions to mandate IFRS S2-aligned disclosures. Certain Australian entities have already commenced applying AASB S2 for annual reporting periods beginning on 1 January 2025. Therefore, the timely finalisation of the proposals and the early release of any revised IFRS S2 requirements are essential to support consistent and effective implementation within the Australian reporting landscape, considering the close alignment between AASB S2 and IFRS S2.

Question 6—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

The AASB has no additional comments.