

Department of Climate Change, Energy, the Environment and Water

Response to:

Request for Comment on ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

General Comments for AASB:

Use of climate-related scenario analysis

We are supportive of the exposure draft requirements to use climate-related scenario analysis to assess climate resilience. The use of climate scenarios for risk analysis can be a valuable input to an entity's strategic decision-making and risk-management processes. The disclosure of the scenarios used, including the underpinning data and assumptions are integral to any assessment of a company's climate risk management strategy.

We acknowledge that some entities may be unfamiliar with using climate-related scenario analysis and may not have ready access to the information needed to conduct climate-related scenario analysis. The government is seeking to further enhance the provision of climate data and services, including through Commonwealth science delivery agencies such as the Australian Climate Service, Commonwealth Scientific and Industrial Research Organisation (CSIRO) and Bureau of Meteorology. In the future, this type of information should support entities to disclose climate-related information. In addition, information being developed by Australian Government agencies will provide authoritative information and data frameworks to enable entities to undertake climate-related scenario analysis to satisfy their fiduciary reporting obligations and address business concerns around potential legal liability associated with disclosure (or misinterpretation) of such information.

AASB Specific Matters for Comment

Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2

B1. To comply with the proposals in Exposure Draft on [Draft] IFRS S2 an entity would be required to disclose its Scope 3 greenhouse gas (GHG) emissions in addition to its Scope 1 and 2 GHG emissions.¹ Do you agree that Australian entities should be required to disclose their Scope 3 GHG

¹ Note that at the date of this publication the NGER Act and NGER (Measurement) Determination refer only to the disclosure of Scope 1 and 2 greenhouse gas (GHG) emissions.

emissions in addition to their Scope 1 and Scope 2 GHG emissions? If not, what changes do you suggest and why?

- A requirement to report scope 3 emissions would help serve increasing interest, particularly amongst domestic consumers, investors and trading partners, for information on entity's scope 3, as well as its scope 1 and 2 emissions.
 - o It is also noted that the Task Force on Climate-related Financial Disclosures recommends disclosure of scope 1 and 2, and *if appropriate* scope 3, emissions.
- The *nature* of any such requirement, and acceptable level of accuracy of the scope 3 emissions estimates, warrants careful consideration given the following issues.
 - o As the exposure draft notes, "The disclosure of Scope 3 GHG emissions involves a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty."
 - o Such emissions vary greatly in scale, nature and complexity depending on the sector.
 - For example, scope 3 emissions for a financial institution can be quite different to those of an agricultural company, or an electricity generator. And the degrees of removed control can vary too. (e.g. are food waste emissions the scope 3 emissions of a seed supplier, a farm, their bank, a food transport contractor, a supermarket, their insurer, an individual, a landfill site?).
 - o Activity data can be difficult and/or prohibitively costly to obtain for some scope 3 emission sources; often requiring the use of expenditure-based emissions factors to calculate emissions, which decreases the accuracy of the resulting scope 3 estimates.
- The exposure draft appears to accommodate these challenges to some extent.
 - o It notes that responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements (page 50).
 - o Clause 21 provides that an entity would indicate which scope 3 emissions have been included or excluded in its estimates, and state the reason for any exclusion.
 - o Provisions for scope 3 reporting vary by industry.
- Managing the above challenges in the Australian context could also include consideration of approaches taken under the National Greenhouse and Energy Reporting (NGER) Scheme and Climate Active.
 - o Under the NGER Scheme, only facilities or corporations with emissions, energy production or consumption exceeding prescribed thresholds are required to report. Corporate reporting under the Scheme was also introduced progressively over three years, under a graduated threshold regime.
 - o Under the [Climate Active Carbon Neutral Standard for Organisations](#), scope 3 emissions that arise as a consequence of an organisation's activities must be assessed for relevance against a set of relevance criteria, and if relevant must be included within the organisation's emissions boundary.

B2. To comply with the proposals related to GHG emissions disclosures in Exposure Draft on [Draft] IFRS S2 an entity would be required to apply the Greenhouse Gas Corporate (GHGC) Standard. Do you agree that Australian entities should be required to apply the GHGC Standard given existing GHG emissions legislation and guidance in place for Australian entities (for example, the NGER Act, NGER (Measurement) Determination 2008 and related guidance)?

- We suggest the proposal accommodate the application of other comparable standards, as well as the GHG Protocol.
- In the Australian context, comparable standards would include the NGER Scheme and the Climate Active Carbon Neutral Standard.
 - o Providing entities with the option of applying these standards would help minimise regulatory burden (including to any domestic agency administering IFRS S2), avoid duplication of reporting requirements, and/or deliver more accurate estimates through the use of Australia-specific methods and parameters that have been tested through independent international review.
- The Exposure Draft on IFRS S2 refers to the equity share and operational control methods under the GHG Protocol Corporate Standard, but should also refer to the financial control method under the same Standard.

B3. Are the proposed industry-based disclosure requirements in Appendix B to Exposure Draft on [Draft] IFRS S2 relevant for Australian industries and sectors? If not, what changes do you suggest and why?

- The Government's Powering Australia Plan states that it will work with regulators to ensure large Australian businesses make disclosures using a standardised reporting requirement that aligns with international standards. DCCEEW is supporting Treasury/APRA to deliver this commitment.
- As expressed in the HOTARAC submission, and in the other sections of this submission, while Appendix B is relevant to Australian industries and sectors, consideration needs to be given to addressing associated implementation and ongoing compliance challenges.

B4. Are there any Australian-specific climate-related matters that the AASB should consider incorporating into the requirements proposed in Exposure Draft on [Draft] IFRS S2? For example, given the Exposure Draft on [Draft] IFRS S2 is the starting point for the AASB's work on climate-related financial disclosure, should there be additional reporting requirements for Australian entities? If so, what additional reporting requirements should be required and why?

- Consideration could be given to incorporating non-confidential climate-related information already reported under other processes. Such an arrangement could help facilitate a 'one-stop shop' for investors and the Australian public, and could be serviced by simply cross referencing publications/websites where that information was reported.
- Such information could include case-by-base metrics based on specific projects, facilities, locations, etc. For example,
 - o Entities could be required to disclose their performance against metrics stated in their Environmental Effects Statements (EES), if they were required to create one, i.e. explicit comparisons between expectations and results.
 - o The capacity for a EES review panel to recommend that the Planning Minister impose additional disclosure requirements on an entity as a condition of Planning approval.

Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2

C1. Which Australian entities should be expected to apply the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and why? Specifically:

(a) should the proposals be intended for all for-profit entities in Australia or only to a subset of for-profit entities? And

- See also response to B1. A number of approaches could be considered to manage the implementation and ongoing compliance challenges of IFRS S2. These could include:
 - Materiality and threshold-based subsets. For example, low market cap based exclusions, low Scope 3 Emissions.
 - Phasing in some/all of the requirements based on materiality/degree may also be appropriate, where the largest corporations/biggest emitters have stricter and/or more comprehensive initial requirements, which become mandatory at lower thresholds over time.

(b) should relief from specific aspects of the proposals be permitted for some entities for which the proposals are deemed burdensome (for example, Scope 3 GHG emissions and scientific and scenario analyses)? If so, which entities and why?

- See also response to B1 and General Comments.
- Materiality should matter more than compliance burdens. If Scope 3 is a major factor, or the primary Scope of climate impact, it should be a disclosure requirement.
 - That said, consideration should be given to the challenges associated with obtaining reliable data, including on a cost-effective basis. Consideration should also be given to the level of accuracy expected by users.
- Scenario analysis must be rigorous to be valuable. There is a risk that without independent, science-based scenario data, the exercise can be internally customised to fit the interests of the entity. Customising scenarios to best fit an entity, and disclosing against these specialised scenarios, has been reported from investment groups active in the climate finance space, and has been described as a form of greenwashing.

C2. Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

- The objective of the IFRS S2 is stated as disclosing information useful to *primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity*; creating the impression that reported information will be publicly disclosed.
- In Australia, related existing reporting arrangements such as the NGER Scheme do not currently publicly disclose all information reported by entities. As such it would be important for any agency administering the IFRS S2 or a version of it in Australia to make clear that all reported information would be publicly disclosed.
 - The NGER Scheme disclosure and privacy rules are provided here: <https://www.cleanenergyregulator.gov.au/NGER/About-the-National-Greenhouse-and-Energy-Reporting-scheme/Disclaimer-disclosure-and-privacy>
- As stated in B3, the Government intends to introduce mandatory climate disclosure reporting for large business aligned with international standards.
- It should be explicit if/how any aspects of the new standard apply, or don't apply, to public sector entities (like departments) and publically owned entities (like some energy generators).

C3. Do the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 align with existing or anticipated requirements, guidance or practice in Australia? If not:

(a) please explain the key differences that may arise from applying the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 and the impact of any such differences; and

- See also B2. The current proposal to use the GHG Protocol alone for GHG emission estimation risks duplication, increased regulatory burden and less accurate estimates, than could be achieved by allowing the application of comparable standards.

(b) do you suggest any changes to the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

C9. Unless already provided in response to specific matters for comment A1 to C8 above, the costs and benefits of the proposals relative to the current requirements, 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, or cost savings, of the Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2?

- There may be lessons to be learned from existing reporting arrangements such as the NGER Scheme when considering how to calibrate reporting requirements such that they are proportionate to an entity's emissions contribution, and the value of the reported information to users.
 - o As mentioned above, the NGER Scheme does not require reporting by all companies, but rather only those companies with emissions/energy production or consumption higher than prescribed thresholds. This approach balances the implementation costs imposed on reporting entities against the need for a particular level of data coverage.

Part D: Matters for comment relating to the AASB's proposed approach

D2 Are the proposals in Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2 in the best interests of the Australian economy?

- See response to B3.