

Basis for Conclusions and dissenting view

This Basis for Conclusions accompanies, but is not part of, AASB S2.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB's) considerations in developing AASB S2. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for issuing this Standard

BC2 The AASB issued AASB S2 to support the Australian Government's decision to require large businesses and financial institutions to prepare climate-related financial disclosures.

BC3 Following multiple consultations and responding to calls from investors for more consistent, complete, comparable and verifiable information about an entity's climate-related risks and opportunities, in 2023 the Australian Government confirmed its intention to make climate-related financial disclosures mandatory for large businesses and financial institutions. In June 2023, the Commonwealth Treasury released the proposed design for a mandatory reporting framework, with an approach for Australia to be aligned as far as practicable with the standards developed by the International Sustainability Standards Board (the ISSB) to the extent relevant to climate-related financial disclosure. The Australian Government's policy intention is to improve the quality and comparability of climate-related financial disclosures across different companies and sectors, which, in turn, should help investors make more informed decisions.

BC4 In September 2024, the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* was passed, introducing mandatory climate-related financial disclosures for certain corporations and other entities through amendments to the *Corporations Act 2001*.

Approach to developing AASB S2

BC5 In March 2022, the ISSB published an Exposure Draft on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and an 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 In April 2022, the AASB 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*. Comments received on ED 321 indicated that the proposals in IFRS S1 and IFRS S2 would be an appropriate baseline on which to develop climate-related financial disclosure requirements for Australian entities.

BC7 Considering the commitment from the Australian Government to introduce internationally aligned mandatory climate-related financial reporting for large businesses and financial institutions and the feedback to ED 321, the AASB decided:

- (a) Australian sustainability-related reporting requirements would be in a separate suite of standards from Accounting Standards;
- (b) to use the work of the ISSB as a foundation, with modifications for Australian circumstances where necessary to meet the needs of Australian stakeholders; and
- (c) to initially develop climate-related financial disclosure requirements that can be applied independently of any broader sustainability reporting framework.

BC8 The AASB noted that it may develop reporting requirements for other sustainability-related risks and opportunities in Australia over time.

BC9 In June 2023, the ISSB finalised IFRS S1 and IFRS S2. In October 2023, the AASB published Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*. ED SR1 proposed three draft Australian Sustainability Reporting Standards, as described below.

- (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 disclosure.
 - (b) [Draft] ASRS 2 *Climate-related Financial Disclosures*, developed using the requirements of IFRS S2 as the baseline. The main proposed modifications to the baseline requirements related to:
 - (i) consideration and disclosure of industry-based information;
 - (ii) measurement of greenhouse gas emissions; and
 - (iii) temperature outcomes for scenario analysis.
 - (c) [Draft] ASRS 101 *References in Australian Sustainability Reporting Standards*, developed as a service Standard that would be updated when required to list the relevant versions of any non-legislative documents published in Australia and foreign documents that are referenced in Australian Sustainability Reporting Standards. Under section 14 of the *Legislation Act 2003*, Australian legislative instruments (such as mandatory Standards) cannot make provisions in relation to a non-legislative document as existing from time to time. Therefore, the proposed Standards identify the relevant version of all non-legislative Australian documents and foreign documents referenced in the Standards to be clear as to the versions referred to. A service Standard is one possible approach to identifying those documents.
- BC10 When the AASB was developing ED SR1, Treasury’s Exposure Draft *Treasury Laws Amendment Bill 2024: Climate-related financial disclosure* (January 2024) had not yet been published. The AASB proposed modifications to the requirements in IFRS S1 and IFRS S2 after considering Treasury’s second Consultation Paper, *Climate-related financial disclosure* (June 2023), and informal feedback from stakeholders, including the Treasury, the Australian Government Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the Commonwealth Scientific and Industrial Research Organisation (CSIRO). At the time, the AASB discussed whether to defer the publication of ED SR1 until it had considered the Treasury’s exposure draft legislation and undertaken targeted outreach to gauge stakeholders’ preliminary views on some of its proposals. However, the AASB decided it was important to publish ED SR1 in October 2023 to enable the issuance of the final Australian Sustainability Reporting Standards in time for implementation in annual periods beginning on or after 1 July 2024, which was then the anticipated first application date for mandatory climate-related financial disclosures by the first group of entities.
- BC11 When deciding to publish ED SR1 ahead of the Treasury’s exposure draft legislation and targeted stakeholder outreach, the AASB acknowledged that it might need to reconsider some of its proposals in light of the Treasury Exposure Draft (and the ultimate legislation) and stakeholder feedback on ED SR1. In particular, the AASB noted that its proposed modifications to the requirements set out in IFRS S2 for measuring greenhouse gas emissions and temperature outcomes for scenario analysis would likely require further consideration.
- BC12 ED SR1 was exposed for 130 days, with a comment period to 31 March 2024. Extensive outreach was conducted on the proposals in ED SR1, with a total of 500 attendees at the in-person roundtables in Adelaide, Brisbane, Canberra, Geelong, Hobart, Melbourne, Newcastle, Perth and Sydney, as well as virtual roundtables.
- BC13 Much of the feedback on ED SR1 favoured the requirements in IFRS S2 being incorporated in Australian Sustainability Reporting Standards with minimal or no modifications. Many stakeholders were of the view that there are few, if any, Australian-specific circumstances that would warrant departure from the baseline of IFRS S2 in accordance with the *AASB Sustainability Reporting Standard-Setting Framework* (September 2023). The AASB also noted that a closer alignment to the IFRS S2 requirements would be consistent with the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* (the Act).
- BC14 In May–September 2024, the AASB discussed stakeholder feedback and reconsidered its proposed modifications to the baseline requirements. The AASB decided to issue two Australian Sustainability Reporting Standards, as described below:
- (a) the voluntary Standard AASB S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, to incorporate all IFRS S1 requirements without modification. Consistent with the Australian Government’s decision to address climate-related financial disclosures first and to consider the development of reporting requirements for other sustainability-related risks and opportunities in Australia over time, the AASB decided to issue AASB S1 as a voluntary Standard so that an entity applying AASB S2 is not required to apply AASB S1 to disclose information on other sustainability-related risks and opportunities; and
 - (b) the mandatory Standard AASB S2 *Climate-related Disclosures*, to incorporate all IFRS S2 requirements, with modifications only in respect to the following matters:
 - (i) general requirements for disclosure of climate-related financial information;
 - (ii) options under the legislative amendments regarding consolidated reporting;

- (iii) consideration and disclosure of industry-based information; and
 - (iv) users of a not-for-profit entity's general purpose financial report (GPFR).
- BC15 The AASB considered whether further consultation or formal re-exposure of the proposed Standard should be carried out before issuing AASB S2. The AASB noted that extensive stakeholder engagement and consultation had been undertaken in developing AASB S2. The AASB received 117 comment letters and 289 survey responses on ED SR1 across various stakeholder groups, including financial report preparers and auditors, user groups, professional bodies, industry bodies and academics, covering both the private sector and the public sector. Considering the extensive feedback received and the AASB's decision to adopt all IFRS S2 requirements (except for industry-based disclosures), which is consistent with views supported by most stakeholders, as well as the future projects to address scalability and cost-benefit concerns and public sector application matters that the AASB added to its workplan (see paragraphs BC79–BC84), the AASB decided that further consultation or re-exposure was not required.
- BC16 Since the AASB decided to issue only one mandatory Standard (i.e. to make only AASB S2 as an Australian legislative instrument), the AASB decided not to issue the service Standard [draft] ASRS 101 proposed in ED SR1. Instead, AASB S2 directly identifies the relevant versions of non-legislative Australian documents and foreign documents referenced in the Standard (for example, see paragraphs AusB22.1 and AusB63.1). The AASB will amend AASB S2 as soon as practicable when required to refer to later versions of referenced documents.
- BC17 The following paragraphs summarise the key matters considered by the AASB in developing AASB S2, including the Board's decisions on how to address stakeholders' feedback.

General requirements for disclosure of climate-related financial information

- BC18 IFRS S1 sets out the general requirements for a complete set of sustainability-related financial disclosures. IFRS S1 is designed to be applied in conjunction with IFRS S2, which is a topic-based Standard that specifies disclosures relating to climate. As noted in paragraph BC14(a), consistent with the Australian Government's decision to address climate-related financial disclosures first and to consider the development of reporting requirements for other sustainability-related risks and opportunities in Australia over time, the AASB decided to issue AASB S1 as a voluntary Standard so that an entity applying AASB S2 is not required to apply AASB S1 to disclose information on other sustainability-related risks and opportunities.
- BC19 Consequently, the AASB added paragraphs Aus7.1 and Aus26.1 to clarify that the requirements set out in IFRS S2 paragraphs 7 and 26 apply particularly if an entity elects to also apply AASB S1 to disclose information about other sustainability-related risks and opportunities in addition to climate-related risks and opportunities in GPFR. The paragraphs require an entity to avoid unnecessary duplication of disclosures by providing integrated disclosures instead of separate disclosures for each sustainability-related risk and opportunity, if oversight of sustainability-related risks and opportunities is managed on an integrated basis.
- BC20 Since AASB S1 is a voluntary Standard, the AASB included Appendix D *General Requirements for Disclosure of Climate-related Financial Information* in AASB S2 to incorporate the content of IFRS S1 necessary to enable AASB S2 to function as the standalone mandatory Standard containing all of the requirements regarding climate-related disclosures. Consequently, where IFRS S2 cross-references to IFRS S1 paragraphs, AASB S2 cross-references to Appendix D paragraphs.¹ Accordingly, AASB S2 contains all the requirements an entity would need to apply in reporting climate-related financial disclosures in accordance with AASB S2.
- BC21 In assessing the contents of IFRS S1 needed to make AASB S2 function as intended, the AASB considered whether:
- (a) an IFRS S1 principle, disclosure or guidance is already incorporated in AASB S2;
 - (b) an IFRS S1 principle reflects content already in 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) that are available as support material for applying AASB S2,² including considering the extent to which that content is the same; and
 - (c) the IFRS S1 content reflects corresponding content in Accounting Standards, i.e. material considered necessary to include in Accounting Standards to enable them to function.

¹ Except for cross-references in IFRS S2 paragraphs B34–B36 to IFRS S1 paragraphs B6(b) and B11. The requirements set out in IFRS S1 paragraphs B6(b) and B11 are consistent with IFRS S2 paragraphs B34 and B36; consequently, cross-references to IFRS S1 paragraphs B6(b) and B11 are omitted in AASB S2 paragraphs B34–B36.

² As noted in AASB S1 paragraphs D1 and D2.

- BC22 The AASB’s *Conceptual Framework for Financial Reporting* and the *Framework for the Preparation and Presentation of Financial Statements* are not legislative instruments and do not form part of the authoritative Australian Accounting Standards. While some Australian Accounting Standards refer to aspects of those Frameworks, the Frameworks themselves are not enforceable. Accordingly, ED SR1 proposed that the conceptual content set out in IFRS S1 should not be made enforceable.
- BC23 Some stakeholders commented that the context for sustainability reporting is different from the context for financial statements, for which there is a comprehensive set of Accountings Standards prescribing reporting requirements for a set of general purpose financial statements. They consider that conceptual content would be needed to help preparers ensure reported climate-related financial information is relevant to users and faithfully represents the substance of the effects of climate-related risks and opportunities on an entity’s cash flows, its access to finance or cost of capital over the short, medium or long term. The AASB also re-evaluated the context in which the conceptual content set out in IFRS S1 is provided, and its nature, and observed that the content:
- (a) does not seek to be a framework for evaluating proposed standards, as the role of a Conceptual Framework not having the force of an accounting standard is described in the AASB’s enabling legislation;³ and
 - (b) is largely similar in nature to counterpart principles incorporated in some Australian Accounting Standards.
- BC24 Accordingly, the AASB concluded it would include the conceptual content in IFRS S1 in Appendix D in AASB S2, together with the other general principles in IFRS S1 that are considered necessary to enable AASB S2 to function as intended.
- BC25 In concluding that the general disclosure requirements needed to make AASB S2 function as intended should be located in Appendix D, the AASB noted its convention of including mandatory content supporting the body of a Standard in an Appendix, which is consistent with international conventions.⁴

Options for consolidated reporting

- BC26 In accordance with IFRS S1 paragraphs 20 and B38, an entity’s climate-related financial disclosures are required to be prepared for the same reporting entity as the related financial statements. That is, to comply with IFRS S2, an entity would prepare climate-related financial disclosures for its consolidated group if the related financial statements are prepared for that consolidated group.
- BC27 However, the AASB observed that the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* does not require the parent entity of a consolidated group to prepare climate-related financial disclosures for its consolidated group. Under section 292A(2) of the Corporations Act, as inserted by the legislative amendments, a parent entity has the choice of preparing a sustainability report for either the consolidated entity or the parent entity. Accordingly, the AASB added paragraphs Aus20.1 and AusB38.1 to Appendix D of AASB S2 to specify that an entity’s climate-related financial disclosures shall be for the same reporting entity as the related financial statements unless otherwise permitted by law.

Consideration and disclosure of industry-based information

- BC28 The AASB decided, as an interim measure, not to require industry-based disclosures to be provided and therefore also not to require entities to consider the applicability of disclosure topics (and the industry-based metrics associated with those disclosure topics) defined in the Sustainability Accounting Standards Board (SASB) Standards and *Industry-based Guidance on Implementing IFRS S2* issued by the ISSB. Consequently, the AASB:
- (a) modified or omitted the requirements set out in IFRS S2 paragraphs 12, 23, 28(b), 32, 37, B65(d) and B67; and
 - (b) omitted the definition of “disclosure topic” set out in IFRS S2 Appendix A *Defined terms*.
- BC29 Feedback on ED 321 indicated strong support among respondents for developing mandatory requirements for industry-based disclosures as part of the ISSB’s approach to standard-setting for sustainability-related financial information. However, many of those respondents did not support the ISSB’s proposed industry-based disclosure requirements, which became the *Industry-based Guidance on Implementing IFRS S2*. The

³ *Australian Securities and Investments Commission Act 2001*, section 227(1).

⁴ This is the convention adopted by the International Accounting Standards Board and the International Sustainability Standards Board.

majority of respondents to ED SR1 supported the AASB’s proposal to omit these requirements, but requested the AASB undertake further work to develop industry-based disclosure requirements for Australian entities.

- BC30 Acknowledging this feedback, the AASB made decisions regarding the consideration and disclosure of industry-based information as an interim measure, signalling its intention to redeliberate this matter in the near future. The AASB added a project to its workplan with respect to industry-based disclosure requirements. This project will focus on determining the appropriate basis and content of the industry-based disclosures, including assessing the industry-based classification system, the applicability of the industry-based disclosure topics and the industry-based metrics defined in the *Industry-based Guidance on Implementing IFRS S2*. The Treasury Policy Position Statement *Mandatory climate-related financial disclosures* (January 2024) states that “Entities should only be required to disclose against well-established and understood industry-based metrics from 1 July 2030 onwards.” Accordingly, the AASB intends to finalise mandatory requirements for industry-based disclosures by 2030.

Users of a not-for-profit entity’s GPFR

- BC31 Under the Corporations Act amendments, some not-for-profit entities will be required to disclose climate-related financial information. To support those requirements, as noted in the *AASB Sustainability Reporting Standard-Setting Framework*, the AASB has determined that it will, as far as is practicable, focus on developing sector-neutral Australian Sustainability Reporting Standards. That is, it is the AASB’s intention to develop transaction-neutral sustainability reporting Standards where possible. A transaction (or sector) neutrality approach to sustainability reporting Standards means that like transactions, other events and conditions are considered in a like manner for all types of entities, whatever their sector of activity, unless there is a justifiable reason not to do so. Accordingly, the AASB considered whether any modifications to the IFRS S2 baseline requirements might be needed for not-for-profit entities.
- BC32 The AASB decided to add paragraph AusA1 in Appendix A *Defined terms* to require a not-for-profit entity to refer to the meaning of “general purpose financial reports” and “primary users of general purpose financial reports” specified in the *Framework for the Preparation and Presentation of Financial Statements* when applying AASB S2. The AASB also added guidance in paragraphs AusB14.1 and AusB15.1 in Appendix D *General Requirements for Disclosure of Climate-related Financial Information* to AASB S2.
- BC33 The AASB added those paragraphs because:
- (a) IFRS S2 defines “primary users of general purpose financial reports” as existing and potential investors, lenders and other creditors, whereas users of a not-for-profit entity’s GPFR described in the *Framework for the Preparation and Presentation of Financial Statements* also include parliaments, taxpayers, donors and recipients of goods and services; and
 - (b) the definition of “general purpose financial reports” in IFRS S2 states that users’ decision-making involves decisions about (1) buying, selling or holding equity and debt instruments; (2) providing or selling loans and other forms of credit; or (3) exercising rights to vote on, or otherwise influence, the entity’s management’s actions that affect the use of the entity’s economic resources. In respect to not-for-profit entities, paragraph AusOB3.1 of the *Framework for the Preparation and Presentation of Financial Statements* states that “users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or nonfinancial), which in turn may depend, at least in part, on the entity’s prospects for future net cash inflows. Users will, for example, be interested in the capability of the entity’s resources to provide goods and services in the future.”
- BC34 Additionally, paragraph AusOB2.1 of the *Framework for the Preparation and Presentation of Financial Statements* provides examples of the resource allocation decisions of users of a not-for-profit entity’s GPFR. The examples include:
- (a) parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity;
 - (b) taxpayers decide who should represent them in government;
 - (c) donors decide whether to donate resources to an entity, and
 - (d) recipients of goods and services decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers.
- BC35 ED SR1 proposed to modify the objective of the Standard so that a not-for-profit entity 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. Some stakeholders expressed concerns that the proposed modifications would imply a different basis of reporting for not-for-profit entities, compared to for-profit entities, either narrowing or widening the scope of climate-related risks and opportunities to be considered, which was not the AASB's intention. The AASB decided not to introduce the phrase "the entity's ability to further its objectives" in describing the objective of the Standard for not-for-profit entities, but to require a not-for-profit entity to refer to the *Framework for the Preparation and Presentation of Financial Statements* when applying AASB S2, as noted above.

Measurement of greenhouse gas emissions

- BC36 For the measurement of greenhouse gas (GHG) emissions, the AASB decided to align with the measurement hierarchy in IFRS S2 without modification. That hierarchy requires an entity to apply a method in the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) to measure GHG emissions, but permits an entity to apply a different method when required to do so by a jurisdictional authority or an exchange on which the entity is listed.⁵ 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 legislation⁶), doing so would mean that such an entity would not have departed from IFRS S2.
- BC37 ED SR1 proposed requiring an entity to prioritise relevant methodologies in NGER Scheme legislation. This was consistent with Treasury's second consultation paper in June 2023, which 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. Considering stakeholders' interest in closer alignment with IFRS S2, the AASB decided to align with the GHG emission measurement requirements set out in IFRS S2 paragraph 29(a), and therefore prioritise the GHG Protocol, and not NGER Scheme legislation, as the default framework for measuring GHG emissions.
- BC38 The AASB considered that aligning with IFRS S2 would:
- (a) support interoperability with other GHG reporting frameworks, such as European Sustainability Reporting Standards (ESRS), that also refer to the GHG Protocol;
 - (b) allow flexibility for both NGER and non-NGER reporters to determine the most appropriate and cost-effective methods to report their GHG emissions, including determining appropriate reporting boundaries for GHG emissions; and
 - (c) facilitate implementation by avoiding the need for an entity to determine whether applying a method in NGER Scheme legislation is practicable.
- BC39 AASB S2 paragraphs B22 and B29 require an entity to use emission factors that best represent the activity that is generating the GHG emissions. This requirement would apply irrespective of whether an entity measures GHG emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) or in accordance with the methods required by a jurisdictional authority or an exchange on which the entity is listed.

Definition of greenhouse gases

- BC40 The AASB decided to retain the IFRS S2 definition of greenhouse gases as the seven greenhouse gases listed in the Kyoto Protocol, as proposed in ED SR1.
- BC41 The AASB observed that nitrogen trifluoride (NF₃) is not listed in NGER Scheme legislation as a class of greenhouse gas. Upon considering feedback received on ED SR1, the AASB decided to retain NF₃ in the definition of greenhouse gases. This is because it would:
- (a) not conflict with the NGER Scheme legislation—it would be an addition to the requirements in NGER Scheme legislation;
 - (b) be unlikely to have a significant effect on Australian entities reporting under NGER Scheme legislation. The CSIRO informed the AASB that NF₃ emissions are currently immaterial in Australia because NF₃ is primarily produced in the manufacture of semiconductors, liquid crystal

⁵ For brevity, the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) and the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) are referred to in this Basis for Conclusions as "GHG Protocol".

⁶ For the purposes of this Basis for Conclusions, NGER Scheme legislation means:

- (a) the *National Greenhouse and Energy Reporting Act 2007*;
- (b) the *National Greenhouse and Energy Reporting Regulation 2008*; and
- (c) the *National Greenhouse and Energy Reporting (Measurement) Determination 2008*.

display (LCD) panels, certain types of solar panels and chemical lasers and Australia does not have a significant presence in the manufacturing of these items; and

- (c) accommodate the potential increase of NF₃ in Australia, in particular, considering Australia's policy ambition to be a renewable energy superpower with allied downstream manufacturing industries which may lead to more NF₃ emissions given it is used in the manufacture of renewable technologies (e.g. solar panels).⁷ Should NF₃ emissions become material in Australia in the future, the Clean Energy Regulator and DCCEEW may consider requiring NGER reporters to also report on NF₃ to align with the reporting needed under the Paris Agreement.

Converting greenhouse gases into a CO₂ equivalent value

- BC42 The AASB decided to incorporate in AASB S2 without modification the requirements set out in IFRS S2 paragraphs B21 and B22 with respect to the requirement to convert greenhouse gases into a CO₂ equivalent value.
- BC43 To align with the reporting requirements related to the Paris Agreement and NGER Scheme legislation, ED SR1 proposed to require an entity to convert greenhouse gases into a CO₂ equivalent value using the global warming potential (GWP) values from the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (AR5), instead of the GWP values from the latest IPCC assessment available at the reporting date (the Sixth Assessment Report (AR6), which is the latest report available at the time of issuing this Standard).
- BC44 Considering stakeholders' significant support for closer alignment with IFRS S2, the AASB decided not to modify the requirements set out in paragraphs B21 and B22 of IFRS S2. In making this decision, the AASB noted that in accordance with paragraph B22 of this Standard, if an entity uses appropriate emission factors that have already converted the constituent gases into CO₂ equivalent values, the entity would not be required to recalculate the emission factors using GWP values from the latest IPCC assessment available at the reporting date. The Australian National Greenhouse Accounts Factors have already converted greenhouse gases into CO₂ equivalent values using the GWP values from IPCC AR5, which is consistent with the Paris Agreement.

Market-based Scope 2 GHG emissions

- BC45 The AASB considered but decided not to mandate disclosure of market-based Scope 2 GHG emissions.
- BC46 Consistent with the Treasury's second consultation paper, ED SR1 proposed to require an entity to disclose its market-based Scope 2 GHG emissions from the fourth year of applying Australian Sustainability Reporting Standards. Upon considering stakeholder feedback, the AASB decided that such a mandate is unnecessary. This is because:
 - (a) under IFRS S2 (and AASB S2), entities might provide information about their market-based Scope 2 GHG emissions if they consider it would be useful to the users of their climate-related financial disclosures; and
 - (b) if NGER Scheme legislation is updated in the future to require the reporting of market-based Scope 2 GHG emissions, NGER reporters may elect to disclose that information when preparing climate-related financial disclosures under AASB S2.

Scope 3 GHG emission categories

- BC47 Consistent with IFRS S2, the AASB decided to require an entity to disclose the sources of its Scope 3 GHG emissions using the 15 categories in the GHG Protocol.
- BC48 ED SR1 proposed not to prescribe specific categories an entity must use to categorise its sources of Scope 3 GHG emissions. Instead, ED SR1 included the 15 categories in the GHG Protocol as examples of categories that an entity could consider when categorising the sources of its emissions.
- BC49 The AASB observed that there was a consensus among stakeholders that the 15 categories in the GHG Protocol are well understood, sufficiently broad, and widely applied by entities in Australia and internationally. Accordingly, the AASB decided to incorporate in AASB S2 the requirements set out in IFRS S2 paragraphs B32–B33 without modification.

⁷ Parliament of Australia, *Australia's trade and investment opportunities in a global green economy*, October 2023, available via https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/RB000034/toc_pdf/Australia'stradeandinvestmentopportunitiesinaglobalgreeneconomy.pdf.

- BC50 The ISSB noted in paragraph BC110 of the Basis for Conclusions to IFRS S2 that the categories included in an entity's Scope 3 measurement will depend on the entity's facts and circumstances. An entity is required to consider the relevance of all 15 categories, but might determine that not all categories are applicable to the entity and therefore do not need to be included in the disclosure of its Scope 3 GHG emissions.
- BC51 Chapter 5 of the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) states that any Scope 3 activities not captured by the 15 categories may be reported separately. Consistent with IFRS S1 paragraphs 15(b) and B26 (incorporated in Appendix D of AASB S2) regarding providing additional information to ensure a fair presentation in the GPFR, an entity separately reports material Scope 3 GHG emissions that are not captured by the activities under the 15 categories in the GHG Protocol.

Reporting Scope 3 GHG emissions using information for a period different from the entity's reporting period

- BC52 The AASB observed that paragraph B19 of the Standard (and IFRS S2) allows an entity to measure its GHG emissions using information for reporting periods that are different from its own reporting period, if certain conditions are met. Therefore, the AASB decided to omit from AASB S2 paragraph AusB39.1 in [draft] ASRS 2 as proposed in ED SR1, which proposed to permit an entity to measure and disclose 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. That proposal was consistent with the Treasury's second consultation paper that Australian Sustainability Reporting Standards were expected to provide additional relief to allow entities to disclose estimates of their Scope 3 GHG emissions relating to any one-year period, up to 12 months prior to the relevant reporting period.
- BC53 There was general support from stakeholders for the flexibility to allow entities to use Scope 3 GHG emission information obtained from its value chain partners for a period that differs from its reporting period in certain circumstances, which is consistent with the provision in paragraph B19 of the Standard (and IFRS S2).

Financed emissions

- BC54 Consistent with IFRS S2, the AASB decided to require entities participating in financial activities of asset management, commercial banking or insurance to provide the additional and specific financed-emission disclosures set out in IFRS S2 paragraphs B61–B63.
- BC55 ED SR1 proposed to require such an entity to consider the applicability of those additional disclosures, rather than requiring disclosure of the financed emission information, to solicit feedback from stakeholders on whether all such financed emission information would be relevant and useful to Australian entities that participate in asset management, commercial banking or insurance activities.
- BC56 Some stakeholders expressed concerns that:
- (a) the requirement in IFRS S2 paragraphs B62 and B63 for an entity to disclose disaggregation of an entity's absolute gross financed emission by Scope 1, 2 and 3 emissions for each industry by asset class could be challenging due to potentially limited availability of value chain data and would create an unnecessary administrative burden for reporting entities; and
 - (b) there is currently no industry standard for calculating financed emissions for undrawn commitments.
- BC57 The AASB acknowledged the stakeholders' concerns described in paragraph BC56 and that more time may be needed for entities to prepare the additional financed emission information. However, the AASB observed that the transition relief provided by paragraph C4(b) for an entity to not disclose its Scope 3 GHG emissions in the first year of applying the Standard means that an entity that participates in financial activities of asset management, commercial banking or insurance is required to prepare the additional financed emission information set out in paragraphs B61–B63 only from the second year of applying AASB S2. Accordingly, the AASB decided that no modification is needed relating to the requirements set out in those IFRS S2 paragraphs.
- BC58 The AASB noted the ISSB confirmed that IFRS S2 requires financed emission disclosure only for insurance-related financial activities associated with an insurer's assets. In other words, IFRS S2 does not require disclosure of the 'associated emissions' of underwriting portfolios in the insurance and reinsurance industries. The AASB also noted that, for all financial activities, the ISSB decided to remove the proposal for an entity to include derivatives when calculating its financed emissions. The AASB adopted the same position as the ISSB for insurance-related financial activities and derivatives.

Other key matters considered by the AASB in developing AASB S2

- BC59 Other key matters considered in developing AASB S2 but for which the AASB decided that no modification or addition to the baseline of IFRS S2 is warranted included:
- (a) whether to specify temperature outcomes for scenario analysis;
 - (b) cross-industry remuneration disclosure;
 - (c) internal carbon prices;
 - (d) definition of carbon credits;
 - (e) carbon offsets and greenhouse gas removals; and
 - (f) superannuation entity application issues.

Whether to specify temperature outcomes for scenario analysis

- BC60 The AASB decided to align with the requirements in IFRS S2 and not prescribe specific temperature outcomes for scenario analysis.
- BC61 Consistent with the Treasury’s second consultation paper, ED SR1 proposed to require assessment 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* (i.e. 1.5°C above pre-industrial levels). Most stakeholders who responded to ED SR1 on this topic supported additional requirements to the baseline of IFRS S2 with respect to scenario analysis, on the basis that any additional requirements would not be a departure from IFRS S2. Specifically:
- (a) most stakeholders supported the proposals in ED SR1;
 - (b) many stakeholders preferred the Standard to also specify a requirement to assess a high-warming scenario to ensure that a high-warming world is considered. Some of those stakeholders preferred the Standard to specify the temperature outcome to assess, but there was no consensus among stakeholders on which high-warming outcome to specify; and
 - (c) some of those stakeholders described in (a) and (b) who preferred the Standard to prescribe temperature outcome(s) also preferred specifying the scenario pathway, or the time horizon, required for each prescribed temperature outcome.
- BC62 The AASB observed that those stakeholder preferences have been addressed by the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024*. That Act specifies the minimum requirements relating to climate scenario analysis, which includes assessing both a high-warming scenario and a low-warming scenario. Subsection 296D(2B) of the Corporations Act (as amended) states that:
- “... disclosure of a scenario analysis, information derived from a scenario analysis or information about a scenario analysis is taken not to satisfy that requirement unless the scenario analysis is carried out using at least both of the following scenarios:
- (a) the increase in the global average temperature well exceeds the increase mentioned in subparagraph 3(a)(i) of the *Climate Change Act 2022*;
 - (b) the increase in the global average temperature is limited to the increase mentioned in subparagraph 3(a)(ii) of that Act.”
- BC63 Subparagraph 3(a)(i) of the Climate Change Act states “... holding the increase in the global average temperature to well below 2°C above pre-industrial levels”, and subparagraph 3(a)(ii) states “... pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.” Paragraph 2.17 of the supplementary Explanatory Memorandum accompanying the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* states that an increase of 2.5°C or higher would be considered to well exceed the increase mentioned in subparagraph 3(a)(i) of the Climate Change Act.
- BC64 The AASB considered whether to specify in AASB S2 the minimum requirements relating to scenario analysis as set out in the legislation. The AASB decided not to do so because:
- (a) AASB S2 sets out the principles for assessing an entity’s climate resilience using scenario analysis. The number of relevant scenarios to assess 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 (see paragraphs BC66–BC69 of the Basis for Conclusions to IFRS S2). It is not the role of the Standard to prescribe specific temperature outcomes for scenario analysis; and
 - (b) prescribing specific temperature outcomes in AASB S2 would require future amendments to ensure the prescribed temperature outcomes remained consistent with Australian legislation.

Cross-industry remuneration disclosure

- BC65 The AASB decided to align with the requirements in IFRS S2 with respect to cross-industry remuneration disclosure.
- BC66 Some stakeholders commented that:
- (a) the degree of interpretative uncertainty relating to the terms ‘executive’, ‘executive management’ and ‘remuneration’ is unlikely to be sufficiently significant to warrant modification from the baseline of IFRS S2. Consequently, the AASB decided to omit paragraph Aus29.1 proposed in [draft] ASRS 2 that referred to the ‘key management personnel’ and ‘compensation’ definitions in AASB 124 *Related Party Disclosures*; and
 - (b) there may be challenges in calculating the percentage of remuneration linked to climate-related considerations based on remuneration recognised under Accounting Standards. The AASB determined that any challenges identified by stakeholders in applying the requirements set out in paragraph 29(g) of IFRS S2 do not represent matters specific to the Australian environment that would warrant departure from the baseline of IFRS S2 in accordance with the *AASB Sustainability Reporting Standard-Setting Framework* (September 2023).
- BC67 Additionally, some stakeholders commented that information prepared under the requirements set out in paragraph 29(g) of IFRS S2, on a standalone basis, might appear out of context relative to the existing remuneration disclosure requirements set out in Australian legislation for ASX-listed and APRA-regulated entities. The AASB observed that under paragraph 63 of IFRS S1, entities (including ASX-listed entities and APRA-regulated entities) are permitted to disclose information required under paragraph 29(g) of AASB S2 by cross-referencing to their remuneration reports, if the conditions in paragraphs B45–B47 of IFRS S1 are met. The AASB decided to incorporate those IFRS S1 paragraphs in Appendix D of AASB S2.

Internal carbon prices

- BC68 Paragraph 29(f) requires an entity to disclose the following information:
- (a) 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
 - (b) the price for each metric tonne of greenhouse gas emissions the entity uses to assess the costs of its greenhouse gas emissions.
- BC69 Some stakeholders commented that the internal carbon price adopted by an entity is commercially sensitive. They commented that, in the energy sector, mandatory disclosure of this information could give competitors valuable insight into the cost structures, operational efficiencies and strategic decision making (including risk management) of the entity.
- BC70 The AASB noted that paragraphs 73 and B34–B37 of IFRS S1 relieve an entity from disclosing information about a sustainability-related opportunity that is commercially sensitive. The AASB decided to incorporate those IFRS S1 paragraphs in Appendix D.

Definition of carbon credits

- BC71 The AASB decided to align with the IFRS S2 definition of carbon credits with no modification.
- BC72 ED SR1 proposed to amend the definition of carbon credits to include an explicit reference to the Australian Carbon Credit Unit (ACCU) Scheme. The AASB considered stakeholder feedback and observed that modifying the definition of carbon credits could have the unintended consequences of:
- (a) implying that all emission units recognised under the ACCU Scheme are not ‘carbon credits’ under IFRS S2, and that other Australian domestic emission units (e.g. Safeguard Mechanism credit units) should be treated differently from ACCUs in the context of reporting net GHG emission targets;
 - (b) reducing an entity’s application of judgement regarding which offsetting measures meet the carbon credit definition; and
 - (c) reducing the ability of the Standard to accommodate the future development of any new emission offset programs if the ACCU Scheme is specifically included in the definition of carbon credits.

Carbon offsets and greenhouse gas removals

- BC73 Some stakeholders commented that IFRS S2 specifies the disclosure requirements about carbon credits (in paragraph 36(e)) but is unclear about the reporting requirements relating to carbon offsets and GHG removals.

IFRS S2 paragraph B68 establishes the principle that net GHG emissions targets are the entity's targeted gross GHG emissions minus any planned offsetting efforts. The AASB is of the view that when reporting net GHG emissions targets an entity could include the effects of any material carbon credits, carbon offsets and GHG removals.

- BC74 In accordance with IFRS S1 paragraphs 15(b) and B26 (incorporated in Appendix D of AASB S2) regarding providing additional information to ensure a fair presentation in the GPFR, to meet the disclosure objective related to metrics and targets the AASB is of the view that where information about carbon offsets or GHG removals is material, an entity would be required to disclose sufficient information about these offsetting efforts to enable users of GPFR to understand progress towards any climate-related targets.

Superannuation entity application issues

- BC75 The AASB did not identify any superannuation-specific issues that would warrant modifications to the requirements set out in IFRS S2.
- BC76 Some stakeholders raised concerns about the costs that might be incurred by superannuation funds to prepare climate-related financial disclosures and commented that there are multiple entities associated with the operation of a superannuation fund. They requested the AASB to clarify which entities related to operating a superannuation fund would be within the scope of AASB S2. The AASB observed that this issue is not unique to the superannuation industry and is relevant also to any collective managed investment vehicle. IFRS S1 paragraph 20 (incorporated in Appendix D as paragraph Aus20.1) states that an entity's sustainability-related disclosures shall be for the same reporting entity as the related financial statements. Accordingly, entities subject to climate-related disclosure requirements should be the same as those to which AASB 1056 *Superannuation Entities* applies. The Basis for Conclusions to AASB 1056 (paragraphs BC23–BC41) discusses the reporting entity concept and superannuation entities.
- BC77 Many stakeholders who responded to this topic also commented that the users of GPFR of a superannuation entity, as described in paragraph BC12 of the Basis for Conclusions to AASB 1056, are broader than the users of GPFR defined in Appendix A of IFRS S2. Most of these stakeholders indicated that the differences could lead to different climate-related disclosure requirements for superannuation entities compared with other types of entities. Some stakeholders indicated that the reporting requirements for superannuation entities should be calibrated to generate information that would be useful to the average member of a superannuation fund.
- BC78 In contrast, some other stakeholders commented that there are no superannuation entity-specific challenges associated with the requirements set out in IFRS S1 and IFRS S2. They commented that superannuation entities are no different from other types of entities that make investments as a profit-making activity, including insurers, and the same climate-related disclosure requirements should apply to such investment activities regardless of the entity type.

Public sector application issues

- BC79 The AASB does not have the authority to mandate which entities are required to comply with AASB S2. In respect to public sector entities, the relevant authority in each jurisdiction in Australia will decide which, if any, of their public sector entities would need to comply with all or some of the requirements set out in AASB S2.
- BC80 The AASB is aware that the Treasury/Finance Departments and the Offices of Local Government in a few jurisdictions are planning to develop climate-related financial disclosure requirements for their public sector entities based on AASB S2. Similar to the feedback on ED SR1, some AASB members were concerned that AASB S2 might not be suitable for application by not-for-profit public sector entities without further modification, noting differences in the governance structure, objectives and functions of such entities compared to private sector entities. For example, there are public-sector-specific implications associated with the application of AASB S2, including:
- (a) the appropriate identification of the reporting entity and the subsequent level of reporting (e.g. whole of state, whole of government or individual agencies); and
 - (b) how to determine the value chain of a government and public sector entities with multi-stakeholder groups.
- BC81 The feedback received by the AASB from Australian stakeholders on the IPSASB Consultation Paper *Advancing Public Sector Sustainability Reporting* (May 2022) indicated their preference for the Australian reporting requirements to align with any future global public-sector-specific sustainability reporting guidance. The IPSASB is undertaking its own Climate-related Disclosures project to develop a Standard that would provide not-for-profit public-sector-specific guidance on climate-related disclosures.

- BC82 In accordance with the *AASB Sustainability Reporting Standard-Setting Framework*, the AASB added a project to its workplan to consider whether modifications to AASB S2 or guidance would need to be developed for Australian not-for-profit public sector entities. The AASB decided that the project would begin by considering the forthcoming IPSASB Exposure Draft on climate-related disclosures, which is expected to be published in October 2024.

Scalability and cost-benefit considerations for not-for-profit and smaller entities

- BC83 The AASB noted scalability and cost-benefit concerns raised by stakeholders representing not-for-profit private and public sector entities and smaller entities (large proprietary companies) that would be required to comply with AASB S2 under the phase-in requirements of the Corporations Act amendments. Some of those stakeholders commented that:
- (a) the proportionality mechanisms in the baseline of IFRS S2 are insufficient to address scalability and cost-benefit concerns for not-for-profit entities and smaller entities in Australia; and
 - (b) the level of education and upskilling required by preparers in order to implement the proposed Standards, including involving external consultants or specialists, would be expensive, require significant time and investment, and be potentially cost-prohibitive for not-for-profit entities and smaller unlisted entities.
- BC84 The AASB observed that the areas of concern mainly related to the requirements to measure Scope 3 GHG emissions and to undertake climate-related scenario analysis, which are specifically mentioned in the Corporations Act amendments. The AASB decided to undertake a project to explore potential solutions for addressing scalability and cost-benefit concerns for not-for-profit entities and smaller entities.

Impact analysis

- BC85 The AASB issued AASB S2 to support the Australian legislation (as outlined in the Corporations Act amendments) that requires large businesses and financial institutions to prepare climate-related financial disclosures. The AASB has been advised by the Office of Impact Analysis that the AASB does not need to undertake an Impact Analysis for the mandatory climate-related disclosure Standard on the basis that the regulatory impact has already been calculated by the Treasury in relation to the proposed legislative amendments and assessed by the OIA (refer OIA, Published Impact Analysis “Climate risk disclosure”, January 2024).
- BC86 As described in paragraphs BC79–BC84, some AASB members have concerns that some public sector application issues have not yet been addressed and the benefits of applying AASB S2 may not exceed the costs for some entities. However, they note that these issues will be considered in the future AASB projects described in paragraphs BC82 and BC84, and AASB S2 will be the subject of a post-implementation review which will commence shortly after entities begin application.
- BC87 Furthermore, the AASB notes that the Australian Government will conduct a review of climate disclosure requirements in 2028–29. The Treasury Policy Position Statement *Mandatory climate-related financial disclosures* (January 2024) states that the Australian Government will conduct a review of climate disclosure requirements in 2028–29. The review will be led by Treasury, working with the Council of Financial Regulators. At a minimum, the review will examine the effectiveness of coverage settings (particularly the approach to Group 3 entities), appropriateness of the liability framework and whether there are any other barriers that may be affecting a company’s ability to make quality disclosures, including data availability, and supporting materials.

Effective date

- BC88 The financial period in which an entity is first required to apply AASB S2 is specified in the Corporations Act as amended by the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024*. It specifies three application dates (financial years beginning on or after 1 January 2025, 1 July 2026 and 1 July 2027) for the various classes of entity, based on entity size or, for NGER reporters, on level of emissions.
- BC89 To support the Corporations Act requirements, AASB S2 has an effective date of annual reporting periods beginning on or after 1 January 2025. However, entities required to comply with the Standard follow their application date as set out in the legislation. Earlier application is permitted.

Dissenting view

Dissent of Caroline Spencer

- DV1 I consider the AASB did what was necessary in the circumstances to develop AASB S2 to support the Australian Government's decision to require certain large businesses and financial institutions to prepare climate-related financial disclosures in annual reporting periods beginning on or after 1 January 2025. However, given this internationally-aligned Standard is developed based on IFRS S1 and IFRS S2, which have been designed for larger for-profit entities to meet their investors' needs, I am not confident that application to smaller and not-for-profit entities in the private and public sectors meets the threshold for my support as an AASB Board member, of being in 'the best interests of the private and public sectors in the Australian economy'.
- DV2 In particular, I have concerns around the cost, the usefulness and the auditability of these reporting requirements. As far as I can discern, they have never been fully implemented or audited anywhere in the world, even for the largest reporting entities.
- DV3 I am particularly concerned about the cost relative to benefit overall for smaller and not-for-profit entities in the private and public sectors, while recognising that identifying which entities are required to apply AASB S2 is beyond the role of the AASB.
- DV4 I also have strong concerns around the requirements to disclose Scope 3 greenhouse gas emissions when the concepts of reporting entity control, as well as verifiability and usefulness to report users regarding allocating scarce resources to an entity and across entities, are not established in my view. My concerns in this regard are heightened for smaller and not-for-profit entities in the private and public sectors.
- DV5 While AASB S2 contains some useful terminology and concepts, most of Australia's significant financial impacts of climate-related physical and transition risks, opportunities and resilience, are (and will be) evident through existing corporate reporting and analysis mechanisms. Moreover, Australia's large energy producers, consumers and greenhouse gas emitters are already captured through mandatory National Greenhouse and Energy Reporting Scheme obligations.
- DV6 A further consideration for adoption of AASB S2 in the public sector is its different role and obligations in relation to climate-related financial risk. The public sector often acts as both the emergency first responder and the funder of last resort when adverse events occur in the community. The complexity of the circumstances and multitude of drivers of adversity response and recovery decisions, and therefore financial impacts, cannot be reliably estimated on a whole of jurisdiction scale – therefore, I do not consider they could sensibly fit within the requirements set out in AASB S2.
- DV7 Sustainability reporting as required by the recent Corporations Act amendments and specified in AASB S2 represents a profound shift and cost escalation in Australian corporate reporting. However, the practical benefits of mandatory reporting in accordance with AASB S2 for users and the Australian financial system and environment have not yet been demonstrated or clearly articulated. When combined with acute shortages in reporting and auditing capability and capacity, which particularly affect smaller and not-for-profit entities in the private and public sectors, implementation of AASB S2 is, in my view, unworkable.