

5 June 2025

The Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007
Australia

By email: standard@asb.gov.au

Dear Chair

RE: ED SR2: Proposed Amendments to AASB S2 re financed emissions

Introduction

The Financial Services Council (**FSC**) welcomes the opportunity to provide feedback on Exposure Draft SR2 (the **proposal**).

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services.

Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, financial advice licensees and investment platforms. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses. The financial services industry is responsible for investing more than \$3 trillion on behalf of over 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange, and is one of the largest pools of managed funds in the world.

The FSC supports the proposed amendments on exempting derivatives from Scope 3 emissions and considers that relief should be extended to other categories for which there is no clear methodology, such as sovereign emissions. In addition, we propose minor changes to ensure the proposed amendments are aligned with global standards and maximise interoperability.

Comments on the proposal

Question 1(a)

We agree with the proposed amendments because there is no agreed upon methodology for estimating emissions associated with derivatives, nor is the emergence of such a methodology expected in the near term given the particular challenges for such instruments, such as:

- In some cases the derivative market might be substantially larger than the underlying, and frequently the same underlying asset will be covered by multiple types of derivatives in multiple different markets – including options whose theoretical exposure continually

changes, and instruments where the exposures may actually be negative.

- It is not readily knowable what the total derivatives on issue across the market are, the net position, and which instruments to attribute emissions to across that, and other interests in the same assets.

The FSC also notes that in addition to derivatives, the proposed approach should be broadened to include all assets for which the Partnership for Carbon Accounting Financials does not issue explicit guidance on methods to calculate financed emissions, e.g. sovereign emissions.

Question 1(b)

The FSC supports the proposed disclosure requirements detailed in paragraph 29A(b). However, the FSC would propose the following edits to support the application of these requirements:

1. The use of both terms “amount” and “magnitude” in paragraph 29A(b) may create confusion. To address this, the FSC would propose the following edit to paragraph 29A(b) (strike through reflects proposed deletion; ***bold italics*** reflects proposed additions):

“an entity shall disclose information that enables users of general purpose financial reports to understand ~~the magnitude of the derivatives and financial activities associated with the~~ ***an exclusion from the*** entity’s ***disclosure of*** Scope 3 Category 15 greenhouse gas emissions that are ~~excluded~~ ***adopted*** in accordance with paragraph 29A(a). Specifically, the entity shall disclose:...”

2. It is unclear whether the disclosure requirement proposed in paragraph 29A(b)(i) applies only to entities that exclude from their disclosure of greenhouse gas emissions all derivative positions, or whether it also applies to entities that disclose greenhouse gas emissions associated with a subset of their derivative positions. To address this point substantively, the FSC would propose an addition to paragraph 29A(b)(i) as follows (addition in ***bold italics***):

“...the amount of derivatives it excluded and an explanation of what it treats as derivatives for the purposes of limiting its disclosure of Scope 3 Category 15 greenhouse gas emissions. ***Where an entity elects to disclose greenhouse gas emissions for a subset of its derivatives, it shall also disclose that fact and confirm the rationale and methodology for doing so.***”

An equivalent edit could be reflected in 29A(b)(ii) in relation to other financial activities.

We also consider that entities should disclose what is excluded from reporting, however we suggest that rather than disclosing only the “magnitude” or “amount” of the activities for which emissions are excluded, it would be more meaningful for reporting entities to disclose the asset classes covered by the derivatives which are being excluded and for financial activities excluded a disaggregation by sector in addition to the total amount.

We acknowledge that IFRS S1 paragraph B29 already requires entities to apply appropriate aggregation and disaggregation principles to ensure information is not obscured. Therefore, rather than introducing a new disaggregation requirement specific to exclusions, it may be more appropriate to cross-reference IFRS S1 paragraph B29. This would reinforce the principle-based approach and avoid creating inconsistencies or unnecessary complexity in the disclosure framework.

Question 2

The FSC agrees that reporting entities’ approach to disclosing scope 3 financed emissions should

be based on the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol)* and that flexibility should be provided to organisations to leverage classification systems other than the *Global Industry Classification Standard (GICS)*, provided they disclose the framework and classifications it is relying upon.

Question 3

The FSC agrees with the proposal and notes that many global asset managers currently use the GHG Protocol as the basis for measuring and disclosing GHG emissions. However, we recognise that regulatory frameworks are evolving rapidly, and some jurisdictions may introduce local GHG accounting methodologies that differ from the GHG Protocol. We note that it is important to maximise interoperability between different local rules, but we consider this amendment provides useful flexibility and clarity for global funds: it would help avoid duplicative reporting and reduce implementation complexity and cost, particularly where subsidiaries or operations are subject to local requirements.

Question 4

The FSC supports the proposed amendment to extend jurisdictional relief to allow the use of global warming potential values other than those from the latest IPCC assessment, where required by a jurisdictional authority or stock exchange. The FSC notes that many global asset managers navigate a variety of jurisdictions and have to manage evolving local regulatory requirements. While we support maximising interoperability, we consider this amendment provides potentially helpful flexibility and would reduce the risk of duplicative or inconsistent reporting.

Question 5

The FSC agrees with the proposal and supports the earliest possible commencement date in Australia, noting that the regime has already commenced operation in this jurisdiction.

Other comments

The FSC queries whether AASB S2 should also be amended at paragraph B61 to reflect proposed changes made elsewhere in relation to asset managers.

Conclusion and next steps

The FSC appreciates the opportunity to contribute to this consultation and looks forward to continued engagement with the AASB. We would welcome the opportunity to meet with you or your team to discuss these issues in more detail and explore how we can work together to achieve these goals.

To arrange a meeting, please contact Jack Morgan, Policy Director – Investment and Funds Management at jmorgan@fsc.org.au.

Yours sincerely

Jack Morgan

Policy Director – Investments & Funds Management