Climate Governance Initiative Australia

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FACT SHEET 2: How is mandatory reporting an uplift from the TCFD?

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AASB S2, Australia's climate-related disclosures mandatory standard, is an adaptation of the International Sustainability Standards Board (ISSB) climate standard, IFRS S2. It builds on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations by elaborating on definitions and concepts, and by adding more granularity to disclosure requirements.

Although AASB S2 is built on the TCFD, and therefore organisations already doing some level of TCFD reporting will have a head start, it is expected there will be a significant uplift in disclosure for most entities transitioning from TCFD to AASB S2 reporting.

For a start, while the TCFD is built on 11 core recommendations, the core content of AASB S2 has 37 paragraphs of disclosure requirements with over 100 specific disclosures.

The gap between reporting under the core TCFD recommendations and under AASB S2 will likely be amplified because the TCFD has been historically voluntary for Australian organisations. In practice, this has resulted in many Australian organisations only choosing to disclose in certain TCFD areas.

Since TCFD emerged in 2017, there has been steady uptake of Australian organisations adopting it as the basis of their climate reporting, increasing from approximately 30 per cent of ASX 200 in 2019 to 69.5 per cent of the ASX 200 in 2023.[1]

However, the quality and comprehensiveness of this disclosure has been patchy and inconsistent – of the 88 per cent of ASX 100 companies that acknowledge climate change as a business risk, only eight per cent model potential impacts using scenario analysis and just one per cent provides financial quantification of potential impacts.[2]

This has led investors, such as those represented by ACSI to note: "Even where companies are fully aligned to the TCFD framework there is a broad range of quality (depth of analysis, comparability, scientific and externally referable methodologies and climate models) and transparency of disclosures (both qualitative and quantitative)."[3] ACSI further adds that: "Some companies provide high-level, generic risk assessments, whereas others provide detailed assessments of their exposure to climate change across their operations, business demand and supply chains, and responses to manage the risk."[4]

1 ACSI (July 2024) Promises, Pathways & Performance: Climate Change Disclosure in the ASX200 at page 7.
2 KPMG (June 2023) Status of Australian Sustainability Reporting Trends – June 2023 Update at page 4.
3 ACSI (July 2024) Promises, Pathways & Performance – Climate Change Disclosure in the ASX200 at page 8.
4 Ibid (n 3).

Further, climate disclosure across the entirety of the listed entity sector (rather than ASX 200), remains relatively low – less than half (42.8 per cent) of listed entities disclosed climate-related information in their FY2022 annual reports, with only 10.5 per cent referencing the TCFD recommendations and only 3.4 per cent disclosing in accordance with the four TCFD pillars.[5]

Further, on 8 September 2023, CDP (formerly the Carbon Disclosure Project), the Investor Group on Climate Change (IGCC) and UN-supported Principles for Responsible Investment (PRI) issued a joint statement stating that 'most' company transition plans were incomplete or inadequate for investor needs (based on analysis of 183 Australian companies).

The **table on page 3 of this Fact Sheet** summarises some of the key areas in which AASB S2 represents a step up in disclosures relative to that of the core TCFD recommendations.

Please note that this table is not intended to be a summary of all the requirements of AASB S2, nor a comparison against TCFD Guidance (which is more comprehensive than the core TCFD recommendations). Rather, the table focuses on the areas in which AASB S2 extends and builds on the TCFD recommendations. We do so in recognition of the fact that many Australian corporates currently disclose on a 'TCFD-lite' basis. We note that the TCFD's 2017 and 2021 implementation guidance recommends the making of more detailed and granular disclosures, some of which are now mandated by AASB S2.

5 Jean You and Professor Roger Simnett (November 2023) AUASB and AASB Joint Research Report into Trends in climate-related disclosures and assurance in the Annual Reports of ASX-listed entities at page 20.

Topic	TCFD core recommendations	AASB S2
Governance	**General** recommendations to: • Disclose board oversight of climate-related risk and opportunities. • Disclose management's role in assessing climate-related risks and opportunities.	**Specifically** requires more detailed information of board governance and oversight including: • The identity of the body or individual responsible. • How that body's responsibilities are reflected in their role description, mandates or terms of reference. • Whether that body has considered trade-offs associated with climate risks and opportunities.
Strategy	**General** recommendations to: • Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	**Specifically** requires: • Entities to describe: – the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects; – whether each risk is a physical or transition risk; – over which time horizons the effects of each risk or opportunity could reasonably be expected to occur; – how short, medium and long term have been defined; and – how these time horizons are linked to broader organisational strategic decision-making time horizons. • Disclosure of where, in the organisation's business model and value chain, climate-related risks and opportunities are concentrated, such as geography, facilities, types of assets, inputs, outputs or distribution chains.
	General recommendations to: • Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.	**Specifically** requires disclosures of: • Any transition plans and processes in place to review transition plans, including information about key assumptions, specific actions taken towards decarbonisation, and quantitative information about progress. • Quantitative current and anticipated financial effects of climate-related risks and opportunities, including expected changes to financial position, performance (including the relevant time horizon) and future cash flows over time, including access to finance, cost of capital, financing or investment deployed towards climate-related risks and opportunities. • The climate-related risks and opportunities for which there is a significant risk of material adjustments to the carrying amount of assets and liabilities in the next annual reporting period. • Qualitative (rather than quantitative) information is permitted only in certain circumstances. • The current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain.

Topic	TCFD core recommendations	AASB S2
Strategy (cont)	**General** recommendations to: • Describe the resilience of the organisation's strategy, taking into consideration different climate scenarios, include a 2°C or lower scenario.	**Specifically** requires disclosures of: • As part of resilience assessment, the details of how and when climate scenario analysis was carried out. • Significant areas of uncertainty relating to strategy, resilience and the entity's capacity to adjust and adapt its strategy and business model over time. • The Climate Reporting Legislation requires entities to undertake a minimum of two scenarios – one consistent with 1.5°C warming and one which 'well exceeds' 2°C and to disclose under at least two of the mandatory climate scenarios.[6] • Specific additional disclosure and key assumptions relating to the entity's scenario analysis including: – Did the analysis include a diverse range of scenarios? – Are the scenarios associated with physical or transition risk? – Why are the selected scenarios relevant to the entity? – What is the scope of operations used in the analysis? – What assumptions are made about the climate policies of the particular jurisdiction? – What are the key macroeconomic trends, and what impact do they have on the scenario analysis? – What are the relevant variables, such as weather patterns, demographics, land use, infrastructure and availability of resources? – What are the key assumptions as to energy use and mix?
Risk management	**General** recommendations to: • Describe the process for identifying, assessing and managing climate-related risks. • Describe how climate-related risk processes are integrated into the organisation's overall risk management framework.	**Specifically** requires disclosure of: • Processes used to identify, assess, prioritise and monitor climate-related risks and opportunities. • Inputs and parameters used to identify climate-related risks (e.g. data sources, the scope of operations covered and detail used in assumptions). • Use of scenario analysis to inform its identification of climate-related opportunities. • Any changes in an organisation's risk management processes compared to the prior reporting period. • Extent to which, and how, climate risk management is integrated into the organisation's overall risk management process.

6 This is different from IFRS S2, which does not specify the number or type of scenarios to be used (but does require disclosure of whether the entity uses a scenario aligned with the latest international agreement on climate change).

Topic	TCFD core recommendations	AASB S2
Metrics & targets	**General** recommendations to: • Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes.	**Specifically** requires disclosure of: • All the metrics from the TCFD 2021 guidance, which include: – The percentage of executive management remuneration linked to climate-related considerations. – Internal carbon prices (see **Fact Sheet 4**). – The amount and percentage of assets or business activities currently vulnerable to physical and transition risk, and aligned with climate-related opportunities. – The amount of capital, financing or investment deployed towards climate-related risks and opportunities. • Any transition plans and climate-related targets (including details on the use of offsets), processes in place to review transition plans, and quantitative information about progress of transition plans. • How the the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target. • Whether the climate target has been validated by a third party, and whether it has been derived using a sectoral decarbonisation approach.
	General recommendations to: • Disclose scope 1, scope 2, and if appropriate, scope 3 emissions.	**Specifically** requires disclosure of: • Scope 1 and 2 emissions disclosed separately for: – the consolidated accounting group; and – associates, joint ventures and unconsolidated subsidiaries not included in the accounting group. • Scope 2 emissions using a location-based approach. • Scope 3 emissions (but only from the second reporting year), including the upstream and downstream categories in accordance with the GHG protocol as well as the measurement approach, inputs and assumptions used in measuring scope 3 emissions. • Financed emissions[7] for those with asset management, commercial banking or insurance activities (but only from the second reporting year).
	General recommendations to: • Disclose the targets used by organisations to manage climate-related risks and opportunities.	**Specifically** requires disclosure of: • Granular information on climate-related targets set and how the organisation plans to achieve the targets that have been set. • Whether any climate-related target is informed by the latest international agreements, including the Paris Agreement. • Whether any target has been validated by a third party. • Approach to setting, calculating and reviewing targets (if set), how it monitors progress against targets and whether the target is derived using a sectoral decarbonisation approach.[8] • Explicit requirements for disclosure of any target (such as which GHG emissions are covered, if the targets include scope 1, 2 or 3 and whether it is a gross or net target), as well as details relating to the expected use of carbon offsets to achieve these targets.

7 Financed emissions are the indirect GHG emissions attributable to financial institutions due to their involvement in providing capital or financing to the original emitter.

8 Sectoral Decarbonisation Approach (SDA) is a scientifically informed method for companies to set GHG reduction targets necessary to stay within a 2°C temperature rise above pre-industrial levels.

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