

27 June 2025

International Sustainability Standards Board (ISSB)

Submitted online



## **Proposed amendments to IFRS S2**

The Australian Financial Markets Association (AFMA) is the peak industry body for Australia's financial markets industry – including the capital, credit, derivatives, foreign exchange, and other specialist markets. AFMA represents more than 130 industry participants from Australian and international banks, leading brokers, securities companies, government treasury corporations to asset managers, energy firms, and industry service providers. AFMA is Australia's primary body that directly represents the majority of entities that trade and use derivatives and other over the counter (OTC) financial products and the vast majority of our members are reporting entities; therefore, AFMA is well placed to provide feedback and experiences of the material challenges of impacted entities.

AFMA is supportive of climate disclosures and has worked closely with both industry and the Australian Government to implement the regime domestically. As the ISSB will be aware, the Australian standards closely aligned with IFRS S2 and the reporting regime locally began for large entities in January 2025, capturing the majority of AFMA members.

AFMA welcomes the initiative taken by the ISSB to amend IFRS S2 having taken on board market feedback. AFMA supports the pragmatic amendments proposed by the ISSB and provides further feedback below.

### **1. Measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions**

AFMA supports the ISSB's proposals to provide relief to financial institutions on the measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions. As the ISSB know, and have pleasingly sought to address, Scope 3 data, measurement, and disclosure challenges are posing significant material difficulties and obstacles for the sector. AFMA agrees that this relief will address the significant application challenges and reduce the burden and costs of reporting, for entities.

Whilst AFMA supports the proposal to allow entities to exclude absolute facilitated emissions from Scope 3 Category 15 disclosures, we are not supportive of the requirement to disclose the magnitude of facilitated activity; it is not decision useful, not supported by investor demand and undermines the exclusion the amendment is intended to provide. There are four key reasons below:

- Absolute facilitated emissions disclosure is not meaningful to investors, disclosing the magnitude of facilitated activity would equally lack value to investors in the context of understanding a bank's Scope 3 emissions disclosure.
- Financial institutions generally do not track facilitated transactions in a way that aligns with absolute facilitated emissions reporting. Notional values are off-balance sheet, fee income is not linked to emissions outcomes, and attribution across complex, multi-entity structures is difficult.
- For many banks, disclosing this information would require new systems and significant judgment, with limited comparability or value to users.
- Importantly, under the original IFRS S2 standards, preparers could reasonably interpret absolute facilitated emissions as out of scope based on the Basis for Conclusions. The

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proposed amendment would not require entities to quantify and disclose the related activity if excluded – introducing a new obligation without a clear investor need or standard methodology to support it.

Therefore, the goal of the amendment is to reduce complexity and improve implementation of S2. Requiring entities to quantify excluded facilitated activities – without a clear investor use case – runs counter to that objective. We recommend the ISSB remove paragraph 29A(b)(ii) and allow entities to exclude facilitated emissions from their Scope 3 disclosures without being required to quantify the associated activity.

AFMA is also concerned this could increase entities' reporting burden and legal risk. AFMA is concerned that reporting the amount in such a broad manner with little defence without creating the challenges this amendment seeks to avoid, leaves an entity vulnerable to public challenges from regulators and activist groups; particularly once the 'safe harbour' or 'transitional arrangements' in place in Australia and many other jurisdictions, end. AFMA believes this will create legal and compliance concerns for many entities, particularly with regard to civil litigation risk. AFMA does not see a clear benefit but does foresee material risk in proceeding with this proposal.

AFMA also seeks to clarify that "loans and investments" in paragraph 29A(a) refers to activity captured on the balance sheet ~OR~ on balance sheet exposure only, to avoid confusion with facilitated capital markets activity involving similar instruments (e.g., bonds or equities).

AFMA appreciates the ISSB's desire not to themselves define a derivative. It is also too vague for entities to make this judgement for themselves. Therefore, AFMA recommends that the ISSB stipulate that each jurisdiction who broadly adopt IFRS S2 should adopt the legal definition of a derivative in their own jurisdiction.

## **2. Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions;**

### **Jurisdictional relief from using the GHG Protocol Corporate Standard;**

### **Applicability of jurisdictional relief for global warming potential values**

As the ISSB has expressed, when a jurisdiction has its own standards but they are based on ISSB standards, they should maintain consistency to make reporting more straightforward for preparers to report on an efficient basis and to ensure the global baseline is maintained. Convergences from the ISSB standards on a jurisdictional basis creates significant burden, associated costs, and material challenges for local subsidiaries of foreign entities. On this basis, AFMA would encourage the ISSB to stipulate that local subsidiaries of foreign entities who's global or Head Office jurisdiction broadly align with IFRS S2, should prepare the sustainability report in the Head Office jurisdiction as is the case with foreign branches. The need for jurisdictional reliefs would be reduced if the ISSB expressly permits this. AFMA believes it is most appropriate that local subsidiaries should rely upon the report prepared by the Home Office of a global firm.

AFMA views limiting the duplication of reporting for an entity as critical to not only reducing burden on industry but to safeguard harmonisation of reporting. While an organisation may be a large global firm, locally where they are currently compelled to produce their own separate report, their local operations may be of quite a smaller scale.

### **2.1. Use of industry classification systems for financed emissions**

We support introducing flexibility in how entities classify counterparties when disclosing financed emissions, however, recommend the ISSB should allow entities to use any widely accepted industry

classification system, not only those required by jurisdiction. This reflects actual market practice and aligns with recommendations from the UK TAC.

## **2.2. Use of different GHG measurement method**

We are concerned this amendment could lead to jurisdictional divergence in GHG measurement methodologies, which would undermine consistency and comparability.

We recognize the attempt to accommodate jurisdictions that may wish to use GHG accounting methodologies other than GHG Protocol and we understand that the ISSB cannot prevent jurisdictions from mandating alternative approaches. However, we are concerned that this amendment could open the door to significant jurisdictional divergence in GHG measurement methodologies, which would undermine consistency and comparability.

While we agree it is important to acknowledge jurisdictional flexibility, we believe the proliferation of different accounting methodologies across markets would create challenges for users, preparers, and assurance providers, particularly for multinational reporters.

We encourage the ISSB to consider adding guidance or implementation support that recommends jurisdictions clearly explain how alternative methodologies align with the objectives and principles of IFRS S2.

## **2.3. Jurisdictional optionality for Global Warming Potential (GWP) values**

We understand the ISSB's rationale for permitting the use of alternative GWP values where required by a jurisdictional authority or exchange, we recognise that this may be necessary in some cases to align with local requirements.

That said, the use of different GWP time horizons across jurisdictions would risk undermining consistency and comparability in disclosures. The 100-year GWP baseline remains broadly accepted for now, but we acknowledge this could evolve – particularly if policymakers or market participants begin shifting towards shorter horizons, such as the 20-year values.

We encourage the ISSB to monitor developments closely and consider whether future guidance may be needed.

## **3. Effective date**

AFMA supports the ISSB's intent to set the effective date as early as possible and to permit early application.

In the Australian context, most Australian entities will be required to lodge their reports for the first time by 31 March 2026. Therefore, AFMA would appreciate swift ratification of the amendments and a clear statement from the ISSB that jurisdictions broadly aligned with the ISSB standards should be permitted by their jurisdictional standard setter and regulatory body, to apply these amended standards early. This will minimise unnecessary reporting burden and costs associated, on industry.

## **4. Other comments**

### **4.1. REPOs, Reverse REPOs, and Options**

AFMA also raises its concerns regarding the lack of guidance regarding the treatment for high frequency trading. There are a number of financial products and instruments trading of which does not and should not make sense with the logic for reporting. The ISSB standards emphasise the principle

of materiality. Both repurchasing and reverse repurchasing agreements are not considered a derivative, nor are they material in terms of their impact on an entity's climate-related risks or opportunities due to their nature. Without clarification from the ISSB, it is unclear whether they should be included in a sustainability report. The market would benefit clarification by the ISSB that certain products like Repos, Reverse Repos and Options are not caught.

Similarly, for some mandates, derivatives form a material portion and for others they are immaterial. Therefore, a materiality threshold will introduce inconsistencies in the treatment of the same derivative instrument across different mandates and should a split definition of derivatives be established. A simple to apply methodology is sought. At the same time, AFMA understands from its membership that there is very little data available for providers relating to emissions data. AFMA is supportive of fulsome sustainability reporting, but we believe requirements placed upon in scope entities should be achievable, measured and globally consistent. AFMA encourages the ISSB to clarify what is in and what is out for all types of derivatives and other financial instruments in IFRS S2.

#### **4.2. Scenario analysis**

AFMA appreciates that at the time of writing IFRS S2, a 1.5-degree scenario was appropriate. However, for sake of futureproofing and while other amendments are being prepared, AFMA questions the current relevance of the 1.5-degree scenario. As the ISSB will be aware, there is the potential that this threshold will shortly be reached.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact Monica Young at [myoung@afma.com.au](mailto:myoung@afma.com.au).

Yours sincerely,



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**Policy Manager**