ISSB Meeting

Date	**October 2022**
Project	**General Sustainability-related Disclosures and Climate-related Disclosures**
Topic	**Interoperability—key matters**
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Objective

1. In March 2022 the International Sustainability Standards Board (ISSB) published its first two proposed IFRS Sustainability Disclosure Standards—[draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) and [draft] IFRS S2 *Climate-related Disclosures* ([draft] S2). The comment period for those exposure drafts ended in July 2022, and the ISSB began its redeliberations in September 2022. The draft Standards were designed to provide a global baseline of disclosures to meet the needs of capital markets. The ISSB acknowledged that while IFRS Sustainability Disclosure Standards are intended to meet the needs of users of general-purpose financial statements they can be supplemented with information that meets the information needs of other stakeholders, if necessary.

2. In addition to the ISSB some jurisdictions are also working to establish sustainability disclosure standards – this includes work being undertaken in Europe and in the United States. In April 2022, the European Financial Reporting Advisory Group (EFRAG) launched a public consultation on proposed European Sustainability Reporting Standards (ESRS), with a comment period ending in August 2022. The EFRAG Sustainability Reporting Board and EFRAG Sustainability Reporting Technical Expert Group have considered the comments received and the resulting first set of draft ESRS are expected to be handed over to the European Commission (EC) in November 2022 to be considered for adoption.

3. Furthermore, in March 2022, the US Securities and Exchange Commission (US SEC) proposed rule changes that would require registrants to include particular climate-related disclosures in their registration statements and periodic reports. The comment period for those proposals ended in June 2022.

4. The feedback to the ISSB's exposure drafts showed strong support for the ISSB developing a global baseline. Additionally, there was a strong message about the importance of achieving greater interoperability with jurisdictional requirements. Most notably, not least due to the timing of the respective consultations, many respondents noted the importance of achieving interoperability with the proposals published in Europe and the US. Consequently, the objective of this paper is to ask the ISSB to make decisions on **key** matters related to [draft] S1 and [draft] S2 that the staff think are important to achieving such interoperability. We acknowledge the timing of the ISSB's discussion of these matters is particularly important because there is specific urgency in relation to the ISSB working with EFRAG on achieving greater alignment given the timelines to advance standard-setting due to the legal requirements of the Corporate Sustainability Reporting Directive (CSRD) in Europe. Being aware of our decisions will enable others to take our decisions on these key matters into consideration in finalising their work making it more possible for consistency to be achieved with the ISSB's global baseline and to facilitate interoperability.

5. In identifying key matters to facilitate this discussion this paper asks the ISSB to make some decisions in areas where further related deliberations will be considered at subsequent meetings. In particular, in some circumstances it is noted that the recommendations will be supported by subsequent discussions about additional guidance.

6. This paper also includes some recommendations which are considered in a broader context in other papers at this meeting. In such cases, those papers and recommendations have been cross referenced. This approach has been taken to enable those considering interoperability of key matters to see these recommendations in one location for ease of reference.

Background

5. The objective of the ISSB—and the draft IFRS Sustainability Disclosure Standards, when finalised—is to develop a comprehensive global baseline of sustainability-related disclosures to meet the needs of the capital markets. IFRS Sustainability Disclosure Standards are designed to facilitate a building blocks approach. Jurisdictions will be able to meet any particular jurisdictional needs, including meeting public policy needs to provide information for other stakeholders, by requiring additional information to be provided by the entity, if necessary. The ISSB's exposure drafts would allow an entity to report information needed to meet public policy objectives in addition to the information required by IFRS Sustainability Disclosure Standards, as long as this additional information does not obscure the information required by the ISSB's Standards.

6. As described in Agenda Paper 3A General Sustainability-related Disclosures—Summary of comments for the September 2022 ISSB meeting, almost all respondents to the ISSB's exposure drafts agreed with, and strongly welcomed, the development of IFRS Sustainability Disclosure Standards as a comprehensive global baseline of sustainability-related financial disclosures for the global capital markets. Many respondents, including users of general-purpose financial reporting, encouraged the ISSB to continue to pursue an ambitious timeline in issuing the final requirements so that local jurisdictions can adopt them as soon as possible.

7. Additionally, many respondents emphasised the importance of the ISSB working with jurisdictions, including the European Union and the United States, in developing a global baseline of sustainability-related financial disclosures. Many also commented on the urgency of creating a global baseline of sustainability-related financial disclosures given similar proposals developed by EFRAG and the US SEC. Many respondents pointed to key differences in concepts, terminologies, and definitions between the ISSB's proposals and jurisdictional initiatives, including EFRAG's and the US SEC's proposals.

8. Almost all European and US preparers stressed the importance of interoperability between the ISSB proposals and EFRAG's and the US SEC's proposals, respectively, to minimise reporting burdens, costs and complexity. Similarly, many preparers from jurisdictions outside of Europe and the US expressed concerns about potential duplication of requirements and potential 'double reporting' if they are required to apply IFRS Sustainability Disclosure Standards and EFRAG's and/or the US SEC's requirements. Many users of general-purpose financial reporting expressed concerns about the implications of divergent standards on comparability and consistency of sustainability-related financial disclosures.

9. The ISSB Jurisdictional Working Group (JWG), which was formed by the IFRS Foundation to establish dialogue for enhanced compatibility between the ISSB's exposure drafts and ongoing jurisdictional initiatives on sustainability disclosures, has provided similar feedback on the urgency and importance of a global baseline and of achieving interoperability between proposed reporting standards. Participants have said that interoperable global standards are key for capital markets and have acknowledged that a lack of interoperability between sustainability-related reporting regimes in different jurisdictions will be costly for preparers and risks failing to provide clear and consistent information to investors. Participants also emphasised the importance of enabling investors to clearly identify information relevant to them and information relevant to a broader set of stakeholders, so that material information for investors is not obscured.

10. ISSB members and staff have been meeting both with the JWG and in bilateral engagements with Europe and the United States and others to identify differences between the current proposals with a view to achieving greater interoperability. This paper is a part of that ongoing work.

Summary of staff recommendations

11. The staff recommends that the ISSB:

(a) In relation to overarching matters:

(i) Confirm the use of the TCFD pillars for structuring the core content in [draft] S1 and [draft] S2—that is, information will be required on governance, strategy, risk management and metrics and targets; and

(ii) Confirm the meaning of the global baseline–in particular that disclosures are designed to meet the information needs of investors, creditors and other lenders, information provided is subject to an assessment of materiality and that the information required by IFRS Sustainability Disclosure Standards can be presented with information disclosed to meet other requirements, such as that required by regulation, but cannot be obscured by that additional information.

(b) In relation to matters related to [draft] S1:

(i) (As set out in Agenda Paper 3B) confirm that information is being provided to meet the information needs of the primary users of general purpose financial reporting as proposed in [draft] S1;

(ii) (As set out in Agenda Paper 3B) remove the definition of enterprise value that was included in [draft] S1 and remove the words ‘to assess enterprise value’ from the [draft] S1 objective and definition of materiality;

(iii) Confirm that, consistent with [draft] S1 and [draft] S2, time horizons are not defined for short, medium and long term; and

(iv) Confirm the definition of ‘value chain’ that was proposed in [draft] S1.

(c) In relation to matters related to [draft] S2:

(i) In relation to current effects:

1. Consistent with paragraph 14 of [draft] S2, confirm that disclosures be required about the effects of climate-related risks and opportunities on the entity’s financial position, financial performance and cash flows for the reporting period (ie the current effects):

2. Consistent with [draft] S2, confirm that disclosures are not required to be reported separately for physical risks, transition risks and climate-related opportunities, except as set out in paragraphs 21(b)-(d); and

3. Confirm that separate disclosures be required about assets subject to physical and transition risks and climate-related opportunities, in the form of metrics as specified in [draft] S2 paragraph 21(b)-(d).

(ii) (As set out in Agenda Paper 4C) confirm the use of the Greenhouse Gas Protocol Corporate Standard (GHG Protocol Standard) to measure GHG emissions (subject to proposed reliefs);

(iii) (As set out in Agenda Paper 4B) confirm the requirement to disclose Scope 3 emissions (subject to proposed reliefs to address practical challenges);

(iv) (As set out in Agenda Paper 4B) confirm the granularity/number of categories of Scope 3 GHG emissions—in particular, confirm the use of the 15 categories from the GHG Protocol Standard;

(v) Confirm the disclosures proposed in paragraph 15(a) of [draft] S2—that is, that an entity is required to disclose the results of its analysis of climate resilience and the particular information set out in that paragraph;

(vi) Confirm the disclosures in paragraph 15(b) of [draft] S2 that describe how the climate resilience analysis has been conducted;

(vii) Confirm the disclosure requirement proposed in paragraph 15(b)(i)(4) of [draft] S2—in other words, that an entity disclose whether it has used, among its scenarios, a scenario aligned with the latest international agreement on climate change. This thus confirms that:

1. the language on the latest international agreement on climate change (ie the Paris Agreement is not 'hard coded' into the requirements); and

2. that entities are not required to use a specific scenario related to the latest international agreement on climate change or a 1.5C° scenario.

(viii) Add a requirement to disclose whether and how an entity uses climate-related scenario analysis to inform the identification of climate-related risks and opportunities;

(ix) Confirm the requirement to disclose the intended use of carbon credits. However, the staff recommends that the ISSB clarify that an entity's net emissions target(s) and intended use of carbon credits should be disclosed separately from the entity's gross emission reduction target(s);

(x) Use the term 'carbon credit' instead of 'carbon offset';

(xi) Clarify the different types of targets—in particular, that a climate-related target is set by an entity to address aspects of its climate-related risks and opportunities (paragraph 13(a)) and the role of emissions targets in transitioning to a low-carbon economy (paragraph 13(b)); and

(xii) Clarify that an entity is required to disclose any emissions targets it has set (both net emission targets and gross emissions reduction targets) and those it is required to meet by national or regional legislation.

Structure of the paper

12. We have grouped the matters discussed in this paper into three broad sections as follows:

(a) Overarching matters:

(i) TCFD architecture; and

(ii) global baseline

(b) Matters related to [draft] S1:

(i) needs of users of general-purpose financial reporting;

(ii) enterprise value;

(iii) time horizons; and

(iv) value chain.

(c) Matters related to [draft] S2:

(v) current and specific financial effects of significant climate-related risks and opportunities;

(vi) greenhouse gas emissions;

(vii) assessment of climate resilience; and

(viii) emission targets.

13. For each of the matters listed above, the paper sets out a summary of the proposals in the related ISSB exposure draft, a summary of feedback received in the comment letters and the staff's recommendation. There is a question for the ISSB at the end of each section.

14. Because this paper brings together some recommendations from other papers that will be considered at the same ISSB meeting, in some cases the questions may have been voted on at an earlier meeting. This will be confirmed when this paper is presented to, and discussed by, the ISSB.

Overarching matters

TCFD architecture

15. As explained in paragraphs BC42-BC44 of the Basis for Conclusions on [draft] S1, unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity would be required to provide disclosures about:

(a) governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities;

(b) strategy—the approach for addressing sustainability-related risks and opportunities that could affect the entity's business model and strategy over the short, medium and long term;

(c) risk management—the processes the entity used to identify, assess and manage sustainability-related risks; and

(d) metrics and targets—information used to assess, manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.

16. This core content is based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting agreed it was important to align with and build upon the well-established work of the TCFD.

17. The ISSB exposure drafts propose that the disclosure of information about significant sustainability-related risks and opportunities be built on consideration of the governance, strategy, and risk

management of a business and related metrics and targets. The TCFD's recommendations are widely understood, accepted and practiced in numerous jurisdictions. Individually and collectively, disclosures about governance, strategy, risk management and metrics and targets support a comprehensive and coherent approach to disclosing sustainability-related financial information.

18. As described in Agenda Paper 3A General Sustainability-related Disclosures—Summary of comments for the ISSB September meeting, most respondents welcomed the use of the recommendations by the TCFD as the basis for the structure of the core content in the exposure drafts. Most respondents said that the consistency of the structure will help to reduce complexity. In this respect, some respondents highlighted that the TCFD recommendations have already been endorsed in many jurisdictions.

19. Accordingly, the staff recommend that the ISSB confirms the use of the TCFD pillars for structuring the core content in [draft] S1 and [draft] S2—that is, information will be required on governance, strategy, risk management and metrics and targets[1].

Global baseline

Disclosures designed to meet the information needs of investors and other providers of financial capital

20. Paragraphs BC77–BC79 in the Basis for Conclusions on [draft] S1 explain that the exposure drafts have been developed to provide a comprehensive global baseline of sustainability-related disclosures that meet the needs of capital markets. More specifically, the global baseline is aimed at providing users of general-purpose financial reporting with information on sustainability-related risks and opportunities to assess entities' enterprise value and thus, facilitate capital allocation and stewardship decisions across markets.

21. Accordingly, [draft] S1 explains that its objective is to:

> require an entity to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general-purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity.

22. Similarly, [draft] S2 proposes that users of general-purpose financial reporting need consistent, complete, comparable and verifiable information to assess how climate-related risks and opportunities affect an entity's financial performance, position and cash flows, enterprise value and strategy and business model.

23. In [draft] S1, primary users of general-purpose financial reporting are defined to include existing and potential investors, lenders and other creditors. In Agenda Paper 3B General Sustainability-related Disclosure–Fundamental concepts, the staff recommends confirming this proposed definition of primary users.

24. In relation to the objective of the exposure drafts to be designed to set a comprehensive global baseline for sustainability reporting and to be intended to meet the needs of users of general purpose of financial reporting, as described in Agenda Paper 3A General Sustainability-related Disclosures—Summary of comments and Agenda Paper 4A Climate-related Disclosures—Summary of comments presented at the September 2022 ISSB meeting, almost all respondents agreed with, and strongly welcomed, the development of IFRS Sustainability Disclosure Standards as a comprehensive global baseline of sustainability-related financial information for the global capital markets.

[1] It is noted that some respondents commented on the duplication between [draft] S1 and [draft] S2 in relation to some sections of the documents such as the Governance sections. Consideration will be given to whether this drafting should be streamlined.

25. Most respondents agreed that the proposed objective to disclose sustainability-related financial information is clear and most respondents supported the overall objective of the ISSB to require entities to disclose information about its significant sustainability-related risks and opportunities that is useful to the primary users of general-purpose financial reporting when they assess enterprise value and decide whether to provide resources to the entity.

Information is subject to a materiality filter (entity-specific process)

26. Please refer to Agenda Paper 3B General Sustainability-related Disclosure–Fundamental concepts for analysis.

27. In that paper the staff recommends that the definition of materiality be consistent with that used in the exposure drafts but that the reference to enterprise value be removed.

Information required by IFRS Sustainability Disclosure Standards cannot be obscured by any additional information disclosed

28. In explaining the proposal related to the global baseline, paragraph BC78 in the Basis for Conclusions on [draft] S1 states that entities are able to report information to meet public policy objectives in addition to the information required by the IFRS Sustainability Reporting Standards to the extent the latter is not obscured.

29. Accordingly, [draft] S1 requires entities to disclose information on sustainability-related risks and opportunities without obscuring it. It is proposed that information on sustainability-related risks and opportunities should be presented in a fair, understandable and identifiable manner, also when presented in the same location as information disclosed to meet other requirements and as a result of the materiality assessment.

30. The Invitation to comment in [draft] S1 did not ask respondents to comment on this particular aspect. As described in Agenda Paper 3A General Sustainability-related Disclosures—Summary of comments, the majority of respondents remained silent on it and did not raise concerns. Only a few respondents requested further guidance or examples on what is meant by 'clearly identifiable and not obscured' when information is prepared using both IFRS Sustainability Disclosure Standards and other requirements including jurisdictional reporting requirements. In supporting the need for information not to be obscured, some respondents, particularly users, commented that cross-referencing should be allowed on a limited basis and a balance should be found between integrated disclosures and the potential of obscuring material information.

31. The staff recommends that the ISSB confirm the meaning of the global baseline–in particular that disclosures are designed to meet the information needs of investors and other providers of financial capital, information is subject to an assessment of materiality and that the information required by IFRS Sustainability Disclosure Standards can be presented with information disclosed to meet other requirements, such as that required by regulation, but cannot be obscured by that additional information.

Question for the ISSB on overarching matters

Question 1 for the ISSB
Does the ISSB agree with the staff recommendations on overarching matters set out in paragraph 11(a)?

Matters related to [draft] S1

Needs of users of general-purpose financial reporting

32. Please refer to Agenda Paper 3B General Sustainability-related Disclosure–Fundamental concepts for analysis.

33. In that paper the staff recommends that the ISSB confirm that information is being provided to meet the information needs of the primary users of general-purpose financial reporting as proposed in [draft] S1.

Enterprise value

34. Please refer to Agenda Paper 3B General Sustainability-related Disclosure–Fundamental concepts for analysis.

35. In that paper the staff recommends the definition of 'enterprise value' that was included in [draft] S1 be removed and that the words 'to assess enterprise value' be removed from the [draft] S1 objective and definition of materiality.

Time horizons

36. Time horizons are an entity-specific concept. When it comes to climate-related risks and opportunities, the relevant time frames that are most relevant to consider may vary based on an entity's particular circumstances. Many factors such as the industry in which an entity operates or the investment cycle can impact the way an entity assesses and thus would define 'short', 'medium' and 'long' term. Furthermore, users of general-purpose financial reporting represent a heterogeneous group that do not have a common definition of these time frames.

37. Accordingly, the exposure drafts propose disclosures reflecting 'short', 'medium' and 'long term' perspectives without prescribing specific time frames to be used by entities across industries. The exposure drafts would require an entity to determine what is 'short', 'medium' and 'long' term, focusing on the importance of an individual entity's context in determining the appropriate time horizons.

38. [Draft] S1 requires an entity to disclose information about its significant sustainability-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. More specifically, it is expected that an entity would disclose a description of these significant sustainability-related risks and opportunities, how it has defined this timeframe and its linkage to strategic planning horizons and capital allocation plans.

39. Commenting on [draft] S1, many respondents asked for clarification of the applicable time horizons for short, medium and long term, with some of them being supportive of the proposed requirements by acknowledging that the definition of 'long term' is dependent on the industry in which the entity operates. Other respondents also made explicit reference to the specificity that is provided in [draft] European Sustainability Reporting Standards (ESRSs) of what is meant by 'short', 'medium', and 'long' term (ie one year, one to five years and beyond five years respectively).

40. Participants in the outreach events did not raise many concerns on the lack of definitions for the time horizons. It is noted that this approach in the ISSB exposure drafts is consistent with the TCFD recommendations where short, medium and long term are not defined and thus entities decide on these terms depending on their own views on what those terms mean to them.

41. The staff continue to believe that relevant information about an entity's sustainability-related risks and opportunities is best supported by entity-specific assessments of what is short, medium and long term for the purposes of applying S1 and S2.

42. Accordingly, the staff recommends that the ISSB confirm the approach used in the exposure drafts and not define time horizons for that short, medium and long term in S1 and S2.

Value chain

43. The exposure drafts propose that entities are required to disclose sustainability-related financial information for the same reporting entity as the related general purpose financial statements, this including value chain information.

44. Please refer to Agenda Paper 3B General Sustainability-related Disclosure–Fundamental concepts for additional analysis on this matter.

45. Appendix 1 in [draft S1] defines value chain as:

> The full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and endof-life. Relevant activities, resources and relationships include those in the entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

46. The staff recommends the ISSB confirm the definition of 'value chain' that was proposed in [draft] S1.

Question for the ISSB on matters related to [draft] S1

Question 2 for the ISSB
Does the ISSB agree with the staff recommendations on matters related to [draft] S1 set out in paragraph 11(b)?[2]

Matters related to [draft] S2

Current financial effects of significant climate-related risks and opportunities

47. The exposure drafts recognise that sustainability-related financial disclosures, and more specifically, significant sustainability-related risks and opportunities affect the financial performance, financial position and cash flows of an entity.

48. Paragraph 14 of [draft] S2 would require an entity to disclose the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long term, including how climate-related risks and opportunities are included in the entity's financial planning. Entities are also required to disclose how significant climate-related risks and opportunities have affected their most recently reported financial position, financial performance and cash flows (paragraph 14(a) of [draft] S2). IFRS

[2] It is noted that in calling this vote decisions made in relation to Agenda Paper 3B will be acknowledged as relevant (ie the Board may have already voted on some of the questions in this section).

S1 has an equivalent requirement for all significant sustainability-related risks and opportunities as per paragraph 22 of [draft] S1.

49. Paragraph 14(e) of [draft] S2 would require entities to provide quantitative information unless unable to do so, in which case qualitative information must be provided along with an explanation of why that is the case.

50. With respect to which of the entity's 'current' financial statements [draft] S2 paragraph 14 refers to, the phrase "for the reporting period" in the introductory text and "its most recently reported financial position, performance and cash flows" in [draft] S2 paragraph 14(b) indicate that "current" is a reference to the most recently prepared financial statements. Furthermore the reference in [draft] S2 paragraph 22(b) to "the accompanying financial statements" and the requirement in paragraph 66 of [draft] S1 for sustainability-related financial disclosures to be published "at the same time as its related financial statements" and "for the same reporting period" as the financial statements, indicates that "current" effects on financial performance, position and cash flows refers to financial statements that accompany, and are for the same reporting period, as the sustainability-related financial disclosures.

51. [Draft] S2 paragraph 14(a) refers to the effects of significant climate-related risks and opportunities on financial performance, financial position and cash flows, but does not distinguish and thus, does not explicitly require information to be provided separately for transition risks, physical risks and opportunities respectively. It is however noted that [draft] S1 paragraph 49 states that information might need to be disaggregated to ensure that material information is not obscured. In this respect, the Basis for Conclusion explains that the concept of disaggregation and aggregation drawn from IAS 1 can be similarly helpful in the context of sustainability-related financial disclosures in order to provide users of general purpose financial reporting with information at an appropriate level of disaggregation.

52. While comments from respondents on paragraphs 22(b)-(e) of [draft] S2 focused on the need for clarification and for cross-referencing to related requirements in paragraphs 14(a) and 22(b)-(e), respondents agreed with the requirement to provide information about the current effects in the financial statements.

53. It is noted that information may already be included in the financial statements regarding the effect of climate-related risks and opportunities. Educational materials were published highlighting the requirements to consider the effects of climate-related matters in preparing financial statements in accordance with IFRS Accounting Standards when that effect is material in the context of the financial statements taken as a whole. (see Effects of climate-related matters on financial statements (ifrs.org))

54. While the word 'climate' is not referenced explicitly in IFRS Accounting Standards, IAS 1 *Presentation of Financial Statements* contains some overarching requirements that could be relevant when considering climate-related matters. For example, paragraph 112 of IAS 1 requires disclosure of information not specifically required by IFRS Accounting Standards and not presented elsewhere in the financial statements but that is relevant to an understanding of any of the financial statements. This paragraph, together with paragraph 31 of IAS 1, requires a company to consider whether any material information is missing from its financial statements— ie a company is required to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable investors to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance.

55. The staff does not believe that this negates the need for a specific requirement about climate-related risks and opportunities in S2. We are aware that the market is interested in having a better understanding of the effects on the current financial statements, and that IFRS Sustainability Disclosure Standards do not substitute the reflection of the effect of climate-related risks and opportunities in the financial statements. There will however clearly be a potential interaction with the IASB's requirements for entities applying both the IFRS Accounting Standards and IFRS

Sustainability Disclosure Standards. In particular, information required by the ISSB in relation to the current financial statements will potentially be complementary to disclosures that may already be required by IFRS Accounting Standards and/or that information provided in the financial statements may be incorporated by cross reference in meeting the S2 requirement (depending on the decisions made by the ISSB in respect of cross referencing). In developing examples or further guidance about the proposed S2 disclosures, the staff are coordinating their work with the IASB technical staff.

Specific financial effects of significant climate-related risks and opportunities

56. Paragraph 14(a) of [draft] S2 requires information about how significant climate-related risks and opportunities have affected the entity's financial position, performance and cash flows without any further specification on the exact disclosures that should be made. Paragraph 14 goes on to refer to particular specific metrics and disclosures that could be used to respond to the requirements to report the current effects. In particular, paragraph.14(c)(i) refers to current investment plans and planned sources of funding to implement the strategy (albeit in the context of a requirement about how the financial position is expected to change over time).

57. Although not explicitly cross-referenced in paragraph 14, the requirements in paragraphs 21(b)-(f) also set out specific metrics about effects of significant climate-related risks and opportunities on financial position and performance. Those proposed disclosures require information, in the form of metrics as specified in [draft] S2 paragraph 21(b)-(d), to be provided separately for transition risks, physical risks and climate-related opportunities.

58. Whilst there is some precedent of disclosing financial effects about specific sustainability related risks and opportunities, a few respondents mentioned difficulties in attributing particular financial effects to specific risks and opportunities when the effects arise from a combination of risks and opportunities. This will be considered at a future board meeting.

59. Most respondents to [draft] S2 requested clarifications and further guidance regarding the definitions and application of requirements in paragraph 21(b)-(e). In particular, the terms "vulnerable to", "business activities", "assets", and "physical risk", "transitional risk" and "climate opportunities" were considered to be open to interpretation and might benefit from definition or further explanation. The staff will consider those comments and suggestions for clarification of drafting at a future ISSB meeting.

60. The staff is not asking the ISSB to comment on the exact drafting of these disclosures at this meeting. At a future board meeting, the ISSB will be asked to consider whether additional clarification, supporting materials and/or illustrative examples are required in relation to the effects an entity is required to disclose and the disclosures intended to be provided for:

    (a) effects on current financial statements of significant sustainability-related risks and opportunities; and

    (b) where significant, the effects on current financial statements of climate-related risks and opportunities.

61. Consideration of the proposed requirements for disclosures about the *anticipated* effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows over the short, medium and long term will also be addressed at a future board meeting.

62. Noting the points raised in paragraph 60, the staff recommend that:

    (a) consistent with paragraph 14 of [draft] S2, confirm that disclosures be required about the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period (ie the current effects):

(b) consistent with [draft] S2, confirm that disclosures are not required to be reported separately for physical risks, transition risks and climate-related opportunities, except as set out in paragraphs 21(b)-(d); and

(c) confirm that separate disclosures be required about assets subject to physical and transition risks and climate-related opportunities, in the form of metrics as specified in [draft] S2 paragraph 21(b)-(d).

Greenhouse gas emissions

63. As discussed in Agenda Paper 4A Climate-related Disclosures—Scope 1 and Scope 2 greenhouse gas emissions, the proposals in paragraph 21(a) of [draft] S2 would require an entity to disclose its absolute gross greenhouse gas emissions generated during the reporting period—classified as Scope 1, Scope 2 and Scope 3 emissions—measured in accordance with the *Greenhouse Gas Protocol Corporate Standard*.

64. There was a broad agreement among respondents with the disclosure of Scope 1, Scope 2, and Scope 3 GHG emissions, measured in accordance with the GHG Protocol Corporate Standard, as it can aid comparability and also align to predominant corporate practices. However, some respondents raised concerns about the GHG Protocol Corporate Standard being the *only* required measurement method in [draft] S2.

65. Additionally, most users of general purpose financial reporting agreed with the proposal to require all entities to disclose absolute gross Scope 3 GHG emissions. Those users said that an entity is exposed to transition risks associated with its GHG emissions—and that this risk is not limited to the GHG emissions within the entity's control. Many preparers also broadly agreed with the proposal to require the disclosure of absolute gross Scope 3 GHG emissions by all entities. However, they and other respondents expressed a range of concerns about particular aspects of the requirements. The staff's analysis, set out in Agenda Paper 4A Climate-related Disclosures—Scope 1 and Scope 2 greenhouse gas emissions, suggests these concerns fall into two categories—data availability and data quality.

66. The staff recommends the ISSB confirm the requirement that an entity measures and discloses its Scope 1, Scope 2, and Scope 3 GHG emissions in accordance with the *GHG Protocol Corporate Standard* and uses the GHG *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (GHG Protocol Corporate Value Chain Standard) for Scope 3 GHG emissions categories (collectively referred as the GHG Protocol Standards). In Agenda Paper 4C Climate-related Disclosure Standards—Greenhouse gas measurement methods, the staff proposes targeted amendments when referencing the GHG Protocol Corporate Standards, to address comments raised in the consultation period, while as far as possible maintaining the GHG Protocol Corporate Standards as a common basis for measurement. In particular, in that agenda paper, the staff recommends amending the requirement so that entities would be required to apply the GHG Protocol Standards subject to relief in specific circumstances.

67. Furthermore, the staff recommends that the ISSB confirm the requirement to disclose Scope 3 GHG emissions and confirm that this includes considering the 15 Scope 3 GHG emissions categories described in the GHG Protocol Corporate Value Chain Standard. In Agenda Paper 4B Climate-related Disclosures—Scope 3 greenhouse gas emissions, the staff provides considerations to the ISSB to address the data availability and quality challenges raised by preparers.

Assessment of climate resilience

68. Paragraph 15 of [draft] S2 requires an entity to disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The

entity is required to use climate-related scenario analysis to assess its climate resilience unless it is unable to do so.

69. The focus of the recommendations in this paper is on a subset of issues associated with paragraph 15 of [draft] S2 that are important to facilitate interoperability. In particular recommendations are included on the disclosures that result from the analysis (ie what information is required to be provided as a result of the analysis and about inputs to that analysis) without confirming how an entity is required to perform that analysis. The ISSB will be asked to consider feedback about how the analysis must be conducted and what an entity is required to do 'when it is able to do so' at a future meeting.

Paragraph 15(a)

70. Paragraph 15(a) requires an entity to disclose the results of the analysis of climate resilience so that users are able to understand (in summary):

(a) the implications, if any, of the findings on the entity's strategy;

(b) the significant areas of uncertainty considered in the analysis of climate resilience; and

(c) the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments.

71. Most respondents in comment letters and outreach efforts—in particular most users of general purpose financial reporting and standard-setters—agreed that the proposals in paragraph 15(a) reflect what users need to understand about the climate resilience of an entity's strategy. A few respondents asked the ISSB for further clarity on definitions and terminology, including suggestions to clarify that the definition of climate resilience to better align it with the Intergovernmental Panel on Climate Change (IPCC) definition.

72. The staff recommends the ISSB confirm the disclosures proposed in paragraph 15(a) of [draft] S2—that is, that an entity would be required to disclose the results of its analysis of climate resilience and the particular information set out in that paragraph. The staff plans to analyse further whether particular clarifications are needed on the definitions and terminology used in that paragraph, and plans to ask the ISSB to consider any such detailed matters at a future meeting.

Paragraph 15(b)

73. Paragraph 15(b) of [draft] S2 proposes that an entity is required to disclose information about how the analysis of climate resilience analysis has been conducted, specifying that different information is disclosed when climate-related scenario analysis is used and when climate-related scenario analysis is not used.

74. Most respondents agreed with the objective of the proposed disclosures in paragraph 15(b) and agreed that there is a need for disclosures about how the climate resilience analysis has been conducted. Many users of general purpose financial reporting agreed with the proposed requirement that an entity use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. They broadly agreed with the proposed disclosure items in 15(b)(i) that would provide necessary information for users to understand *how* climate-related scenario analysis has been conducted. Many respondents welcomed the use of alternative methods or techniques to assess climate resilience when an entity is unable to conduct climate-related scenario analysis. These respondents agreed with the proposed disclosure items in 15(b)(ii) that would provide necessary information for users to understand how the climate resilience analysis was conducted using alternative methods.

75. Some respondents suggested that the ISSB provide further clarifications, application guidance and illustrative examples of climate-related scenario analysis and alternative methods or techniques.

76. The staff recommends the ISSB confirm the disclosure requirements proposed in paragraph 15(b) of [draft] S2 that describe how the climate resilience analysis has been conducted. The staff plans to analyse further whether particular clarifications are needed on the definitions and terminology used in that paragraph, and plans to ask the ISSB to consider any such detailed matters at a future meeting.

Latest international agreement on climate change

77. In disclosing information about how an entity has conducted its climate resilience analysis, and in the case that the entity has used climate-related scenario analysis, the proposal in paragraph 15(b)(i)(4) would require the entity to disclose whether it has used—among its scenarios—a scenario aligned with the latest international agreement on climate change (which was defined in the exposure draft).

78. This proposal is designed to enable users to understand if the entity has used a scenario consistent with those created in the latest international agreement (that is, currently well below 2 degrees Celsius, and pursuing efforts to 1.5 degrees above industrial levels).

79. As explained in paragraph BC121 of the Basis for Conclusions on [draft] S2, the 'latest international agreement on climate change' is defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCCC) which set norms and targets for a reduction in greenhouse gases. At the time of publication of [draft] S2, the latest such agreement is the Paris Agreement (April 2016) according to which its signatories agreed to limit global warming to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels.

80. Until the Paris Agreement is replaced, the effect of the proposals in [draft] S2 is that an entity is required to reference the targets set out in the Paris Agreement when disclosing whether or to what extent its own targets compare to the targets in the Paris Agreement. However, if the Paris Agreement is replaced, the effect of the proposal is that an entity would be required to reference the targets set out in that (new) international agreement when disclosing whether or to what extent its own targets compare to the targets in that (new) international agreement.

81. Many respondents agreed that the definition of 'latest international agreement on climate change' is sufficiently clear and that referencing the 'latest international agreement on climate change' allows for flexibility in reporting as the international agreements get updated. A few noted that in the event that the Paris Agreement is revised in the future, the 'latest international agreement on climate change' may become different depending on the timing each jurisdiction ratifies the new agreement. Accordingly, these respondents suggested it may be useful to disclose which agreements the entity considered to be the 'latest international agreement on climate change' when it sets targets.

82. The staff recommends the ISSB confirm the disclosure requirement proposed in paragraph 15(b)(i)(4) of [draft] S2—in other words, that an entity disclose *whether* it has used, among its scenarios, a scenario aligned with the latest international agreement on climate change. That is, we recommend that the ISSB confirm:

   (a) the language on latest international agreement on climate change (ie the Paris Agreement is not 'hard coded' into the requirements); and

   (b) that entities are not *required* to use a specific scenario related to the latest international agreement on climate change or a 1.5C° scenario.

83. The staff notes that this would still enable an entity to use a scenario aligned with the latest international agreement on climate change or a 1.5C° scenario. Thus if another standard required this analysis alignment could be achieved in the way that entities select their scenarios for analysis.

Climate-related scenario analysis to identify climate-related risk and opportunities

84. In [draft] S2, climate-related scenario analysis is used to assess the climate resilience of an entity.

85. Some respondents said that climate-related scenario analysis plays an important role in other climate-related disclosures—that is, beyond the area of assessing climate resilience. Specifically, some respondents highlighted the connectivity of disclosure of climate resilience with the identification, and disclosure, of significant climate-related risks and opportunities. These respondents noted the importance of climate-related scenario analysis —and the central role it plays—in determining an entity's resilience to those risks and opportunities.

86. The staff notes these perspectives from respondents broadly align with the approach taken in paragraph AG19 of draft ESRS E1, which says the entity '…shall explain how it has used climate-related scenario analysis to inform the identification and assessment of physical and transition risks and opportunities over the short-, medium- and long-term.'

87. The staff recommends the ISSB add disclosure to require an entity to disclose whether and how it uses climate-related scenario analysis to inform its identification of climate-related risks and opportunities.

Emission targets

Carbon offsets

88. The proposals in paragraph 13(b) of [draft] S2 would require an entity to disclose information regarding climate-related targets, including (in summary):

    (a) the processes in place for review of the targets;

    (b) the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain; and

    (c) the intended use of carbon offsets in achieving emissions targets.

89. While many respondents agreed with the proposed requirement that an entity disclose its intended use of carbon offsets, many respondents also raised concerns that this disclosure should not obfuscate an entity's planned GHG emission reduction efforts. Specifically:

    (a) some respondents raised a need to distinguish between a carbon offset and a carbon credit;

    (b) many respondents said that the planned use of carbon offsets may provide an inaccurate view of the entity's ability to achieve its GHG emission targets. Instead:

        (i) some respondents suggested that an entity be required to disclose its GHG emission reduction target as gross GHG emission reduction targets and that the entity's intended use of carbon offsets (credits) be required to be disclosed separately;

        (ii) some respondents suggested that the ISSB provide guidance on the use of carbon offsets in the context of an entity's GHG emissions mitigation efforts; and

    (c) further guidance may be needed to support entities in the application of the requirement and to ensure consistency of the disclosure by entities globally.

90. The staff recommends the ISSB confirm the requirement that an entity is required to disclose its intended use of carbon credits. However, the staff recommends that the ISSB clarify that an entity's net emissions target(s) and intended use of carbon credits should be disclosed separately from the entity's gross emission reduction target(s). The staff believes this is important and will enhance the value of the disclosed information for users of general purpose financial reporting.

Carbon offsets versus carbon credits

91. The proposals in paragraph 13(b)(iii) of [draft] S2 would require an entity to disclose the intended use of carbon offsets in achieving emissions targets. In explaining the intended use of carbon offsets, the entity would be required to disclose information including (in summary):

    (a) the extent to which the targets rely on the use of carbon offsets;

    (b) whether the offsets will be subject to a third-party offset verification or certification scheme;

    (c) the type of carbon offset; and

    (d) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity.

92. [Draft] S2 also proposed definitions for ‘carbon offset’ and ‘certified carbon offset’.

93. While many respondents agreed with the proposed requirement that an entity disclose its intended use of carbon offsets, many respondents also raised a concern that this disclosure should not obfuscate an entity’s planned GHG emission reduction efforts. Specifically, some respondents raised a need to distinguish between a carbon offset and a carbon credit. Some respondents, including the two major carbon credit market forums, also suggested the terms ‘carbon offset’ and ‘carbon credit’ be clarified. Specifically, these respondents indicated that ‘carbon credit’ was a more appropriate general term and that an ‘offset’ was the application of a carbon credit to an entity’s net emissions.

94. The staff recommends that the ISSB use the term ‘carbon credit’ instead of ‘carbon offset’. We think the term ‘carbon credit’ will be clearer and more consistent with emerging market practice. We also note it is aligned with the terminology used in draft ESRS E1.

Different types of targets

95. The proposals in paragraphs 13(a) and (b) in [draft] S2 would require an entity to disclose information that enables users of general-purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans.

96. Specifically, an entity would be required to disclose (in summary):

    (a) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set; and

    (b) information regarding climate-related targets for these plans including:

        (i) the processes in place for review of the targets;

        (ii) the amount of the entity’s emission target to be achieved through emission reductions within the entity’s value chain;

        (iii) the intended use of carbon offsets in achieving emissions targets.

97. Additionally, the proposals in paragraph 23 of [draft] S2 would require an entity to disclose its climate-related targets. For each climate-related target, an entity would be required to disclose (in summary):

    (a) metrics used to assess progress towards reaching the target and achieving its strategic goals;

    (b) the specific target the entity has set for addressing climate-related risks and opportunities;

    (c) whether this target is an absolute target or an intensity target;

(d) the objective of the target;

(e) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party;

(f) whether the target was derived using a sectoral decarbonisation approach;

(g) the period over which the target applies;

(h) the base period from which progress is measured; and

(i) any milestones or interim targets.

98. Most respondents agreed with the proposed requirement to disclose transition plans. Specifically, most respondents said:

(a) an entity's transition plans are critical for understanding the entity's strategy in responding to significant climate-related risks and opportunities; and

(b) the proposed requirements provide a useful way for an entity to communicate to users of general purpose financial reporting how it plans to transition to a lower-carbon economy.

99. While most respondents agreed with the proposed requirement, many noted operational concerns, specifically the lack of clarity between the proposed transition plan requirement and the proposed requirement for an entity to disclose its climate-related targets in paragraph 23 in [draft] S2.

100. Some respondents felt that additional clarification of disclosure requirements was needed and suggested a clearer segregation of requirements for transition plans in paragraph 13 of [draft] S2.

101. The staff recommends the ISSB clarifies the different types of targets—in particular, that a climate-related target is set by an entity to address aspects of its climate-related risks and opportunities (paragraph 13(a)) and the role of emissions targets in transitioning to a low-carbon economy (paragraph 13(b)).

102. The staff also recommends clarifying that an entity is required to disclose any emissions targets *it has set* (both net emission targets and gross emissions reduction targets) and those it *is required to meet* by national or regional legislation.

Question for the ISSB on matters related to [draft] S2

Question 3 for the ISSB
Does the ISSB agree with the staff recommendations on matters related to [draft] S2 set out in paragraph 11(c)?[3]

[3] It is noted that in calling this vote decisions made in relation to Agenda Paper series 4 will be acknowledged as relevant (ie the Board may have already voted on some of the questions in this section).