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Project	Climate-related Disclosures
Topic	Appendix B
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

Objective

1. At its October meeting, the International Sustainability Standards Board (ISSB) discussed industry-based materials, including the industry-based requirements set out in Appendix B to Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2). The ISSB also tentatively agreed to:
 - (a) maintain the requirement that entities provide industry-specific disclosures; and
 - (b) classify the content in Appendix B as illustrative examples, while stating an intention to make Appendix B required in the future, subject to further consultation.
2. This paper builds on these decisions, with the objectives of:
 - (a) presenting a recommendation regarding how the October decisions would be reflected in the Standard;
 - (b) presenting staff recommendations and seeking decisions from the ISSB regarding the scope of changes to content in Appendix B as part of its finalisation of S2; and
 - (c) presenting and seeking the ISSB's feedback on staff's draft plan to further develop the content in Appendix B and transition it into a body of industry-based requirements associated with S2 in the future.

Summary of staff recommendations

3. The staff recommends that the ISSB amend the proposed requirements in [draft] S2 that make reference to Appendix B to reflect the updated status of the content.
4. Separately, the staff also recommends that the ISSB approve the following objectives for making enhancements to Appendix B as part of the finalisation of S2:
 - (a) responding to stakeholder feedback regarding the international applicability of particular disclosure topics and metrics;
 - (b) addressing unintended inconsistencies identified
 - (i) between Appendix B and the SASB Standards;
 - (ii) between multiples instances of a particular metric used in different industry contexts within Appendix B; and

- (iii) between Appendix B and IAS 16 *Property, Plant and Equipment* (IAS 16)
 - (c) addressing corrections of scope identified.
- 5. These objectives are described in further detail in paragraphs 15–34. The proposed changes to Appendix B that arise as a result of these objectives are set out in the appendix to this paper.

Structure of Paper

- 6. The paper is structured as follows:
 - (a) background (paragraphs 7–14);
 - (b) staff recommendations (paragraphs 15–34);
 - (c) staff's draft plan for transitioning Appendix B into industry-based requirements (paragraphs 35–39); and
 - (d) questions for the ISSB.

Background

- 7. The disclosure requirements in [draft] S2 are organised according to four core elements- Governance, Strategy, Risk Management and Metrics and Targets. These elements are interrelated, so, for instance, a requirement associated with an entity's strategy (for example, its transition plan) may be closely related to another associated with the metrics and targets it uses to measure risk exposure or manage performance (for example, its greenhouse gas emissions).
- 8. The Strategy section of [draft] S2, requires an entity to identify the climate-related risks and opportunities it faces, and then to provide disclosures about those risks and opportunities. The Metrics and Targets section also requires the entity to disclose particular quantitative information related to those risks and opportunities. This distinction – between identifying risks and opportunities on one hand and preparing related disclosures on the other – is consistent with the approach to fair presentation in Exposure Draft IFRS S1 *General Requirements for the Disclosure of Sustainability-related Financial Information*. In both instances, [draft] S2 requires an entity to consider its industry context.
- 9. Specifically, paragraph 10 of [draft] S2 states:

In identifying the significant climate-related risks and opportunities described in paragraph 9(a), an entity shall refer to the *disclosure topics* defined in the industry disclosure requirements (Appendix B).
- 10. Further, paragraph 11 of [draft] S2 states:

In preparing disclosures to fulfil the requirements in paragraphs 12–15, an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20.
- 11. Finally, paragraph 20 (b) of [draft] S2 states that entities shall disclose:

industry-based metrics (as set out in Appendix B) which are associated with *disclosure topics* and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry

12. As detailed in Agenda Paper 6 for the ISSB's October meeting regarding industry-based materials, the ISSB received a significant amount of feedback on Appendix B to [draft] S2. That feedback is summarised by the staff as follows:
- (a) many respondents—including users in particular—are highly supportive of industry-specific disclosures based on the fact that sustainability-related risks and opportunities vary by industry;
 - (b) some respondents expressed a desire for more time to familiarise themselves with, and provide input on, the industry-based requirements in Appendix B; and
 - (c) respondents were generally supportive of the approach taken by staff to enhance the international applicability of the requirements included in Appendix B, which were derived from SASB Standards, but noted a few areas for improvement.
13. During the comment period, the ISSB solicited feedback on its efforts to enhance the international applicability of the industry-based requirements in Appendix B—such as targeted amendments it made to address particular requirements with a regional bias. The staff notes that stakeholders provided input on a variety of aspects of Appendix B, including feedback beyond the scope of international applicability. The recommendations in this paper are focused on addressing matters raised by stakeholders that related to enhancing the international applicability of the materials in Appendix B. The staff notes that the additional feedback will be useful to analyse as part of its future efforts to transition Appendix B into a body of industry-based requirements associated with S2 (paragraphs 35-39).
14. Based on the feedback described in paragraph 12 and 13, the ISSB decided at the October Board meeting to maintain the requirements for an entity to consider industry-specific risks and opportunities and to provide industry-specific disclosures, but to classify the particular industry-based requirements in Appendix B as illustrative examples. The ISSB further directed staff to develop a plan for transitioning the Appendix B content from (non-mandatory) illustrative guidance into industry-based requirements over time following further consultation. The recommendations below would enable both S1 and S2 to continue to require entities to provide industry-specific disclosures without specifically requiring that those disclosures comply with Appendix B.

Staff Recommendations

Reflecting the October decisions in S2

15. As discussed in paragraph 1, the ISSB made two decisions regarding industry-based materials in October. First, the ISSB agreed to maintain the requirement in [draft] S2 that entities provide industry-specific disclosures. Second, the ISSB agreed to classify the content in Appendix B as illustrative examples.
16. Accordingly, the staff recommends that the ISSB amend particular requirements in [draft] S2 to reflect the change in status of the industry-based materials included in Appendix B. These amendments would be made to several requirements – identified in paragraphs 9–11 of this paper – which reflect the two-step process through which an entity would identify the climate-related risks and opportunities it faces and prepare disclosures necessary to meet the objectives of the [draft] Standard.
17. In [draft] S2, these requirements refer an entity to the industry-based disclosure topics in Appendix B when identifying risks and opportunities (step one), and to the associated metrics when preparing disclosures (step two). The staff recommends that these requirements be amended to require that:
- (a) when identifying its climate-related risks and opportunities, an entity shall consider risks and opportunities that are associated with specific business models, economic activities and other common features that characterise participation in an industry;

- (b) when identifying those risks and opportunities, an entity shall refer to and consider the applicability of the disclosure topics defined in [Appendix B]; and
 - (c) when preparing disclosures about those risks and opportunities, an entity shall refer to and consider the applicability of the metrics defined in [Appendix B].
18. This approach is consistent with the approach to fair presentation in [draft] S1 and the two-step process described in paragraphs 32-35 of Agenda Paper 3 [Sources of guidance to identify sustainability-related risks and opportunities and disclosures](#) (November 2022).

Enhancing the contents of Appendix B

19. Based on the ISSB's decisions described in paragraph 14 of this paper, the staff has identified some incremental enhancements to the content in Appendix B. Staff believes these enhancements will strengthen the usefulness of the content in serving as illustrative examples to support the application of S2. As detailed in paragraphs 35–39 of this paper, the staff also has drafted a plan to more holistically review the content of Appendix B and engage the market on that content as part of a process to transition it to industry-based requirements over a period of time.
20. As detailed further in paragraphs 22–34 of this paper, the staff recommends that the content in Appendix B be revised in the following three incremental ways when finalising IFRS S2 and its supporting materials:
- (a) enhancing the international applicability of select metrics in response to stakeholder feedback (paragraphs 22–24);
 - (b) addressing unintended inconsistencies identified:
 - (i) between the Appendix B content and the SASB Standards (paragraphs 27–28);
 - (ii) between multiple instances of a particular metric used in different industry contexts within Appendix B (paragraphs 29–31); and
 - (iii) between Appendix B and IAS 16 (paragraph 32).
 - (c) addressing corrections of scope (paragraphs 33–34).
21. The staff notes that the appendix to this paper sets out the amendments to Appendix B that the staff recommends be made.

Enhancing international applicability

22. The staff recommends that four metrics in Appendix B be revised where stakeholder feedback enabled the staff to identify specific changes that could enhance the international applicability of the content without fundamentally changing the concepts being measured. (Paragraph A1 of the appendix to this paper lists all four metrics the staff is proposing to change to enhance international applicability).
23. An example of this type of change is to metric **IF-HB-410a.1** in the Home Builders industry (page 346 of Appendix B), which measures:
- (1) Number of homes that obtained a certified HERS Index Score and (2) average score
24. The staff's research indicates that different jurisdictions have different rating systems in place to assess residential energy efficiency, and that the HERS Index is only used in the US and Canada. The ISSB received feedback both encouraging revision of this metric and in support of maintaining

this metric in its current form.¹ The staff proposes revising this metric in such a way that the HERS Index Score remains one of a broader range of jurisdictional energy rating schemes an entity can use to fulfil disclosure to this metric.

Example: Revise metric IF-HB-410a.1:

From: “(1) Number of homes that obtained a certified HERS Index Score and (2) average score”

To: “(1) Number of homes that obtained a certified residential energy efficiency rating and (2) average rating”

Addressing inconsistencies

25. The staff recommends updating Appendix B to address a small number of inconsistencies identified since the publication of [draft] S2, including:
- (a) between Appendix B and the SASB Standards (from which Appendix B was derived);
 - (b) between multiple instances of a particular metric used in different industry contexts within Appendix B ; and
 - (c) between Appendix B and IAS 16.
26. As detailed in paragraphs 27–32, the scope of the related work is limited to a small number of metrics.

Inconsistencies between Appendix B and the SASB Standards

27. The staff recommends aligning two metrics in the Apparel, Accessories & Footwear industry with the most recent version of these metrics contained in the SASB Standards. At the time of the publication of Appendix B in March 2022, the metrics in question – **CG-AA-440a.1** and **CG-AA-440a.2** – were the subject of an [ongoing project](#) at the Value Reporting Foundation, with the SASB Standards Board in the process of seeking public comment on proposed improvements to the metrics.
28. The SASB Standards Board approved the removal of the two metrics and their replacement with two new metrics in May 2022. However, these revisions had not yet been finalised and therefore were not included in Appendix B, thus creating inconsistencies between the metrics in Appendix B and the updated SASB Standard for the Apparel, Accessories & Footwear industry. The staff believes replacing the two metrics in question with the updated metrics would improve the content in Appendix B and would be in keeping with the objectives of [draft] S2. More of the staff’s rationale for this change can be found in paragraphs A2–A3 of the appendix to this paper.

Inconsistent metrics within Appendix B

29. The staff recommends that Appendix B be revised where unnecessary inconsistencies have been identified between the same metric (or similar metrics) used in multiple industries within Appendix B.

¹ The US Environmental Protection Agency noted in its public comment letter that the HERS index can only be issued by the Residential Energy Services Index, and is proprietary, potentially impacting the ability of entities to obtain this certification. Staff also heard in private consultations from entities operating outside of the US and Canada that this metric is not sufficiently internationally applicable. On the other hand, staff received a letter from a Canadian standard setter requesting that the Standard continue to include the HERS index based on its prominent usage in that jurisdiction.

30. For example, inconsistencies have been identified in the metrics covering water management in the Extractives & Minerals Processing sector compared to the water management metrics in other sectors.
31. There are instances in which the metrics in Appendix B are intentionally different to more effectively capture specific elements of entity performance that vary by industry or sector. For example, metric **EM-EP-110a.1** in the Oil & Gas—Exploration & Production industry is the only metric in Appendix B that specifically sets out a disclosure of the percentage of gross Scope 1 greenhouse gas emissions from methane emissions. This difference was based on research and market feedback indicating that methane emissions are associated with a unique risk-return profile in the industry. However, staff has not identified a reason that the water-related metrics in the Extractives & Minerals Processing sector are different from those in other sectors. More details regarding these inconsistencies and staff's recommendations for addressing them are included in paragraph A4 of the appendix to this paper.

Inconsistencies between Appendix B and IAS 16

32. The staff recommends aligning two metrics in Volume B11 of Appendix B (Oil & Gas – Exploration & Production) with IAS 16 *Property, Plant and Equipment*. The metrics in question – **EM-EP-420a.1** and **EM-EP-420a.2** – distinguish between proved and probable reserves. IAS 16 does not distinguish between these types of reserves. The staff believes aligning the two metrics in question with IAS 16 would enhance the applicability of the content in Appendix B and would be in keeping with the objectives of [draft] S2. More details regarding these inconsistencies and the staff's recommendations for addressing them are included in paragraph A5 of the appendix to this paper.

Addressing corrections in scope

33. The staff recommends updating Appendix B to address errors made during the compilation of the content for the Exposure Draft and the production of the document. Examples of errors in the publication of Appendix B include:
- (a) two metrics that were mistakenly included in Appendix B (not being closely related to climate-related risks and opportunities);
 - (b) three activity metrics for the Biofuels industry that were mistakenly omitted from Appendix B (that are relevant to climate-related risks and opportunities); and
 - (c) three metrics that were excluded from Appendix B due to challenges related to internationalisation and for which solutions have since been developed.
34. These corrections in scope are further detailed in paragraphs A6–A9 of the appendix to this paper.

A note on financed and facilitated emissions

The staff notes that Appendix B to [draft] S2 includes disclosure topics and associated metrics covering financed and facilitated emissions in four industries within the Financials sector. Because of the relationship between these proposals and the requirement in paragraph 21 of [draft] S2 for entities to disclose their Scope 3 emissions, the staff recommends that the ISSB separate financed and facilitated emissions from the other content in Appendix B to be published as required application guidance. This recommendation is further discussed in Agenda Paper 4B—*Financed and facilitated emissions*.

Staff's draft plan for transitioning Appendix B into industry-based requirements

35. Below is a draft plan for how the ISSB could pursue the work of enhancing the content in Appendix B with a view to establishing industry-based requirements for S2 in the future.
36. The staff believes that, following the finalisation of S2, the work to establish future industry-based requirements can be separated into five phases:
- (a) establish scope and prioritisation for possible changes;
 - (b) development of exposure draft;
 - (c) publication of exposure draft for comment;
 - (d) comment analysis and redeliberations; and
 - (e) publication of industry-based requirements subject to feedback received.
37. The staff proposes that the first two phases incorporate the following considerations:
- (a) in consultation with users, preparers and jurisdictions, further evaluating the international applicability and decision-usefulness of the content in Appendix B, including disclosure topic scope and metric selection;
 - (b) assessing how the content in Appendix B could be better aligned or more interoperable with other widely used jurisdictional or voluntary standards;
 - (c) integrating any legacy SASB Standards projects inherited by the ISSB that are climate-related, including those pertaining to the Electric Utilities & Power Generators and Marine Transportation industries;
 - (d) addressing, as appropriate, any climate-related items that arise and are prioritised in the ISSB's initial work plan; and
 - (e) consistency with any other industry-based materials concurrently under development by the ISSB.
38. The staff believes that the time required to complete the first two phases of this project – establishing scope and prioritisation and development of an exposure draft– would be 18 months. This takes into consideration the scope of this work and also allows for additional information to be obtained from the use of Appendix B when entities apply S2. The staff notes that the necessary timeline depends on the scope of changes. For example, a more targeted, narrow scope implies a shorter timeline while a wider, more ambitious scope implies a longer timeline. The decisions that the ISSB makes about the effective date of S2 and the speed at which S2 is applied around the world will also influence the information that will be available to inform this work.
39. Following this work the usual process of issuing an exposure draft for consultation, considering the feedback received and then determining how to finalise the proposals would apply.

Questions for the ISSB

Questions for the ISSB

1. Do ISSB members have any clarifying questions regarding the content of this board paper?
2. Do ISSB members agree with the staff's recommendation regarding how the October decisions would be reflected in the Standard?
3. Do ISSB members agree with the proposed approach to proceeding with Appendix B and the amendments set out in the appendix of this paper? Why or why not?
4. Do ISSB members have any comments or questions regarding the staff's draft plan to transition the contents of Appendix B from illustrative examples to industry-based requirements?

Appendix – Recommended revisions to Appendix B

Improvements to the international applicability of three metrics

- A1. As discussed in paragraphs 16-18 of this paper, four metrics have been identified that the staff recommends revising to improve their international applicability. The table lists the four metrics and the recommended changes.

Current metrics in Appendix B	Recommended Metrics
IF-HB-410a.1: (1) Number of homes that obtained a certified HERS Index Score and (2) average score	IF-HB-410a.1: (1) Number of homes that obtained a certified residential energy efficiency rating and (2) average rating
CG-AM-410a.3: Percentage of eligible products by revenue certified to an Association of Home Appliance Manufacturers (AHAM) sustainability standard	CG-AM-410a.3: Percentage of eligible products by revenue certified to an environmental product lifecycle standard
TR-AF-430a.2: Percentage of carriers with BASIC percentiles above the FMSCA intervention threshold	TR-AF-430a.2: Total greenhouse gas (GHG) footprint across transport modes
HC-DY-450a.1: Description of policies and practices to address: (1) the physical risks due to an increased frequency and intensity of extreme weather events and (2) changes in the morbidity and mortality rates of illnesses and diseases, associated with climate change	HC-DY-450a.1: Description of policies and practices to address: (1) the physical risks because of an increased frequency and intensity of extreme weather events, (2) changes in the morbidity and mortality rates of illnesses and diseases, associated with climate change, and (3) emergency preparedness and response

Inconsistency between Appendix B and the SASB Standards regarding the Raw Materials Sourcing disclosure topic of the Apparel, Accessories & Footwear industry

- A2. As discussed in paragraphs 21-22 of this paper, there are two metrics that were the subject of an active SASB standard-setting project at the time of the release of [draft] S2. The metrics in the left column of the table are the metrics currently included in Appendix B, while the metrics in the right column are the metrics currently included in the updated SASB Standard following the conclusion of that standard-setting project. The basis for conclusions and other supporting materials that explain why these metrics were updated within the SASB Standards can be found on the [project page](#).

Current metrics in Appendix B	New Metrics in Apparel, Accessories & Footwear SASB Standard
CG-AA-440a.1: Description of environmental and social risks associated with sourcing priority raw materials	CG-AA-440a.3: (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities
CG-AA-440a.2: Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard	CG-AA-440a.4: (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard

- A3. The staff believes there are several reasons for updating Appendix B to include these new metrics:
- (i) the SASB Standards Board launched a standard-setting project in order to address feedback that the current metrics were lacking in comparability and decision-usefulness;
 - (ii) the new metrics were subject to the due process of the SASB Standards Board, including research and consultation and a public comment period. Final changes based on feedback from consultation and the comment period were approved by the SASB Standards Board ; and
 - (iii) overlapping/conflicting metrics between Appendix B and the SASB Standards would likely be confusing for both preparers and users.

Inconsistencies within Appendix B

A4. Inconsistencies have been identified within Appendix B (and also with the SASB Standards) regarding the water management topic across sectors. Specifically, while 15 of the 21 water withdrawal metrics are identical, the six water withdrawal metrics for industries in the Extractives & Minerals Processing sector specifically reference ‘fresh water’ withdrawn. Staff has received feedback from subject matter experts that limiting the scope of water withdrawn in the Extractives sector to solely fresh water may be excluding roughly 80-90% of the total water withdrawn in this sector. In its review of the due process documents regarding the development of the SASB Standards, staff has been unable to identify any rationale for this inconsistency between the water withdrawal metrics in the Extractives sector and the metrics in other sectors. Thus, staff recommends aligning these water management metrics across industries to more consistently measure performance on this topic. Below are examples of the differences between the two types of water withdrawal metrics:

Metric EM-CO-140a.1 (Coal Operations industry and other industries in the Extractives sector)	Metric FB-AG-140a.1 (Agricultural Products industry and most other industries)
(1) Total fresh water withdrawn, (2) percentage recycled, (3) percentage in regions with High or Extremely High Baseline Water Stress	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress

Inconsistencies between Appendix B and IAS 16

- A5. Inconsistencies have been identified between Appendix B and IAS 16 regarding how entities report on reserves within the Oil & Gas – Exploration & Production industry. Specifically, EM-EP-420a.1 states that entities shall follow jurisdictional guidance for the classification of proved and probable reserves. EM-EP-420a.2 states that entities shall estimate the carbon dioxide emissions in proved hydrocarbon reserves. IAS 16 does not distinguish between proved and probable reserves and some jurisdictions exclude or discourage probable reserve disclosure. Staff recommends aligning these two metrics and the definition of reserves to IAS 16 to allow entities to prepare consistent disclosures and reduce market confusion.

Current metrics in Appendix B	Recommended Metrics
EM-EP-420a.1: Sensitivity of hydrocarbon reserve levels to future price projection scenarios that account for a price on carbon emissions	EM-EP-420a.1: Sensitivity of hydrocarbon reserve levels to future price projection scenarios that account for a price on carbon emissions Note: The change to this metric will occur within the technical protocol
EM-EP-420a.2: Estimated carbon dioxide emissions embedded in proved hydrocarbon reserves	EM-EP-420a.2: Estimated carbon dioxide emissions embedded in hydrocarbon reserves

List of known corrections in scope

- A6. Below is a list of errors that the staff has identified and recommends addressing.
- A7. Metrics to be removed:
 - (a) FB-FR-430a.2: Percentage of revenue from (1) eggs that originated from a cage-free environment and (2) pork that was produced without the use of gestation crates
 - (b) FB-RN-430a.2: Percentage of (1) eggs that originated from a cage-free environment and (2) pork that was produced without the use of gestation crates.
- A8. Metrics to be added:
 - (c) RR-BI-000.A: Biofuel production capacity

- (d) RR-BI-000.B: Production of: (1) renewable fuel, (2) advanced biofuel, (3) biomass-based diesel, and (4) cellulosic biofuel
- (e) RR-BI-000.C: Amount of feedstock consumed in production.

A9. Metrics to be added with improvements to international applicability:

Current metrics in SASB Standards	Recommended Metrics
FB-MP-160a.3: Animal Protein production from concentrated animal feeding operations (CAFOs)	FB-MP-160a.3: Animal protein production from confined animal feeding operations (CAFOs)
EM-RM-410a.1: Percentage of Renewable Volume Obligation (RVO) met through: (1) production of renewable fuels, (2) purchase of “separated” renewable identification numbers (RIN)	EM-RM-410a.1: Volumes of renewable fuels for fuel blending to meet renewable fuel mandates: (1) net amount produced, (2) net amount purchased
TC-TL-550a.1: (1) System average interruption frequency and (2) customer average interruption duration	TC-TL-550a.1: (1) System average interruption duration, (2) system average interruption frequency, and (3) customer average interruption duration