ISSB Meeting

Date	**December 2022**
Project	**Climate-related Disclosures**
Topic	**Financed and facilitated emissions**
Contacts	**Michael Lowe** (michael.lowe@ifrs.org) **Jing Zhang** (jing.zhang@ifrs.org) **Rommie Johnson** (rommie.johnson@ifrs.org)

Objective

1. This paper continues the ISSB's redeliberations of financed and facilitated emissions. The proposed disclosure requirements for financed and facilitated emissions were set out in Volumes 15–18 of Appendix B of [draft] IFRS S2 *Climate-related Disclosures* ([draft] S2). This builds on the September 2022 Agenda Paper 4D: *Climate-related Disclosures—Financed and Facilitated Emissions* (AP4D September 2022), which identified matters raised in stakeholder feedback for further consideration.

2. The staff notes that the proposals discussed, and the recommendations made in this paper should be considered in the light of related proposals and recommendations discussed in Agenda Paper 4B: *Climate-related Disclosures—Scope 3 greenhouse gas emissions* (AP4B December 2022) and Agenda Paper 4C: *Climate-related Disclosures—Appendix B*.

3. The objective of this paper is:

   (a) to describe the staff's research and analysis of the matters raised in stakeholder feedback; and

   (b) to provide staff recommendations to the ISSB about whether and how to address these matters.

4. The staff's recommendations are summarised in paragraphs 6–12 and discussed in more detail in paragraphs 21–60.

5. The staff will ask the ISSB whether it agrees with the staff's recommendations. The questions for the board are set out after paragraph 73.

Summary of recommendations

6. The staff's recommendations relate to two aspects of the proposed requirements for financed and facilitated emissions:

   (a) the location and status of the requirements; and

   (b) the technical content of the requirements.

7. First, with respect to the location and status of the requirements, the staff recommends that the ISSB:

(a) Confirm the proposed disclosure requirements for financed emissions. More specifically, to issue financed emissions disclosure requirements for three industries – Asset Management & Custody Activities, Commercial Banks and Insurance (subject to recommended amendments discussed later in this paper) and to make these disclosure requirements part of the *required* disclosures in S2 associated with the disclosure of Scope 3 GHG emissions, Category 15 (paragraphs 23-27). Thus, these disclosure requirements for financed emissions would be within the 'main body' of S2, that is, included within the (required) application guidance rather than being part of Appendix B, which the ISSB has decided will initially not be required; and

(b) Remove the proposed disclosure requirements for facilitated emissions for the Investment Banking & Brokerage industry (paragraphs 28-30). Thus, these disclosures would not be included in S2, not the main body of S2 or in Appendix B.

8. With respect to technical content, the staff recommends that the ISSB confirm the proposed requirements for the disclosure of financed emissions for the three industries described in paragraph 7(a), with targeted amendments.

9. More specifically, the staff recommends that the ISSB confirm the following proposals for financed emissions, including:

(a) the use of the term 'financed emissions' in all three industries;

(b) the requirement to aggregate disclosures at the total assets under management (AUM) level for the Asset Management & Custody Activities industry;

(c) the requirements for an entity to describe its methodology for calculating financed emissions in all three industries;

(d) the requirements for an entity to disclose the emissions intensity of its financed emissions per unit of physical or economic activity; and

(e) the use of the Global Industry Classification System (GICS) as the classification system for industry-based disclosure of financed emissions.

10. The staff also recommends that the ISSB confirm, but clarify:

(a) the proposed requirements for undrawn loan commitment for the Commercial Banks and Insurance industries, which would require separate disclosure of both the financial exposures and emissions related to the commitments (as opposed to reporting one combined value); and

(b) the proposed requirement that the Commercial Banks industry provide disclosure on a gross basis, that is, without consideration of risk mitigants.

11. The staff also recommends targeted amendments to remove:

(a) all references to, and requirements to disaggregate disclosure by, 'carbon-related industries'; and

(b) derivatives from the calculation of financed emissions.

12. Finally, the staff notes the following areas to monitor for market developments, which may become areas of future consideration:

    (a) facilitated emissions for the Investment Banking & Brokerage industry;

    (b) 'associated' emissions for the Insurance industry;

    (c) emerging methodologies for financed emissions calculations for asset classes including derivatives; and

    (d) guidance/standardisation of emissions-intensity denominators (for example, industry-based).

Structure

13. This paper is structured as follows:

    (a) Background (paragraphs 14–20)

    (b) Staff analysis and recommendations (paragraphs 21–60)

    (c) Other items considered (paragraphs 61–67)

    (d) Areas for future consideration (paragraphs 68–73)

    (e) Questions for the ISSB

    (f) Appendices

        (i) Reproduction of the *ISSB Update October 2022* regarding Scope 3 greenhouse gas emissions (Agenda Paper 4B)

        (ii) Proposed financed and facilitated emissions metrics

Background

14. Financed and facilitated emissions were discussed in Agenda Paper 4D: *Climate-related Disclosures—Financed and Facilitated Emissions* (AP4D September 2022) at the ISSB's September 2022 meeting. In essence financed emissions refer to the absolute greenhouse gas (GHG) emissions that banks and investors finance through their loans, commitments to lend, and through investments. Facilitated emissions refer to GHG emissions associated with activities performed by financial institutions when arranging finance, such as underwriting, securitisation and advisory services.

15. As summarised in AP4D September 2022, financed and facilitated emissions are gaining substantial attention in global markets from investors, regulators and civil society groups, which was reflected in the significant amount of feedback received on the proposals. Most respondents generally agreed with the proposed industry-based disclosure requirements for financed and facilitated emissions. These respondents said the proposals would result in more robust and complete disclosure. However,

respondents raised some concerns and questions about particular aspects of the proposals. Those matters were described in AP4D September 2022 and are further addressed in this paper.[1]

16. Appendix B (Volumes B15–B18) to [draft] S2 proposed disclosure topics and metrics related to financed and facilitated emissions for four industries within the Financials sector— Asset Management & Custody Activities, Commercial Banks, Insurance, and Investment Banking & Brokerage. The proposed metrics would require an entity to provide specific disclosure related to Category 15 of its Scope 3 GHG emissions – in other words, those emissions associated with the entity's investments. Paragraph 21(a) in the cross-industry metrics and targets section of [draft] S2 would require an entity to disclose its Scope 3 GHG emissions – and the categories included. In effect the proposals in Appendix B are complementary to those proposed disclosures in paragraph 21(a) of [draft] S2 by introducing more specific disclosures.

17. AP4D September 2022 summarised the stakeholder feedback obtained from comment letters and market outreach. Subsequently, the staff has conducted additional targeted outreach to further understand the matters discussed in AP4D September 2022. In addition to those matters, the feedback also raised the question of whether the ISSB intends to include 'associated' emissions by insurance firms— in other words, those emissions associated with insurance (or re-insurance) underwriting portfolios— in those disclosures.

18. The staff also notes that the recommendations in this paper are informed by important context covered in other workstreams focused on Scope 3 GHG emissions more broadly and on the ISSB's approach to industry-based materials, including Appendix B to [draft] S2.

19. The ISSB's October 2022 meeting included a discussion on Agenda Paper 4B: *Climate-related Disclosures—Scope 3 greenhouse gas emissions* (AP4B October 2022). During the meeting, the ISSB tentatively decided to confirm its proposal to require an entity to disclose its Scope 3 GHG emissions, subject to relief that would address the data availability and data quality challenges raised by respondents in the consultation. The ISSB also decided at that meeting to confirm that the disclosure would include information about which of the 15 Scope 3 GHG emission categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard are included within the entity's measure of Scope 3 emissions. The decisions regarding that agenda paper are reproduced from the *ISSB Update October 2022* in Appendix A to this paper. The ISSB will continue its redeliberations on Scope 3 GHG emissions at this meeting, considering the staff's further recommendations as set out in Agenda Paper 4B: *Climate-related Disclosures—Scope 3 greenhouse gas emissions* (AP4B December 2022).

20. The ISSB's October 2022 meeting also included a discussion on Agenda Paper 6: *Industry-based materials* (AP6 October 2022). The ISSB tentatively decided to confirm the proposal in [draft] S2 that would require entities to provide industry-specific disclosures, but tentatively agreed to classify the industry-based content in Appendix B as (not required) illustrative examples for a period of time – while also stating its intention to make Appendix B required in the future, subject to further consultation.

[1] The staff notes that the matter of the effective date of S2, which was included in AP4D September 2022, will be addressed at a future ISSB meeting. Because the staff recommends the disclosure of financed emissions be issued as application guidance for Scope 3 GHG emissions, Category 15, the matter of effective date – along with any relief associated with Scope 3 emissions more broadly – are not discussed in this paper.

Staff analysis and recommendations

21. The staff has prepared recommendations for the ISSB on two aspects of the proposals related to financed and facilitated emissions:

    (a) the location and status of the requirements; and

    (b) the technical content of the requirements.

Location and status

22. This matter was not discussed in AP4D September 2022 but arose from the tentative decisions made by the ISSB regarding the matters covered in AP4B October 2022 and AP6 October 2022. In particular, given the importance of information about financed and/or facilitated emissions that the ISSB asked the staff to give particular consideration to whether these disclosures should be not required, along with the other materials in Appendix B, when S2 is issued. The location of the disclosures for financed and facilitated emissions would impact their status and influence the consistency of their application, as discussed in paragraphs 23–30.

Financed emissions – three industries

Staff analysis

23. The proposed requirements to disclose information on financed and facilitated emissions were developed to address increasing risks to the activities of banks and other financial institutions associated with jurisdictional and prudential regulation, to leverage maturing measurement methodologies and to meet heightened investor expectations for such information. In the light of tentative decisions made regarding the matters covered in AP4B October 2022 and AP6 October 2022, the staff recommends the ISSB locate the disclosures where they are most likely to achieve those objectives.

24. As discussed in paragraph 19, in October 2022, the ISSB decided to require entities to disclose their Scope 3 emissions, including — when the information is material — those associated with Category 15 (investments). Furthermore, as discussed in paragraph 20, also in October 2022, the ISSB decided to classify the content in Appendix B to [draft] S2 as (not required) illustrative examples. The latter decision combined with the decision made by the ISSB at the same meeting to require entities to provide industry-specific disclosures would mean that entities would be required to provide information about their financed and facilitated emissions that meets investors' information needs in accordance with S2 when material, but that the exact disclosures required would not need to be those set out in Appendix B. However, as discussed in paragraphs 28–30, the staff recommends excluding facilitated emissions from consideration at this time.

25. The staff believes the requirements associated with financed emissions should be separated from Appendix B and issued as part of the 'body' of IFRS S2 as part of the disclosures of Scope 3 GHG emissions, Category 15. These requirements could be included as application guidance within the Standard — this is simply a question of location. This approach would have the effect of *requiring* entities that operate in the relevant industries to apply the guidance when preparing their financed emissions disclosures. The staff believes this approach is appropriate because there is a clear and direct relationship between the requirement for all entities to disclose Scope 3 GHG emissions and the requirements for financial institutions to disclose information about their financed emissions (ie, Category 15 of Scope 3 GHG emissions). In effect, the industry-based requirements are intended to

support consistent application of the cross-industry requirements within a specific context ensuring that comparable decision-useful information is provided to investors. If the industry-based requirements were issued as illustrative examples, entities would lack clear guidance on how to prepare effective disclosures associated with the cross-industry requirements.

26. The staff notes that the recommendation discussed in paragraph 22 applies only to the proposals that would require the disclosure of financed emissions, which includes the industry for three industries: Asset Management & Custody Activities, Commercial Banks and Insurance. The staff's recommendation for the proposals requiring the disclosure of facilitated emissions (for the Investment Banking & Brokerage industry) is discussed in paragraphs 28–30.

Staff recommendation

27. Based on the above analysis, the staff recommends that the ISSB:

    (a) include financed emissions disclosures as part of the required disclosures of Scope 3 GHG emissions, Category 15 for the Asset Management & Custody Activities, Commercial Banks, and Insurance industries in S2. The staff recommend that these disclosures be included within S2 (as application guidance) rather than being retained in Appendix B as was proposed in [draft] S2.

Facilitated emissions – Investment Banking & Brokerage

28. The proposals for the Investment Banking & Brokerage industry in [draft] S2 would require an entity to disclose facilitated GHG emissions broken down by Scope 1, 2 and 3 and by business line. Facilitated emissions differ from financed emissions because facilitated emissions relate to GHG emissions associated with capital markets activities such as underwriting, securitisation and advisory services. Generally, these activities are fee-generating and do not provide direct financing. Some respondents said quantitative disclosures on this topic may be premature because as there is not yet an accepted calculation methodology.

Staff analysis

29. The staff believes facilitated emissions are an important consideration for assessing GHG-related risks in the Investment Banking & Brokerage industry. There is momentum on developing a standard calculation methodology, as the Partnership for Carbon Accounting Financials (PCAF) completed its public consultation on facilitated emissions in October 2022. However, there is currently no widely accepted calculation methodology, and the staff agrees with the feedback from respondents that additional work is needed to establish such a calculation methodology. The staff believes it is too early to require or provide guidance for detailed quantitative disclosure on this matter, as the maturity of calculation methodologies and regulatory attention is not yet sufficient to justify disclosure.

Staff recommendation

30. Based on the above analysis, the staff recommends that the ISSB:

    (a) Remove the proposed requirements for the disclosure of facilitated emissions for the Investment Banking & Brokerage industry—ie that no specific disclosures about facilitated emissions would be included for this industry.

Technical content

31. With respect to technical content, the staff recommends that the ISSB confirm the proposed requirements for the disclosure of financed emissions for three industries, with targeted amendments to improve the clarity of the requirements, as detailed in paragraphs 32-60.

Asset Management & Custody Activities — Financed emissions

32. Appendix B to [draft] S2 proposes requiring the disclosure of information related to 'financed emissions' for the Asset Management & Custody Activities industry, including the emissions associated with the entity's total assets under management (AUM). Respondents had mixed views on the proposal, including on two key aspects of the proposal. First, while some respondents said total AUM is a sufficient level of granularity for the disclosure, others supported further disaggregation of the disclosure, including by strategy (for example, active or passive management) or at the portfolio level. Second, some respondents suggested replacing the term 'financed emissions', noting that asset managers do not directly finance emissions with their own capital when investing on behalf a third party.

Staff analysis

33. The staff acknowledges the difference between investments made with the capital of a third party — for example, on behalf of clients — and investments made with an entity's own capital. However, the staff believes it is important to align with the terminology commonly used in the industry, where such emissions are referred to in practice as 'financed emissions'.

34. The staff believes financed emissions disclosure for the Asset Management & Custody Activities industry by total AUM is important because a reporting entity's revenue and reputation are impacted by the fees from and performance of all client portfolios, and financed emissions are an indicator of exposure to GHG-related risks which can impact investment performance and fees. Additionally, there is interest, and potentially a focus from regulators on investments and how they may give rise to transition risk. The staff agrees in principle with stakeholder comments that, in many cases, a more granular disaggregation of the disclosure – such as by strategy or product – is likely to provide users with more decision-useful information. In such cases, the staff notes that paragraph 49 of [draft] S1 requires that, '[i]nformation shall not be aggregated if doing so would obscure information that is material. Rather, aggregation and disaggregation shall be based on the characteristics of the sustainability-related risks and opportunities'. Therefore, when a preparer determines that disaggregation by strategy, asset class or any other characteristic is necessary to ensure that material information is not obscured, such disaggregation is already *required*. In addition, to ensure that the information provided is useful preparers can choose to provide the information required by S2 in a manner that best meets the objective of the standard in terms of meeting investors' information needs. The staff notes that it could be useful to emphasize these points in the Basis for Conclusions on S2 to ensure that it is clear that while disclosure is required for total AUM that requirement does not prohibit further disaggregation (and indeed such further disaggregation may be required by S1).

Staff recommendations

35. Based on the above analysis, the staff recommends that the ISSB:

    (a) confirm the term 'financed emissions' in all three industries, including Asset Management & Custody Activities; and

(b) confirm the proposed requirement to aggregate disclosure at the total AUM level for the Asset Management & Custody Activities industry.

Approach to calculation methodology

36. As proposed in Appendix B to [draft] S2, an entity would be required to describe its methodology for calculating financed and/or facilitated emissions, including the allocation method to attribute the entity's share of emissions to its financing/business activities and the approach to collecting underlying emissions data including its source. This approach was intended to support the use of different approaches and allow for innovation as development of calculation methodologies continues while ensuring that investors have information to enable them to understand the approach an entity has used and to facilitate comparisons with the disclosures of other entities. Respondents had mixed views on the proposal, with some respondents preferring that the ISSB prescribe a more specific calculation methodology, the majority of which supported alignment with the Partnership for Carbon Accounting Financials (PCAF).

Staff analysis

37. The staff's research and consultations suggest that the degree of consensus on calculation methodologies varies significantly by asset class. The staff considered whether the ISSB should prescribe a more specific calculation methodology for certain asset classes to improve the consistency and comparability of disclosure. However, the staff believes prescribing a calculation methodology for certain asset classes could disrupt or decelerate the consensus that is emerging in the market or hinder the development of approaches that may be relevant across multiple asset classes. The staff acknowledges the benefits that commonly accepted methodologies such as those of PCAF provide to the market but believes the ISSB should not prescribe any specific methodology given the relatively nascent and rapidly evolving state of development in this field of practice.

38. The staff believes the language in [draft] S2 provides appropriate transparency and enables the market to converge on accepted standards as they emerge for specific asset classes. The staff notes that this will be an important area for the ISSB to continue to monitor.

Staff recommendation

39. Based on the above analysis, the staff recommends that the ISSB:

(a) confirm the requirements for an entity to describe its methodology for calculating financed emissions without further prescribing methodologies.

Emissions intensity

40. For entities in the Commercial Banks and Insurance industries, the proposals would require financed emissions disclosure on an absolute and intensity basis by asset class and sector, without prescribing the unit of measure by which emissions intensity would be calculated beyond either a physical or economic unit. Some respondents suggested that prescribing a specific unit of measure for calculating emissions intensity for each industry or sector would improve standardisation.

Staff analysis

41. The staff believes standardisation improves comparability, but that prescribing emissions intensity units at the sector or industry level would be infeasible and likely premature at this time, depending on the sector or industry. Standardisation at the sector level is complicated by the variety of business models within a sector, especially when considering physical units of measure. Also, while consensus

has begun to emerge regarding the appropriate units of measure to use in some industries (for example, per tonne of product in industrial and mining industries), significant variation persists in most.

42. The staff notes that elsewhere (in AP4B December 2022), it has recommended that the ISSB withdraw the proposal in paragraph 21(a)(ii) of [draft] S2, which would require the disclosure of Scope 1, 2 and 3 emissions intensity per unit of physical or economic output. The staff's rationale for that recommendation is based on the fact that the proposed requirement would provide users of general purpose financial reporting with information they could easily calculate for themselves using disclosures required by S2 and elsewhere — for example, in the reporting entity's financial statements. However, in the context of financed emissions, the preparer's ability to calculate and aggregate the emissions intensity of borrowers, investees and other counterparties would be significantly greater than that of users. Thus, the staff recommends confirming the proposal.

Staff recommendation

43. Based on the above analysis, the staff recommends that the ISSB:

    (a) confirm the requirements for an entity to disclose the emissions intensity of its financed emissions per unit of physical or economic activity.

Use of Global Industry Classification System (GICS)

44. The proposals in [draft] S2 would require the disclosure of financed emissions disaggregated by industry for the commercial banks and insurance industries using the GICS 6-digit code. The staff notes that a standardised classification system is important as it promotes consistency and comparability. Some respondents agreed with requiring the use of GICS, while others suggested requiring the use of NACE (Statistical Classification of Economic Activities in the European Community) to enhance comparability and interoperability with the EU's regulatory framework.

Staff analysis

45. GICS was specifically designed for use in global markets and is regularly maintained. It is widely used in the investment industry in most jurisdictions due to its integration into a wide range of systems, tools and resources used in global capital markets. The staff notes the free and publicly available mapping resource between NACE and GICS.[2] The staff believes this resource addresses the needs of preparers and users with respect to interoperability between IFRS Sustainability Disclosure Standards and EU regulation.

Staff recommendation

46. Based on the above analysis, the staff recommends that the ISSB:

    (a) confirm the use of GICS as the classification system for industry-based disaggregation of disclosures about financed emissions.

Undrawn loan commitments

47. Although this matter was not discussed in AP4D September 2022, it arose during the public comment period as an area in which the ISSB could enhance the clarity of the proposals. The proposals would

[2] The mapping was published by the EU Technical Expert Group on Sustainable Finance in its *Handbook of Climate Transition Benchmarks, Paris-aligned Benchmark and Benchmarks' ESG Disclosures*.

require that entities in the Commercial Banks and Insurance industries separately disclose information regarding the undrawn portion of loan commitments. Although the proposals were intended to require the separate disclosure of both gross exposure and GHG emissions associated with undrawn commitments, stakeholders said the proposals are unclear regarding the disclosure of emissions. The staff notes some of the references to undrawn loan commitments are made in the context of disclosure requirements associated with carbon-related industries, which would be removed if the ISSB agrees with the staff's recommendation in paragraph 56(a) in this paper.

Staff analysis

48. The staff believes the distinction between the drawn and undrawn portions of a loan commitment is important as it represents the distinction between which funds have contributed to real economic activity and which have not yet done so. While the entire loan commitment represents credit risk exposure for the entity, the separation of the drawn and undrawn portions provides transparency to users of general purpose financial reporting about the current and potential emissions associated with that commitment[3]. The staff believes it is necessary to clarify that the gross exposure and the GHG emissions associated with the drawn and undrawn portions must be disclosed separately.

Staff recommendation

49. Based on the above analysis, the staff recommends that the ISSB:

    (a) confirm and clarify that both the financial exposure and the emissions associated with the undrawn portion of loan commitments shall be disclosed separately from those of the drawn portion.

Use of risk mitigants

50. For the Commercial Banks industry, the proposals in [draft S2] included no guidance on the treatment of risk mitigants that may protect the entity from some GHG-related risks. This matter was raised during the public comment period by an industry association representing a large number of banks and insurers.

Staff analysis

51. There is considerable variety and heterogeneity among the risk mitigants used by financial institutions, including multiple types of collateral, financial instruments and insurance. While these risk mitigants can protect an entity from some climate-related risks — for example, credit events associated with the transition to a lower-carbon economy — they do not change or reduce the financed emissions associated with a loan. It is also noted that while for example credit risks associated with the transition to a lower-carbon economy could be addressed with mitigation seeking to determine which types of risk mitigation and the circumstances in which it should be considered would greatly increase the complexity of the requirements. The staff believes that because such risk mitigants do not impact financed emissions, it is appropriate to require disclosure on a gross basis excluding the effects of any risk mitigants. The staff's outreach following the publication of AP4D September 2022 did not change the staff's view on this matter, and the staff notes that its recommendation does not represent a change from what was required in the proposal, but rather a clarification that the information disclosed shall be gross of the effect(s) of risk mitigants.

[3] The staff notes that the inclusion of undrawn loan commitments in this analysis is consistent with the IFRS Accounting Requirements for expected credit losses in that the credit risk exposure of undrawn loan commitments is required to be considered in measuring expected credit losses.

52. Furthermore, [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires an entity 'to provide additional disclosures when compliance with the specific requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reporting to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value' (paragraph 47 of [draft] S1). Thus, an entity would disclose additional information on risk mitigants in conjunction with the disclosed financed emissions should that information be necessary. Such disclosures would include essential contextual information, provided the required disclosures are clearly identifiable and are not obscured by that additional information.

Staff recommendation

53. Based on the above analysis, the staff recommends that the ISSB:

    (a) confirm but clarify that disclosures about financed emissions be required to be provided on a gross basis excluding the effect of risk mitigants.

Carbon-related industries

54. The proposals in [draft] S2 for the Commercial Banks and Insurance industry would require the disclosure of an entity's gross exposure to carbon-related industries. The requirements were intended to aid users' understanding of where transition risk is likely to be concentrated in a reporting entity's portfolio. Respondents generally agreed with the proposed list, but some questioned the absence of particular industries, some believed the list was not sufficiently discriminatory and others suggested a higher-level sector breakdown.

Staff analysis

55. The staff believes the feedback received from stakeholders suggests that assessing and identifying 'carbon-related industries' is a subjective exercise — ie there is not a single view of what should be considered 'carbon-related'. The staff notes that the proposals in [draft] S2 would also require that information be provided more generally about the industries that an entity has exposure to. The staff notes that this industry-based disaggregation would enable users to make their own determinations regarding 'carbon-related industries' and to analyse an entity's disclosure accordingly. The staff thus recommends withdrawing the specific proposed requirement to disclose information related to carbon-based industries and the associated definition. The staff notes that this recommendation would also help 'future-proof' the standard as industries are decarbonising at varying rates and users themselves can omit or add industries considered 'carbon-related industries' as they see fit.

Staff recommendation

56. Based on the above analysis, the staff recommends that the ISSB:

    (a) remove all references to, and requirements to disaggregate disclosure by, carbon-related industries.

Derivatives

57. The proposals in [draft] S2 for the Commercial Banks and Insurance industries include derivatives in the calculation of an entity's gross exposure and its financed emissions. Some respondents said derivatives should not be included because the calculation methodology for financed emissions associated with the asset class is too nascent.

Staff analysis

58. Derivatives, as an asset class, includes a wide variety of different instruments that can be traded over-the-counter (OTC) or on an exchange. Derivatives include interest rate, foreign exchange, equity and other instruments. The heterogeneity of derivatives contributes, along with other factors, to the lack of an accepted calculation methodology for financed emissions. Additionally, derivatives contracts are initiated for different purposes, including hedging, speculation, and constructing exposures synthetically. While there is growing interest in calculating the financed emissions of derivatives, the staff's consultations with market participants suggests that the practice is not widely viewed as a high priority and that existing methodologies are limited by a range of shortcomings, including relative immaturity, lack of widespread use and susceptibility to misuse.

59. The staff notes that derivatives are frequently excluded from the scope of work undertaken by initiatives focused on financed and facilitated emissions, as well as from the reporting of entities engaged in derivatives activity. The staff notes that there is interest in the relevance of financed emissions associated with derivatives and some are of the view that it is important that this be included in disclosures. However, the staff does not believe there is sufficient acceptance of a methodology to include derivatives in the calculation of financed emissions at this time. Thus, the staff recommends that derivatives be excluded from the required calculation for financed emissions in finalising S2. The staff recommends that the ISSB continues to monitor developments in this area.

Staff recommendation

60. Based on the above analysis, the staff recommends that the ISSB:

    (a) remove derivatives from inclusion in the required calculation of financed emissions.

Other items considered

Objective, description and name of the proposed disclosure topic

61. As proposed in Volumes B15–B18 of Appendix B to [draft] S2, the requirements to disclose information about financed emissions would be associated with a disclosure topic called 'Transition Risk Exposure'. Respondents generally agreed with the proposals to include these metrics as an indicator of potential transition risk. However, some respondents said that financed emissions do not represent a direct measure of transition risk and thus the proposals could be misleading to investors.

Staff analysis

62. The staff believes that the question of the title or description of the topic will be resolved if the ISSB agrees with the staff's recommendation in paragraph 27(a) to issue the amended financed emissions proposals as application guidance associated with the disclosure of Scope 3 GHG emissions, Category 15. In this case, there would be no disclosure topic name or description associated with the requirements.

63. In relation to other comments about the information provided about financed emissions and the information content in isolation the staff acknowledges that financed emissions are a useful proxy for, but not a direct measurement of, the transition risk associated with financing activities. The staff notes that the metrics are likely to be most useful not in isolation but when considered in conjunction with the other information that would be disclosed in accordance with [draft] S2. The staff notes that as per paragraph 52, where IFRS Sustainability Disclosure Standards are insufficient to enable users of general purpose financial reporting to assess the implications of sustainability-related risks and

opportunities on the entity's enterprise value additional disclosures are required. Such disclosures would include essential contextual information, provided the required disclosures are clearly identifiable and are not obscured by that additional information.

Timing of underlying data

64. As proposed in [draft] S1, '[a]n entity shall report its sustainability-related financial disclosures at the same time as its related financial statements' ([draft] S1, paragraph 66). This would include the information required to be disclosed about financed emissions. However, many respondents raised questions and concerns about the ability of entities to disclose financed emissions information at the same time they disclose other sustainability-related financial information required by [draft] S2. The staff notes that similar concerns were raised in AP4B October 2022, in which the staff recommended, 'introducing a later effective date for Scope 3 GHG emissions—addressing transitional challenges associated with data availability'. The ISSB will consider this matter further in its redeliberations associated with AP4B December 2022 and with a future paper regarding the effective date(s) of [draft] S1 and [draft] S2.

Staff analysis

65. The staff believes this matter will be sufficiently addressed outside the scope of this paper, assuming the ISSB agrees with the staff's recommendation in paragraph 27(a) to issue the amended financed emissions proposals as application guidance for Scope 3 GHG emissions, Category 15.

Scope 3 of Scope 3

66. The staff received a considerable amount of feedback, which was mixed in sentiment, on the matter of Scope 3 of Scope 3 emissions (the Scope 3 emissions of a reporting entity's investees or counterparties). Some areas of stakeholder concern about the inclusion of Scope 3 of Scope 3 emissions in the required calculation of financed and facilitated emissions were data quality and data availability.

Staff analysis

67. The staff notes that the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard requires that disclosure on Category 15 (investments) include the Scope 1 and 2 emissions of an investee or counterparty and should include the Scope 3 emissions of an investee or counterparty when they are significant or otherwise relevant. However, the staff acknowledges the stakeholder feedback about the challenges of disclosing Scope 3 of Scope 3 emissions at this time. The staff notes that some of this feedback may be addressed by recommendations in AP4B December 2022 which provide relief that would apply to both a reporting entity's disclosure of financed emissions and the Scope 3 emissions reporting of that entity's investees and counterparties. These recommendations include:

    (a) to include a temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions for a minimum of one year following the effective date of IFRS S2; and
    (b) to introduce relief so that an entity's measurement of Scope 3 GHG emissions can include GHG emissions information that is not aligned with its reporting period when the GHG emission information is obtained from entities in its value chain with a reporting cycle that is not aligned to that of the preparer, subject to specific conditions.

Areas for future consideration

68. The staff notes that financed, facilitated and associated emissions is an area of rapid development in terms of research, measurement and disclosure. As such, the staff recommends the ISSB consider particular aspects of this topic for ongoing monitoring, future research and possible standard-setting.

69. For example, the staff notes significant momentum in the development of a calculation methodology for facilitated emissions. The staff believes that PCAF's continued work on developing a calculation methodology, and the wide acceptance of PCAF methodologies for other asset classes, may lead to a level of development and consensus that would enable effective and standardised disclosure of facilitated emissions. Facilitated emissions are an important component of assessing the business models of the Investment Banking & Brokerage industry, and as such the staff believes facilitated emissions should be monitored as an area for future consideration.

70. The staff notes that, as per [draft] S1, "an entity's general purpose financial reporting shall include a complete, neutral and accurate depiction of its sustainability-related financial information" with additional information when specific requirements are insufficient to meet users' information needs. Stakeholder feedback supported financed emissions being an important, but not the sole input to the assessment of an entity's transition risk. Staff notes that given other data are deemed important inputs to this assessment, such as avoided emissions capacity (which was included in the Basis for Conclusions on [Draft] IFRS S2 Climate-related Disclosures) may be areas of future consideration.

71. Before this paper was posted, but too late for the content to be appropriately examined, PCAF published its standard for insurance-associated emissions. 'Associated emissions' for the insurance industry are the GHG emissions of underwriting portfolios within the insurance and re-insurance industries. The staff believes associated emissions will be an important matter to consider in the future given the momentum behind establishing calculation methodologies and the real economy impacts of underwriting activities. The staff believes the ISSB should consider this matter as an opportunity to build on IFRS S2 in the future.

72. The staff notes that derivatives, which the staff recommends are excluded from the required calculation of financed emissions (paragraph 60(a)), are also experiencing some momentum in the development of calculation methodologies. While the calculation of emissions associated with derivatives has not yet advanced to a stage where the staff recommends inclusion with the finalisation of S2, the staff believes that the matter warrants continued monitoring and potential future research should development progress to a sufficiently mature stage.

73. Finally, the staff notes that while the market has not reached sufficient consensus on standardised units of measure for the calculation of emissions intensity, such standardisation would improve the usefulness of disclosure. The staff believes that the ISSB should monitor market developments in this area to consider, as appropriate, in future work, including efforts to enhance SASB Standards, which include industry-based activity metrics.

Questions for the ISSB
1. Does the ISSB agree with the staff's recommendations regarding the **location and status** of the proposals, including to: (a) issue the amended financed emissions proposals for three industries – Asset Management & Custody Activities, Commercial Banks and Insurance – as required application guidance associated with the disclosure of Scope 3 GHG emissions, Category 15 (paragraph 27(a)); and (b) Remove the proposed requirements for the disclosure of facilitated emissions in the Investment Banking & Brokerage industry (paragraph 30(a)? 2. Does the ISSB agree with the staff's recommendations to confirm the following requirements: (a) the use of the term 'financed emissions' in all three industries (paragraph 35(a)); (b) the requirement to aggregate disclosure at the total AUM level for entities in the Asset Management & Custody Activities industry (paragraph 35(b)); (c) the requirements for an entity to describe its methodology for calculating financed emissions in all three industries (paragraph 39(a)); (d) the requirements for an entity to disclose the emissions intensity of its financed emissions per unit of physical or economic activity (paragraph 43(a)); and (e) the use of the Global Industry Classification System (GICS) as the classification system for industry-based disclosure of financed emissions (paragraph 46(a))? 3. Does the ISSB agree with the staff's recommendations to confirm, but clarify the following requirements: (a) the proposals that set out an entity's approach to undrawn loan commitments, which would specify separate disclosure of both exposure and emissions (paragraph 49(a)); and (b) the disclosure of financed emissions by Commercial Banks, explicitly requiring disclosure on a gross basis, excluding the effect of risk mitigants (paragraph 53(a))? 4. Does the ISSB agree with the staff's recommendations to make targeted amendments to remove: (a) all references to, and requirements to disaggregate disclosure by, 'carbon-related industries' (paragraph 56(a)); and (b) derivatives from inclusion in the required calculation of financed emissions (paragraph 60(a))? 5. Does the ISSB agree with the staff's recommendation that a number of areas of practice related to financed, facilitated and associated emissions warrant continued research (paragraphs 68–73)?

Appendices

Appendix A: Reproduction of the *ISSB Update October 2022* regarding Scope 3 greenhouse gas emissions (Agenda Paper 4B)

A1. The ISSB discussed the proposals for an entity to disclose its Scope 3 GHG emissions.

A2. The ISSB tentatively decided:

(a) to proceed with its proposal to require an entity to disclose its Scope 3 GHG emissions, subject to relief that would address the data availability and data quality challenges raised by respondents in the consultation; and

(b) to confirm that such a disclosure would include information about which of the 15 Scope 3 GHG emissions categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard are included within the entity's measure of Scope 3 emissions.

A3. All 12 ISSB members agreed with these decisions.

A4. The ISSB also discussed how to address concerns raised by respondents about the data availability and data quality challenges associated with the disclosure of Scope 3 GHG emissions. In particular, the ISSB considered:

(a) introducing a later effective date for disclosures about Scope 3 GHG emissions—addressing transitional challenges associated with data availability;

(b) collaborating with security regulators to provide safe harbour provisions—addressing transitional data availability challenges;

(c) supporting preparers in the application of the proposed requirement by developing implementation guidance for disclosures about Scope 3 GHG emissions—addressing persistent data quality challenges;

(d) amending the proposed requirement to introduce data quality tiers—addressing data availability and data quality challenges to differentiate between the levels of quality present in an entity's underlying data;

(e) assisting preparers in the application of the proposed requirement by specifying when the 'scope' of the Scope 3 GHG emissions disclosures must be reassessed; and

(f) assisting preparers in the application of the proposed requirement by specifying what a preparer can do when reporting cycles for entities in the value chain do not align with each other and/or with that of the preparer.

Appendix B: Proposed financed and facilitated emissions metrics

B1. The following tables are a reproduction of the proposed metrics for financed and facilitated emissions disclosure in *Appendix B — industry-based disclosure requirements of [draft] S2*, Volumes B15–B18.

Volume B15 — Asset Management & Custody Activities

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	Percentage of total assets under management (AUM) included in the financed emissions calculation	Quantitative	Percentage (%)	FN-AC-1
	(1) Absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-AC-2
	(1) Gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e per unit of economic output, Presentation currency	FN-AC-3
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-AC-4

Volume B16 — Commercial Banks

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	(1) Gross exposure to carbon-related industries, by industry, (2) total gross exposure to all industries, and (3) percentage of total gross exposure for each carbon-related industry	Quantitative	Presentation currency, Percentage %	FN-CB-1
	Percentage of gross exposure included in the financed emissions calculation	Quantitative	Percentage %	FN-CB-2
	For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, (c) Scope 3 emissions and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-CB-3
	For each industry by asset class: (1) gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e per unit of physical or economic output, Presentation currency	FN-CB-4
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-CB-5

Volume B17: Insurance

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	(1) Gross exposure to carbon-related industries, by industry (2) total gross exposure to all industries, and (3) percentage of total gross exposure to each carbon-related industry	Quantitative	Presentation currency, Percentage %	FN-IN-1
	Percentage of gross exposure included in the financed emissions calculation	Quantitative	Percentage %	FN-IN-2
	For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-IN-3
	For each industry by asset class: (1) gross emissions intensity of (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e per unit of physical or economic output	FN-IN-4
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-IN-5

Volume B18: Investment Banking & Brokerage

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	For each key business line by industry: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions and (c) Scope 3 emissions, and (2) associated revenue (i.e., facilitated emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-IB-1
	Description of the methodology used to calculate facilitated emissions	Discussion and Analysis	n/a	FN-IB-2