IFRS Sustainability

Staff paper

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Topic	**Strategy and decision-making and climate-related targets**
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Objective

1. This paper continues the ISSB's redeliberation of the requirements proposed in the Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2) related to strategy and decision-making, including transition plans (paragraph 13) and climate-related targets (paragraph 23).

2. The objective of this paper is:

   (a) to summarise the feedback received in comment letters and market outreach.

   (b) to provide the staff's analysis and recommendations. These recommendations are summarised in paragraphs 4–6 and described in further detail in paragraphs 26–50.

   (c) to ask the ISSB whether it agrees with the staff's recommendations.

3. At its October meeting, the ISSB made several tentative decisions related to strategy and decision-making and climate-related targets (Agenda paper 3C and 4D *General Sustainability-related Disclosures and Climate-related Disclosures: Interoperability—key matters*). Those tentative decisions are reproduced in paragraph 11.

Summary of staff recommendations

4. The staff's recommendations are set out in detail in paragraphs 26–50. In summary, the staff recommends the ISSB confirm the requirements proposed in paragraph 13 and 23 of [draft] S2, but clarify some aspects of those proposals and introduce additional requirements specifically on transition planning and climate-related targets[1].

5. To address feedback from respondents that the relationship between the requirements proposed in paragraphs 13(a), 13(b) and 23 is unclear, the staff recommends that the ISSB **confirm, but clarify,** that an entity would be required to disclose[2]:

   (a) information about its strategy and decision-making, including:

[1] A climate-related target is a target set by an entity to address an aspect of its climate-related risks and opportunities. Climate-related target is an umbrella term that may comprise a variety of different target types, such as GHG mitigation targets, energy-related targets, climate adaptation targets, or low-carbon/zero-carbon product and service development targets.

[2] The staff notes that [draft] S2 does not require an entity to have a transition plan, or any climate-related targets. However, the proposals in [draft] S2 would require an entity to disclose any plans to transition towards a lower-carbon economy and any climate-related targets **it has set or otherwise is required to have** (by local legislation or regulation).

(i) the effects of climate-related risks and opportunities on its overall strategy and decision-making (paragraph 13(a) of [draft] S2); and

(ii) its plans to transition towards a lower-carbon economy (paragraph 13(b) of [draft] S2);

(b) information about its climate-related targets, including:

(i) the climate-related targets it has set (and those it is required to meet by local or regional legislation and regulation), including information about greenhouse gas (GHG) emission targets[3] (paragraph 23 of [draft] S2); and

(ii) how it plans to achieve any such climate-related targets (paragraph 13 of [draft] S2).

6. To address requests from users of general purpose financial reporting, the staff recommends that the ISSB **introduce** the following additional disclosure requirements:

(a) in relation to an entity's plans and actions for its transition towards a lower-carbon economy:

(i) assumptions made, and dependencies identified, by the entity in developing its transition plan;

(ii) implications for the entity's transition plan if the assumptions are not met.

(b) in relation to an entity's climate-related targets:

(i) the scope of the target, to enable users to understand whether the target applies to the entity in its entirety or to only a part of the entity (for example, specific business units or specific geographic regions);

(ii) the following information regarding an entity's emission targets:

(1) which greenhouse gases (for example, carbon dioxide, methane) and which GHG emission scopes (ie Scope 1, Scope 2 and Scope 3) are covered by each of its emission targets; and

(2) to which 'latest international agreement on climate change' the entity is comparing its emission targets.

Structure of the Paper

7. This paper is structured as follows:

(a) background (paragraphs 8–11);

(b) summary of feedback received (paragraphs 12–25);

(c) staff analysis and recommendations (paragraphs 26–50);

(d) questions for the ISSB; and

(e) appendices

[3] An emission target is a target set by an entity to manage its greenhouse gas emissions. Targets may be based on efforts **to reduce** emissions from its operations and value chain relative to a base year (gross emissions reduction), or **to remove** emissions by offsetting emissions through the retirement of carbon credits (net emissions removal).

(i) Appendix A—requirements proposed in [draft] S2

(ii) Appendix B—excerpts from the Basis for Conclusions on [draft] S2

(iii) Appendix C—questions from the Invitation to Comment in [draft] S2

(iv) Appendix D—extract of relevant comments from AP4A *Climate-related Disclosures—Summary of comments* (September 2022)

Background

8. The proposals in paragraph 13 of [draft] S2 would require an entity to disclose information to enable 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. A definition of 'transition plan' is proposed in Appendix A of [draft] S2—'[a]n aspect of an entity's overall strategy that lays out the entity's targets and actions for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions'.

9. The proposals in paragraph 23 in [draft] S2 would require an entity to disclose its climate-related targets. Climate-related targets are integral to enable users of general purpose financial reporting to understand how an entity assesses its performance, including its progress towards the targets it has set and those it is required to meet by local or regional legislation or regulation..

10. Appendix B of this paper reproduces excerpts from the Basis for Conclusions on [draft] S2 that are relevant to the proposals for strategy and decision-making, including transition planning and climate-related targets.

11. In October 2022, the ISSB discussed Agenda Paper 3C and 4D: *General Sustainability-related Disclosures and Climate-related Disclosures—Interoperability—key matters* and made the following tentative decisions related to emission targets:

(a) to confirm the proposed requirement to disclose the intended use of carbon credits but to 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);

(b) to use the term 'carbon credit' in [draft] S2 in the context of offsetting emissions in the transition plan[4];

(c) to clarify the different types of targets—in particular, that, under the proposed requirements, a climate-related target is set by an entity to address aspects of its climate-related risks and opportunities (paragraph 13(a) of [draft] S2) and the role of emission targets in transitioning to a lower-carbon economy (paragraph 13(b) of [draft] S2); and

[4] The ISSB cautioned that in so doing it would be necessary to ensure that there is a common understanding of what is considered to be a 'carbon credit'. Staff has reviewed the usage of the terms carbon credit and carbon offset in the market. The terms 'offset', 'credit', and 'offset credit' are typically used interchangeably, and broadly refer to a reduction in GHG emissions – or an increase in carbon storage – that is used to compensate for emissions that occur elsewhere. These terms are typically applied to carbon reductions/removals in the voluntary carbon markets. To encourage more standard terminology, the three major carbon market initiatives – the Integrity Council for the Voluntary Carbon Market (IC-VCM), Voluntary Carbon Markets Integrity Initiative (VCMI), and the Taskforce on Scaling Voluntary Carbon Markets (TSVCM) – all suggest the use of the term carbon credit. Therefore, it was decided in October 2022 that any revisions to [draft] S2 need to clarify that the term 'carbon credit' is being used in a limited manner in IFRS S2, ie, to units of emission reduction/removal achieved by third-party projects, issued as credits by programs on the voluntary carbon markets, and retired by entities to 'offset' some portion of their own emissions under the entity's transition plan.

(d) to clarify that an entity would be required to disclose any emission targets it has set (both net emission targets and gross emissions reduction targets) and those it is required to meet by local legislation.

Summary of feedback received

12. Agenda Paper 4A *Climate-related Disclosures—Summary of comments* (September 2022) summarises the responses received on Question 5—Transition plans and carbon offsets and Question 10—Targets in [draft] S2. Those questions and that feedback are reproduced in Appendix A and Appendix D, respectively, to this paper. In paragraphs 13–25 of this paper, the staff expands on aspects of that feedback that are relevant to the matters discussed in this paper.

Agreement with the proposals, but need for further clarity

Strategy and decision-making, including transition planning

13. Most respondents agreed with the proposal in paragraph 13 of [draft] S2 that would require an entity to disclose information about its response to climate-related risks and opportunities, including its transition plans. In particular, respondents said that a transition plan is an important component of an entity's overall strategy in responding to significant climate-related risks and opportunities, and that the information would enable users of general purpose financial reporting to understand the entity's strategy, and intended resourcing, to transition to a lower-carbon economy.

14. However, some respondents said that the proposals in paragraph 13 of [draft] S2 seemed to overlap with the proposed requirements for climate-related targets in paragraph 23 of [draft] S2.

15. Furthermore, some respondents suggested that some wording in paragraph 13(a)(i)(1) of [draft] S2 should be clarified. These respondents questioned the use of the term 'legacy asset' and indicated that the term, as described in the proposals, may imply a broader applicability beyond climate-related risks. The staff notes that the description of 'legacy asset' was intentionally drafted to be broader than just climate in order to allow the use of that term in future IFRS Sustainability Disclosure Standards.

16. Many respondents agreed with the proposed requirement that an entity disclose its intended purchase and retirement of carbon credits in achieving its emission targets because such disclosure would provide users of general purpose financial reporting with relevant information about the entity's approach to reducing its GHG emissions, including the quality and credibility of those credits. Many respondents also agreed that the costs and benefits of disclosing information about an entity's intended use of carbon credits are balanced because the information required in the proposed disclosures should be readily available. However, many respondents said that an entity's disclosures about its intended use of carbon credits should be clear and provide an accurate view of its planned GHG emission reduction efforts. To achieve this outcome, some respondents said that an entity should be required to disclose separately its gross GHG emission reduction targets and its intended use of carbon credits. As a result of this feedback, and as described in paragraph 11 of this paper, the ISSB tentatively decided at its October meeting to confirm the proposal that would require an entity to disclose its intended use of carbon credits, but to clarify that an entity's net emission target(s) and intended use of carbon credits would be required to be disclosed separately from its gross emission reduction target(s).

Climate-related targets

17. Most respondents agreed with the proposal in paragraph 23 of [draft] S2 that an entity would be required to disclose its climate-related targets. However, some respondents said that the proposals in paragraph 13 of [draft] S2 seemed to overlap with the proposed requirements for climate-related targets in paragraph 23 of [draft] S2.

18. Many respondents said that the definition of 'latest international agreement on climate change' proposed in Appendix A of [draft] S2 is clear and that referencing the 'latest international agreement

on climate change' is appropriate because such international agreements will be updated over time and this approach will enable updated agreements to be referenced without amending the Standard.

Additional information requested to assess an entity's transition plans

19. While most respondents agreed with the proposal in paragraph 13 of [draft] S2 that would require an entity to disclose information about its response to climate-related risks and opportunities, including its transition plans, some respondents said the disclosure requirements for transition plans that were proposed in paragraph 13 of [draft] S2 were too high-level, lacked clarity and that additional disclosure requirements were needed. Specifically, respondents suggested additional disclosure requirements on:

    (a) the assumptions that an entity has made in developing its transition plan and the dependencies it has identified to realise that plan;

    (b) the implications for the entity's transition plan if the assumptions are not met;

    (c) the actions the entity is taking to achieve its transition plan; and

    (d) how the transition plan will be resourced.

Additional information requested to assess an entity's climate-related targets

Climate-related targets, including emission targets

20. While most respondents agreed with the proposal in paragraph 23 of [draft] S2 that an entity would be required to disclose its climate-related targets, many respondents suggested that entities should be required to disclose additional information, including how an entity calculates its climate-related targets, the scope of the target (for example, whether the target applies to the entire entity or to only a specific business unit or geographic region), the assumptions that an entity used in calculating its climate-related targets, and how an entity revises its climate-related targets.

21. A few respondents, particularly from the Asia-Pacific region, said that it would improve the usefulness of disclosures if an entity's targets were compared against national or regional goals rather than the latest international agreement. The staff notes that an entity is permitted to disclose additional information, such as how its targets compare to national or regional jurisdictional goals, as long as such additional disclosure does not obscure the sustainability-related financial disclosures (ie, information necessary to meet the needs of primary users).

Latest international agreement on climate change

22. A few respondents suggested it may be useful to require an entity to specify the 'latest international agreement of climate change' it used to compare to its climate-related targets. These respondents said that what is considered to be the 'latest international agreement on climate change' may change over time (for example, as the agreement is amended) and also noted that there may be jurisdictional differences affecting when an entity implements those future changes.

23. A few other respondents said that the proposal that would require an entity to compare its climate-related targets to the latest international agreement (ie currently the Paris Agreement, signed in April 2016) is unclear. That is because the Paris Agreement calls for a global threshold of 'well below 2°C above pre-industrial levels' along with an aspirational target of 1.5°C. These respondents said that additional ambiguity may occur if a country-level commitment is inconsistent with the latest international agreement on climate change.

Requests for additional guidance and specification of target timeframes

24. Some respondents asked the ISSB to provide additional guidance on how an entity can retire carbon credits to offset its emissions and how to apply the proposed requirements because entities have differing levels of capabilities and preparedness for the disclosure of transition plans in general, and the purchase and retirement of carbon credits in particular.

25. A few respondents said that the lack of pre-defined target timeframes could undermine comparability between different companies and increase the cost of analysing different companies' performance goals across and within sectors.

Staff analysis and recommendations

26. In analysing the feedback, the staff has reviewed the proposals of, and in some cases worked bilaterally with, a number of global and regional initiatives as well as with jurisdictions developing climate-related disclosure requirements, including the Glasgow Financial Alliance for Net Zero (GFANZ), the UK Transition Plan Taskforce (UK TPT) and European Financial Reporting Advisory Group (EFRAG), the New Zealand External Reporting Board (XRB) and the US Securities and Exchange Commission (SEC). Through this work, the staff has ensured that the clarifications and additional requirements we recommend are consistent with the ambition of the global baseline to reduce the existing and further fragmentation of sustainability disclosure requirements, thereby reducing the costs for preparers and improve information usability for data users. Furthermore, this work has enabled the staff to benefit from the experience of other initiatives that are working closely with users of general purpose financial reporting to provide decision-useful information.

Confirm, but clarify the requirements in paragraph 13 and 23 of [draft] S2

Staff analysis on strategy and decision-making, including transition planning

27. Many respondents said paragraph 13 in [draft] S2 was difficult to read and understand, and therefore would be difficult to apply. As such, respondents asked the ISSB to consider simplifying the wording in paragraph 13 by clearly distinguishing between the requirements related to the entity's overall strategy and decision-making, and the requirements specifically related to the entity's plan to transition towards a lower-carbon economy.

28. Paragraphs BC71-BC75 in the Basis for Conclusions on [draft] S2 explain how a transition plan forms part of an entity's overall business strategy. Similarly, Appendix A of [draft] S2 proposes the following definition for 'transition plan'—'[a]n aspect of an entity's overall strategy that lays out the entity's targets and actions for its transition towards a lower-carbon economy'. Such plans are typically aligned with an entity's broader activities for addressing climate-related risks and opportunities as well as its overall business strategy, and reflect the entity's individual circumstances while including relevant, industry-based information.

29. Building on the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, paragraph 13 of [draft] S2 was intended to require the disclosure of information about the effects of climate-related risks and opportunities on an entity's overall strategy and decision-making, and as part of those disclosures, information about current and planned activities to support the transition. Such actions or plans can include, but are not limited to, meeting GHG emission targets. The staff's recommendations based on this analysis are presented in paragraph 33.

Staff analysis on climate-related targets

30. Some respondents noted that there were proposals in both paragraph 13 and paragraph 23 of [draft] S2 that would require an entity to disclose information about its climate-related targets. These respondents said that it would be confusing to have requirements related to climate-related targets in two places.

31. Paragraph BC74 in the Basis for Conclusions on [draft] S2 explains the relationship between paragraph 13 and paragraph 23 of [draft] S2, as well as the proposal in paragraph 21(a) that would require entities to disclose current GHG emissions: '[f]or example, in disclosing information about their transition plans, many entities will include or make explicit connections to their disclosure of GHG emissions (paragraph 21) and their targets to reduce emissions (paragraph 23).'

32. However, the staff notes that the requirements proposed in paragraph 13(b)(i)-(ii) of [draft] S2 have more to do with what the emission target is than they do with how the entity is planning to achieve the target. Specifically, these requirements propose that an entity would be required to disclose the processes in place for review of the targets (paragraph 13(b)(i) of [draft] S2); and the amount of the entity's emission target to be achieved through emission reductions (paragraph 13(b)(ii) of [draft] S2). The staff will consider during drafting whether the disclosure requirements proposed in paragraph 13(b)(i) and 13(b)(ii) of [draft] S2 should be relocated to be part of paragraph 23 of [draft] S2.

Staff recommendations

33. Based on the analysis above, the staff recommends that the ISSB confirm, but clarify, that an entity would be required to disclose[5]:

    (a) information about its strategy and decision-making, including:

        (i) the effects of climate-related risks and opportunities on its overall strategy and decision-making (paragraph 13(a) of [draft] S2); and

        (ii) its plans to transition towards a lower-carbon economy (paragraph 13(b) of [draft] S2);

    (b) information about its climate-related targets, including:

        (i) the climate-related targets it has set (and those it is required to meet by local or regional legislation and regulation), including information about greenhouse gas (GHG) emission targets (paragraph 23 of [draft] S2); and

        (ii) how it plans to achieve any such climate-related targets (paragraph 13 of [draft] S2).

Introduce additional requirements in paragraph 13(b) of [draft] S2

34. Many respondents, including users of general purpose financial reporting, said the disclosure requirements proposed in [draft] S2 for transition plans were too high-level to enable users of general purpose financial reporting to understand an entity's plans and actions to transition to a lower-carbon economy. Furthermore, these respondents said the ISSB should consider introducing additional disclosure requirements to enhance the comparability and consistency of the disclosures.

35. Specifically, users of general purpose financial reporting and other respondents to the consultation on [draft] S2 suggested that the ISSB introduce a requirement that an entity disclose the assumptions it made in developing its transition plan and the dependencies it identified through that process that are critical to realising the plan. An assumption is a belief, expectation, hypothesis or premise that the entity believes will materialise and builds into its transition plan. As such, assumptions are uncertain. Dependencies are critical factors and conditions required for an entity's transition plan to be realised. Examples of assumptions include expectations about the future availability of key technologies, future regulatory requirements, or the ability of an entity to effect planned changes within its value chain. Examples of dependencies include an emission removal technology that is necessary for an entity to

[5] The staff notes that [draft] S2 does not require an entity to have a transition plan, or any climate-related targets. However, the proposals in [draft] S2 would require an entity to disclose any plans to transition towards a lower-carbon economy, and climate-related targets, **it has set, or otherwise is required to have** (by local legislation and regulation).

meet its emission targets, or a minimum level of resource availability that is required for an entity to implement its transition plan.

36. Furthermore, users highlighted the need to understand the implications for the entity's transition plan if the entity's assumptions are not met. Requiring an entity to disclose such information would enable users of general purpose financial reporting to more effectively understand the uncertainties associated with the entity's current and planned responses to the climate-related risks and opportunities associated with the transition to a lower-carbon economy.

37. The staff thinks suggestions in paragraphs 35 and 36 would be consistent with the intention expressed in paragraph BC73 of the Basis for Conclusions on [draft] S2 that '… underlying assumptions and uncertainties should be included to facilitate transparency'. Furthermore, the staff thinks that adding this disclosure requirement would be consistent with jurisdictional requirements and global initiatives on transition planning and climate-related targets.

38. Paragraph 13(a) of [draft] S2 would require an entity to disclose how it plans to achieve any climate-related targets it has set and those it is required to meet by local or regional legislation and regulation, including how those plans will be resourced. Some respondents said that these disclosures should be disclosed separately for the entity's transition plans (paragraph 13(b) of [draft] S2). They said this was important information to enable users of general purpose financial reporting to assess the entity's current and planned responses to climate-related risks and opportunities associated with the transition to a lower-carbon economy. The staff notes that an entity would be required to disclose the actions it is taking to achieve its transition plans, and how the transition plan will be resourced, when material, as part of the proposals related to aggregation and disaggregation set out in paragraph 49 of Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1). The staff will consider during drafting whether the wording of this particular matter needs to be further clarified.

39. Based on the above analysis, the staff recommends that the ISSB introduce the following additional disclosure requirements:

    (a) assumptions made, and dependencies identified, by the entity in developing its transition plan;

    (b) implications for the entity's transition plan if the assumptions are not met.

Introduce additional requirements in paragraph 23 of [draft] S2

Staff analysis on climate-related targets, including emission targets

40. As noted in paragraph 20 of this paper, many respondents suggested that an entity should be required to disclose additional information, including how it calculates its climate-related targets, the scope of the target (for example, whether the target applies to the entire entity or to only a specific business unit or geographic region), the assumptions that an entity used in calculating each of its climate-related targets, and how an entity revises its climate-related targets.

41. The feedback that the ISSB should introduce disclosure requirements regarding the scope of climate-related targets is consistent with the observation in paragraph BC73 of the Basis for Conclusions in [draft] S2, which describes how users of general purpose financial reporting suggested that information about the scope and coverage of an entity's targets should be provided to monitor progress. Paragraph 23(a)–(i) of [draft] S2 therefore proposed what was assessed to be the relevant disclosures needed for users to assess the scope and coverage, but the staff thinks this feedback from respondents indicates a need to introduce further requirements for an entity to disclose information related to its climate-related targets, including its emission targets.

42. However, the staff notes that the proposals in paragraph 33(b) of [draft] S1 would require an entity to disclose revisions to its targets and the explanation for those revisions. Thus, an entity applying IFRS Sustainability Disclosure Standards would be required to disclose this information about all its reported targets, including climate-related targets disclosed in accordance with IFRS S2. Therefore, the staff thinks the request from respondents for additional disclosure related to how an entity revises its targets is sufficiently addressed by the proposals in [draft] S1. Nevertheless, the staff will consider adding wording in the Basis for Conclusions for IFRS S2 confirming that paragraph 33(b) is intended to be applicable in this context.

Staff analysis on latest international agreement on climate change

43. As noted in paragraph 22 of this paper, a few respondents suggested that an entity should be required to disclose information that specifies the 'latest international agreement on climate change' to which it is comparing its targets, as well as the specific agreement threshold used (e.g., 2ºC, 1.5ºC, 'net zero'). The staff thinks this suggestion is a useful clarification to the proposal in [draft] S2 that would require an entity to compare its emission targets to the latest international agreement on climate change.

Staff recommendations

44. Based on the above analysis, the staff recommends that the ISSB introduce the following additional disclosure requirements:

   (a) the scope of the target, to enable users to understand whether the target applies to the entity in its entirety or to only a part of the entity (for example, specific business units or specific geographic regions);

   (b) the following information regarding an entity's emission targets:

      (i) which greenhouse gases (for example, carbon dioxide, methane) and which GHG emission scopes (ie, Scope 1, Scope 2 and Scope 3) are covered by each of its emission targets; and

      (ii) to which 'latest international agreement on climate change' the entity is comparing its emissions targets.

Other changes considered, but not recommended

The need to introduce a requirement that an entity disclose 'any other additional information necessary' for its climate-related targets

45. As noted in paragraph 20, many respondents suggested that entities should be required to disclose additional information on climate-related targets. In addition to the specific recommendations made by staff in paragraph 42, the staff considered whether the ISSB should introduce a requirement than an entity disclose 'any other information necessarily about its climate-related targets to enable users to understand how the entity is planning to mitigate or adapt to climate-related risks or maximise its climate-related opportunities'. However, the staff concluded that the requirement in paragraph 36 of [draft] S1 is sufficient to capture additional information that is necessary for users to understand an entity's climate-related targets. Paragraph36 of [draft] S1 require an entity to disclose information that is 'relevant and faithfully represent[s] what it purports to represent'**.** Paragraph 47 of [draft] S1 further elaborates that an entity is required:

> (a) to disclose information that is relevant, representationally faithful, comparable, verifiable, timely and understandable; and
>
> (b) **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

The need to prioritise guidance

46. As noted in paragraph 24, some respondents noted that there are different levels of capabilities and preparedness for transition planning and the use of carbon offsets. This includes challenges in hiring relevant specialists and challenges for smaller entities and entities in emerging economies.

47. The staff has engaged with a number of initiatives providing, or working to provide, guidance on transition planning and carbon credit markets. These resources may assist preparers in the application of the requirements proposed in paragraph 13 and 23 of [draft] S2. As such, there are other areas the ISSB may want to prioritise for guidance in the short term.

Need to specify target timeframes

48. As noted in paragraph 25, a few respondents said that the lack of pre-defined target timeframes in the proposals in [draft] S2 could undermine comparability and increase the cost of analysing various companies' performance goals across and within sectors.

49. However, the staff does not recommend introducing pre-defined target timeframes for two reasons: Specifically, such a recommendation:

    (a) could obscure decision-useful information for investors. Requiring entities to disclose pre-defined target timeframes that are not consistent with their internal target timeframes would mean that users of general purpose financial reporting would not receive information about how an entity actually manages its significant climate-related risks and opportunities.

    (b) could conflict with local legislation or requirements. Requiring entities to disclose pre-defined target timeframes can be in conflict with local legislation or requirements if an entity is required to meet a specific climate-related target, including emissions targets, by jurisdictional authorities.

50. As such, the staff does not recommend that the ISSB consider specifying pre-defined timeframes for any climate-related targets, including emissions targets. Rather, information should be provided to facilitate comparisons by ensuring that users of general purpose financial reporting understand similarities and differences between entities. In this regard, the staff notes that [draft] S2 included proposals that would require entities to disclose:

    (a) the period over which the target applies (paragraph 23(g) of [draft] S2);

    (b) the base period from which progress is measured (paragraph 23(h) of [draft] S2); and

    (c) any milestone interim targets (paragraph 23(i) of [draft] S2).

Questions for the ISSB

1. Does the ISSB agree with the staff recommendation to confirm, but clarify, that an entity be required to disclose the effects of climate-related risks and opportunities on its strategy and decision-making, including its transition plans and to disclose information about its climate-related targets??

2. Does the ISSB agree with the staff recommendation to introduce requirements that an entity disclose additional information about:

   (a) an entity's plans and actions for its transition towards a lower-carbon economy:

      (i) assumptions made, and dependencies identified, by the entity in developing its transition plan; and

      (ii) implications for the entity's transition plan if the assumptions are not met?

   (b) an entity's climate-related targets:

      (i) the scope of the target;

      (ii) the following information regarding an entity's emission targets:

         (1) which greenhouse gases (for example, carbon dioxide, methane) and which GHG emission scopes (ie Scope 1, Scope 2 and Scope 3) are covered by each of its emission targets; and

         (2) to which 'latest international agreement on climate change' the entity is comparing its emissions targets

Appendix A—Requirements proposed in [draft] S2

Strategy and decision-making

13. An entity shall 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. Specifically, an entity shall disclose:

(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. This shall include:

(i) information about current and anticipated changes to its business model, including:

(1) about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in paragraph 12. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for legacy assets, including strategies to manage carbon energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets.

(2) information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures).

(3) information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement).

(ii) how these plans will be resourced.

(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. In explaining the intended use of carbon offsets the entity shall disclose information including:

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

(2) whether the offsets will be subject to a third-party offset verification or certification scheme (certified carbon offset), and if so, which scheme, or schemes;

(3) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and

(4) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).

(c) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods in accordance with paragraph 13(a)–(b). Related requirements are provided in paragraph 20.

Metrics and targets

19. The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

20. To achieve this objective, an entity shall disclose:

…

(d) targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities.

23. An entity shall disclose its climate-related targets. For each climate-related target, an entity shall disclose:

(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 (for example, mitigation, adaptation or conformance with sector or science-based initiatives);

(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 decarbonization 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.

Appendix B—Excerpts from the Basis for Conclusions

Transition plans

BC71. The disclosure of an entity's transition plan towards a lower-carbon economy is important for enabling users of general purpose financial reporting to assess the entity's current and planned responses to the decarbonisation-related risks and opportunities that can reasonably be expected to affect its enterprise value.

BC72. Transition plans form part of an entity's overall business strategy towards a lower-carbon economy. Such plans are typically aligned with an entity's broader activities for addressing climate-related risks and opportunities as well as its overall business strategy, and reflect the entity's individual circumstances while including relevant, industry-specific information.

BC73. Although transition plans may include a wide range of information, market perspectives vary on what information is most useful for climate-related financial disclosure. At a minimum, the TCFD has recommended that disclosure about a transition plan should include an entity's current GHG emissions and the related strategic implications for its business, strategic and financial planning. Users of general purpose financial reporting increasingly emphasise that such plans should explain the specific actions and activities that a particular entity plans to undertake to support the transition. These actions or plans can include targets to reduce its GHG emissions, current or anticipated changes to business and strategy, and periodic milestones or key performance indicators to measure progress. Users have further suggested that target dates, scope and coverage should also be provided to monitor progress, while underlying assumptions and uncertainties should be included to facilitate transparency.

BC74. The Exposure Draft provides a range of proposed requirements related to transition plans. Although transition plans are most explicitly related to the proposed strategy requirements (paragraph 13 of the Exposure Draft), it is proposed that disclosures about an entity's transition plan also include related disclosures made in accordance with the Exposure Draft's metrics and targets requirements. For example, in disclosing information about their transition plans, many entities will include or make explicit connections to their disclosure of GHG emissions (paragraph 21) and their targets to reduce emissions (paragraph 23). To show current-period progress against the plan, many entities also incorporate or make explicit connections to their disclosure of quantitative measures of performance on specific mitigation or adaptation activities using industry-based metrics (Appendix B), which may also serve as metrics of progress related to targets (paragraph 23). An entity may also include elements of scenario analysis or other assessments of its resilience (disclosed in accordance with paragraph 15) into its transition plan disclosure to show how it has tested the achievability of the plan and its associated targets under multiple plausible climate-related scenarios.

BC75. Most specifically, paragraph 13 of the Exposure Draft proposes a range of disclosures about an entity's transition plans. The Exposure Draft proposes requiring disclosure of information to enable users of general purpose financial reporting to understand the effects of climate-related risks and opportunities on an entity's strategy and decision-making, including its transition plans. This includes information about how it plans to achieve any climate-related targets that it has set (including information about the use of carbon offsets), its plans and critical assumptions for legacy assets and quantitative and qualitative information about the progress of plans previously disclosed by the entity.

Carbon offsets

BC76. The Exposure Draft's proposals reflect the need for users of general purpose financial reporting to gain insight into an entity's approach to reducing emissions, including the role played by carbon offsets and the quality of those offsets.

BC77. An entity seeking to meet climate-related targets may consider reducing emissions from its own value chain (reductions), obtaining carbon offsets to neutralise or compensate for its value chain emissions (removals), or both. Carbon reduction within an entity's value chain typically occurs through changes to processes, technologies or business models made, directed or influenced by the entity. For example, an entity may increase the energy efficiency of its operations resulting in lower Scope 2 emissions or implement carbon capture technology into its processes resulting in decreased Scope 1 emissions. Carbon reductions result in an entity emitting fewer absolute greenhouse gases into the atmosphere.

BC78. Carbon removals involve extracting (already-emitted) GHG emissions from the atmosphere, either through nature-based or technological means. Removals outside an entity's value chain are often represented by carbon offsets. Offsets are typically generated by and obtained from third parties to neutralise or compensate for a portion of an entity's value chain emissions on a net basis. A class of carbon offsets, known as carbon credits, are offsets that take the form of transferable or tradable instruments, certified by governments or independent certification bodies, representing a removal of emissions of one metric tonne of CO2 or an equivalent amount of other GHGs. Entities may generate credits, for example, through cap-and-trade schemes that they can sell, or they may buy carbon offset credits for their own use in offsetting some of their emissions.

BC79. Jurisdictions have varied views about the extent to which carbon removal— and thus offsetting—should be used and whether it can reliably be used alongside or instead of carbon-reduction programmes to achieve climate-related emission targets. These disparate views are exemplified by the varying regional approaches to gross and net-zero emission-reduction targets. For example, of 74 countries with net-zero targets, five have communicated separate gross emissions-reduction targets to achieve alongside their net-zero targets and 10 have committed to meeting their net-zero targets without purchasing international offsets. Even so, because of technical or economic constraints, many entities will find it difficult to reduce all their emissions so carbon offsets can play an important role in the transition plans of entities.

BC80. An entity's reliance on carbon offsets, how the offsets it uses are generated, and the credibility and integrity of the scheme from which the entity obtains the offsets have implications for an entity's enterprise value over the short, medium, and long term. For example, the carbon capture and storage technology may prove ineffective, or changing regulations may discourage or ban the use of specified carbon offsets after abrupt leakages, food shortages, regime changes or advocacy efforts. Significant uncertainty about future prices for carbon offsets implies additional climate-related (pricing) risks and opportunities. Accordingly, the Exposure Draft's proposals include disclosure requirements regarding the use of carbon offsets in achieving an entity's emission targets. The proposal reflects the need for users of general purpose financial reporting to understand an entity's plan for reducing emissions, the role played by carbon offsets and the quality of those offsets.

BC81. When providing information about carbon offsets used, the Exposure Draft proposes that an entity is required to disclose whether its offsets are based on natural or technological carbon removals. Each of these methods results in a different risk profile for investors. For example, many technological solutions are not presently economical at commercial scales and will require significant investment and have significant energy requirements, creating a drag on their net contributions; the solutions may also pose challenges regarding long-term storage of captured carbon. Natural-based approaches, on the other hand, involve the enhancement of natural carbon sinks, such as through afforestation, soil-based carbon sequestration and the use of other biomass stores. While often a more cost-effective solution at the present time compared to technology solutions, nature-based approaches may prompt concerns about leakage, 'permanence' and 'additionality', as well as about secondary effects on other social and environmental issues such as food production.

BC82. In evaluating offset projects, 'additionality' and 'permanence' have been highlighted as two essential features for assessing the quality of carbon offsets. Permanence refers to how long the carbon will be safely removed from the atmosphere, and additionality refers to whether an investment causes new climate benefits or whether the benefits would have happened irrespective of the investment. While these metrics can be useful, assessing additionality and permanence is complex.

BC83. Instead of requiring entities to disclose their assessment of additionality and permanence, the Exposure Draft proposes requirements to disclose the basis of the offsets' carbon removal (nature- or technology-based) and the third-party verification or certification scheme for the offsets. The Exposure Draft also proposes that an entity disclose any other significant factors necessary for users of general purpose financial reporting to understand the credibility and integrity of the offsets used by the entity. For example, in order to meet these requirements, an entity in the technology sector may disclose that after assessing multiple schemes, it has offset residual emissions within its value chain via afforestation programmes to meet its strategic commitment to mitigate climate-related risk. The entity could further explain how many offset programmes it selected and that the basis of selection led to (semi)-permanent and additional outcomes, and met an accredited verification standard. The entity could also describe each project, where the projects operate, the number of metric tonnes of offsets, the cost per metric tonne, the year in which the emission reduction occurred and the verification standard applied to the scheme.

BC84. Carbon offsets can be based on avoided emissions. Avoided emissions are the potential lower future emissions of a product, service or project when compared to a situation where the product, service or project did not exist, or when compared to a baseline. Emission avoidance has been criticised by some as being inherently problematic because it is challenging for investors to determine whether such projects meet the additionality tests. Avoided emission approaches in an entity's climate-related strategy are complementary to and fundamentally different from the entity's emission inventory accounting and emission-reduction transition targets. The Exposure Draft, therefore, proposes to include a requirement for entities to disclose whether the carbon offset amounts achieved are through carbon removal or emission avoidance.

BC85. The Exposure Draft aims to balance the cost for preparers with the need to disclose enough information to enable users of general purpose financial reporting to gain insight into the entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets.

Targets aligned with the scientific and political consensus

BC119. The proposals related to emissions reduction require information to be provided by an entity about how its climate-related targets compare with scientific and political consensus, while allowing for the fact that such consensus could evolve. Consequently, the Exposure Draft proposes that information be provided about the targets the entity has set and does not define 'science-based' targets in a manner that locks in current agreed norms.

BC120. Paragraph 23 of the Exposure Draft proposes that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets compare with those created in the latest international agreement on climate change.

BC121. 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). The agreements made under the UNFCCC set norms and targets for a reduction in greenhouse gases. At the time of publication of the Exposure Draft, the latest such agreement is the Paris Agreement (April 2016); 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. Until the Paris Agreement is replaced, the effect of the proposals in the Exposure Draft are 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.

BC122. Paragraph 15 of the Exposure Draft would also require an entity to disclose whether the entity has used among its scenarios, a scenario aligned with the 'latest international agreement on climate change' (see paragraph BC121). As with the targets, this requirement 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).

Appendix C—Questions from the Invitation to Comment in [draft] S2

Question 5—Transition plans and carbon offsets

(a) Do you agree with the proposed disclosure requirements for transition plans? Why or why not?

(b) Are there any additional disclosures related to transition plans that are necessary (or some proposed that are not)? If so, please describe those disclosures and explain why they would (or would not) be necessary.

(c) Do you think the proposed carbon offset disclosures will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the credibility of those carbon offsets? Why or why not? If not, what do you recommend and why?

(d) Do you think the proposed carbon offset requirements appropriately balance costs for preparers with disclosure of information that will enable users of general purpose financial reporting to understand an entity's approach to reducing emissions, the role played by carbon offsets and the soundness or credibility of those carbon offsets? Why or why not? If not, what do you propose instead and why?

Question 10—Targets

(a) Do you agree with the proposed disclosure about climate-related targets? Why or why not?

(b) Do you think the proposed definition of 'latest international agreement on climate change' is sufficiently clear? If not, what would you suggest and why?

Appendix D—Extracts of relevant comments from AP4A Climate-related Disclosures—Summary of comments (September 2022)

D1 The Invitation to Comment section for [draft] S2 included question 5 (with four subparts) on transition plans and carbon offsets and question 10 (with two subparts) on targets (see Appendix A).

D2 Of the respondents addressing Questions 5 and 10 on transition plans, carbon offsets, and targets, over 40% came from the European region. The next greatest portion of respondents were from the North American and Asia-Oceania regions. Within stakeholder groups, preparers provided the greatest portion of comments, with public interest individuals or groups and investors the next-most frequent commenters.

Figure – 1 Respondents to Questions 5 and 10 of [draft] S2 by geographic region

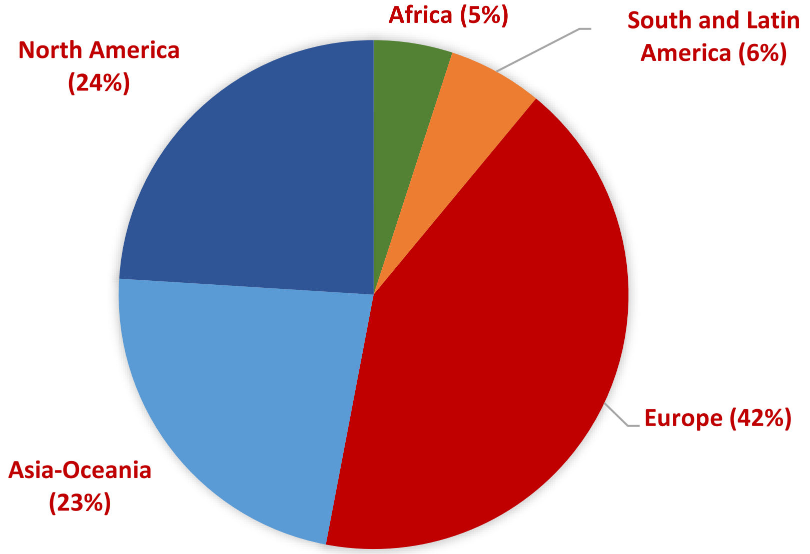
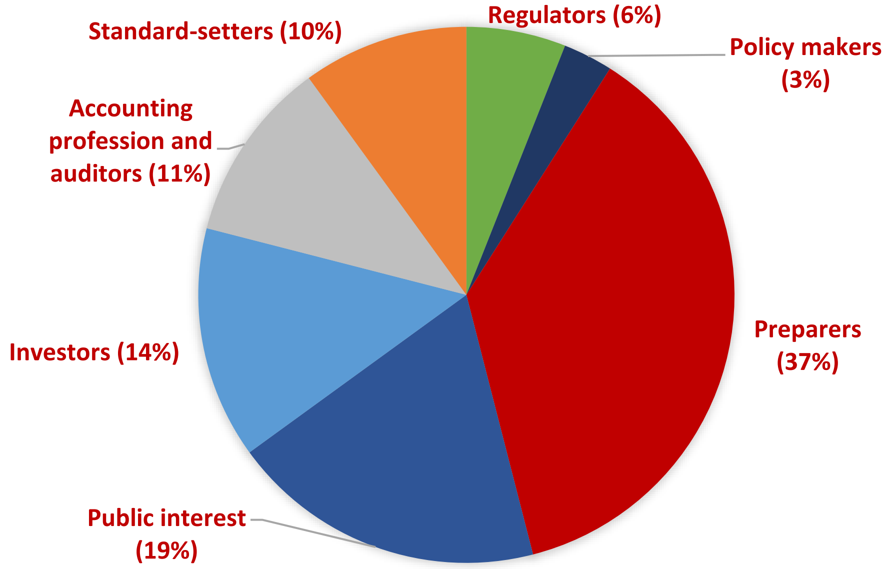


Figure – 2 Respondents to Questions 5 and 10 of [draft] S2 by stakeholder group



How we quantified the feedback

D3 The paper uses the following terms to describe the extent to which feedback was provided by respondents:

Term	**Extent of response among respondents**
Almost All	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

D4 The paper uses the term 'respondents' to refer to stakeholders who submitted comment letters or filled out a survey.

D5 Respondents did not always comment on every aspect of the proposal in [draft] S2. Consequently, we have used the terms listed in paragraph D3 to describe the proportion of the respondents that commented on a particular aspect. This is not necessarily a proportion of all respondents.

Question 5(a)—Transition Plans

D6 Most respondents agreed with the proposed requirement to disclose transition plans. Specifically, most respondents:

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

(b) said 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.

D7 While most respondents agree with the proposed requirement, many noted operational concerns, specifically:

(a) concerns that the requirement is too high-level to ensure consistent application and that further guidance is needed to assist preparers;

(b) 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;

(c) concerns that the disclosures may not be verifiable; and (d) concerns about the timely availability, quality, and reliability of data.

D8 Many respondents mentioned the Glasgow Financial Alliance for Net Zero (GFANZ) as a key driver to deliver clarity and consistency on the structure of transition plans; and some respondents recommended that the ISSB coordinate and align with GFANZ, as well as other existing initiatives.

D9 A few respondents disagreed with the proposal to disclose transition plans, stating that the disclosure requirement is too specific and would pose a significant burden on smaller entities and emerging markets, and require disclosure of information that is potentially commercially sensitive

Question 5(b)—Additional disclosures related to transition plans

D10 Some respondents, including many users of general purpose financial reporting, preparers and regulators, felt that additional disclosure requirements were needed. Specifically, respondents suggested including a requirement:

(a) for an entity that does not have a transition plan to explain why, including whether it is intending to develop a transition plan, and if so, the timeframe in which the entity is planning to develop a transition plan;

(b) to disclose interim milestones as part of the entity's transition plans;

(c) to disclose absolute GHG emission reduction targets; and

(d) to disclose how transition plans will align with the Paris Agreement and science-based targets such as the 1.5°C reduction pathway.

Question 5(c)—Carbon offsets

D11 Almost all respondents agreed with the proposed requirement that an entity disclose its intended use of carbon offsets in achieving its emissions targets. Specifically, most respondents agreed that the proposed requirement would provide:

(a) relevant information about an entity's approach to reducing its GHG emissions; and

(b) transparency around the entity's use of carbon offsets and the quality and credibility of those offsets.

D12 A few respondents, most of which were preparers, noted that carbon markets are rapidly evolving, and that methodologies on how to use and evaluate carbon offsets are nascent. They argued that carbon offset disclosures may at this time be challenging for users of general purpose financial reporting to interpret.

D13 While almost all respondents agreed with the proposed requirement that an entity disclose its intended use of carbon offsets, many respondents raised a concern 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.

D14 Some respondents encouraged the ISSB to collaborate with global initiatives on carbon offsetting, including work by the Greenhouse Gas Protocol (GHG Protocol), Net-Zero Banking Alliance (NZBA), the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity (VCMI) and to coordinate requirements and materials where appropriate (for example looking at ways that information about certification should be included within required disclosures).

Question 5(d)—Cost to preparers vs the benefits to the users of general purpose financial reporting

D15 Many respondents agreed that the costs and benefits of disclosing carbon offsets are balanced, as the information required in the disclosures should be readily available when an entity is intending to make use of carbon offsets.

D16 Some respondents noted that the ISSB should give consideration to the different levels of capabilities and preparedness for the disclosure of transition plans in general, and the use of carbon offsets in particular. These respondents noted how entities are currently challenged to hire specialists to provide climate-related disclosures, including transition planning, and that this is a proportionally larger challenge for smaller entities and entities in emerging economies.

D17 Furthermore, some respondents cited concerns that a lack of illustrative guidance would result in high-level, boiler plate narratives and a lack of comparability. Additionally, a few respondents mentioned that a phased adoption of the carbon offset disclosures would be beneficial to ease the burden on preparers.

D18 Data aggregators and public interest organisations made up most of those respondents who disagreed with the cost-benefit balance of the proposal.