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## ISSB meeting

Date	<b>October 2022</b>
Project	<b>Exposure Draft S2 <i>Climate-related Disclosures</i></b>
Topic	<b>Scope 1 and Scope 2 greenhouse gas emissions</b>
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

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## Overview and objective

1. This paper initiates the International Sustainability Standards Board's (ISSB's) redeliberations of the proposed requirements in the Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2) paragraph 21(a) for an entity to disclose its absolute Scope 1 and Scope 2 greenhouse gas (GHG) emissions generated during the reporting period to enable users of general purpose financial reporting (users) to better understand an entity's exposure to particular climate-related risks and how the entity manages these risks. The proposed requirements are included in Appendix A to this paper.
2. Stakeholder response to the comment period on [draft] S2 indicated broad agreement with the requirements proposed in paragraph 21(a). In particular, respondents expressed strong agreement with the proposed requirement to disclose Scope 1 and Scope 2 GHG emissions. A summary of the relevant feedback is included in paragraphs 11–18. Although the proposals related to Scope 1 and Scope 2 GHG emissions were well-received by respondents representing a wide range of stakeholder types and geographies, some respondents also provided additional feedback about aspects of the proposals, including the need for additional clarity of some aspects.
3. Thus, the staff recommends that the ISSB proceed with aspects of the proposed requirements, which includes recommendations regarding how IFRS S2 should require entities to separately disclose Scope 1 and Scope 2 GHG emissions for the consolidated accounting group and unconsolidated investees and related requirements with regards to Scope 1 and Scope 2 GHG emissions. The staff's recommendations are described in more detail in paragraphs 19–23.
4. For the purpose of this session, staff plans to limit the scope of the discussion to the matters described in paragraph 3. However, other sessions and associated papers will address additional aspects of the proposed requirements in paragraph 21(a), including:
  - (a) the proposed requirements associated with Scope 3 GHG emissions, initial redeliberations of which are initiated in Agenda Paper 4B *Scope 3 greenhouse gas emissions*;
  - (b) the proposed GHG measurement methods associated with the disclosures in paragraph 21(a), initial redeliberations of which are initiated in Agenda Paper 4C *Greenhouse gas emissions measurement method*;
  - (c) remaining aspects of the proposed requirements to disclose Scope 1 and Scope 2 GHG emissions, such as:
    - (i) recommendations on the aggregation and disaggregation of the greenhouse gasses (in other words, whether disclosure is only for aggregated gases or not); and
    - (ii) recommendation on measures of GHG emissions intensity;

5. Finally, through analysis of comment letters and outreach, the staff has identified other relevant considerations to be addressed in forthcoming meetings and associated papers, including:
  - (a) the relationship between cross-industry climate-related disclosure requirements and industry-based requirements; and
  - (b) the proposed requirements for the disclosure of Scope 3 Category 15 emissions by entities in four financial industries (introduced to the ISSB at its September meeting in [Agenda Paper 4D \*Financed and Facilitated Emissions\*](#)).

## Summary of staff recommendations

6. The staff's recommendations are set out in full in paragraphs 19–23. In summary, the staff recommends the ISSB proceed with some requirements and amend some requirements.
7. The staff recommends the ISSB proceed with the requirements for an entity to disclose its absolute gross Scope 1 and Scope 2 GHG emissions generated during the reporting period;
8. The staff recommends the ISSB proceed with, but clarify, the requirements for an entity to:
  - (a) provide separate disclosure for the consolidated accounting group; and
  - (b) disclose the approach used to include Scope 1 and Scope 2 GHG emissions for entities outside the consolidated accounting group, and an explanation of how the approach relates to the objective of the proposed requirement.

## Structure of the paper

9. This paper is structured as follows:
  - (a) overview of the proposed requirements in [draft] S2 (paragraph 10);
  - (b) summary of feedback received (paragraphs 11–18);
  - (c) staff analysis and recommendations (paragraphs 19–23);
  - (d) questions for the ISSB; and
  - (e) appendices
    - (i) Appendix A—extract of the proposed Scope 1 and Scope 2 GHG emission requirements in [draft] S2
    - (ii) Appendix B—summary of relevant comments from AP4A *Climate-related Disclosures—Summary of comments* (September 2022)
    - (iii) Appendix C—extract of the relevant requirements in the Exposure Draft of European Sustainability Reporting Standards (ESRS) E1 and the U.S. Securities and Exchange Commission (SEC)'s proposed rule
    - (iv) Appendix D—potential approach for restructuring [draft] S2 paragraph 21(a)(i)-(v)

## Overview of the proposed requirements in [draft] S2

10. In paragraph 21(a)(i)-(v), [draft] S2 proposes that an entity disclose:

- (a) its absolute gross GHG emissions, classified as Scope 1, Scope 2 and Scope 3, generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard (the GHG Protocol Corporate Standard), expressed as metric tonnes of CO<sub>2</sub> equivalent;
- (b) the intensity of each scope, expressed as metric tonnes of CO<sub>2</sub> equivalent per unit of physical or economic output;
- (c) its Scope 1 and Scope 2 GHG emissions separately for the consolidated accounting group and unconsolidated investees (associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group);
- (d) the approach it used to include GHG emissions for those unconsolidated investees based on the GHG Protocol Corporate Standard; and
- (e) the reasons for that approach and how they relate to the disclosure objective for the metrics and targets requirements ([draft] S2 paragraph 19).

## Summary of feedback received

11. With the publication of [draft] S2, the ISSB invited stakeholders to comment on the Exposure Draft, particularly on key questions associated with the proposed requirements, including questions relevant to the disclosure of Scope 1 and Scope 2 GHG emissions.
12. Most respondents agreed with the proposed requirement for entities to disclose its absolute gross GHG emissions generated during the reporting period, in particular with regards to the disclosure of Scope 1 and Scope 2 GHG emissions.
13. The agenda paper 4A *Climate-related Disclosures—Summary of comments* (September 2022) lays out the feedback to the questions asked on the Scope 1, Scope 2 and Scope 3 GHG emissions requirements. In this paper, the staff analyses the aspect of whether respondents agreed that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates (question 9(e) in the Invitation to Comment published alongside [draft] S2). Agenda Paper 4B *Scope 3 greenhouse gas emissions* analyses the feedback to question 9(f) on Scope 3 GHG emissions, and Agenda Paper 4C *Greenhouse gas emissions measurement methods* analyses the feedback to question 9(c) on using the GHG Protocol Corporate Standard for entities to measure GHG emissions.

### ***Do you agree that entities should be required to separately disclose Scope 1 and Scope 2 emissions for: (i) the consolidated entity; and (ii) for any associates, joint ventures, unconsolidated subsidiaries and affiliates? Why or why not?***

#### *Agreement*

14. Most respondents agreed that entities should be required to disclose Scope 1 and Scope 2 GHG emissions separately for the consolidated accounting group (the parent and its subsidiaries), saying that such disclosure would help users of general purpose financial reporting understand and compare the total emissions for entities with different business structures.
15. There were limited disagreements<sup>1</sup> with requiring entities to disclose the *approach* used to include Scope 1 and Scope 2 GHG emissions for unconsolidated investees. Accounting firms, in particular,

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<sup>1</sup> A specific question was not asked about this or the matter addressed in the next paragraph (paragraph 16) hence this phrasing.

commented on the importance of providing transparency into the entity's approach and sources of key inputs.

16. Furthermore, there were limited disagreements with requiring entities to disclose the reason, or reasons, for their choice of approach to include Scope 1 and Scope 2 GHG emissions for unconsolidated investees and how the reasoning relates to the disclosure objective in [draft] S2 paragraph 19.

### Concerns

17. Stakeholder feedback suggested that the requirement to separately disclose for the consolidated entity and other investees may need to be further clarified, as many respondents raised concerns about disclosing all the GHG emissions from associates, joint ventures, unconsolidated subsidiaries or affiliates, saying that the GHG emissions from these entities would be outside the direct control of the reporting entity. Such feedback suggests that the ISSB may wish to clarify that the proposal only requires disclosure of these emissions *when they are included* in the reporting entity's overall Scope 1 and Scope 2 GHG emissions inventory: in other words, this is a requirement for the level of *disaggregation* of the reporting entity's emission information.
18. Some respondents requested guidance on how to apply [draft] S2's requirement to disclose Scope 1 and Scope 2 emissions separately for the consolidated accounting group.

### Staff analysis and recommendations

19. Based on the feedback, the staff recommends the ISSB proceed with the requirements that an entity disclose:
- (a) its absolute gross GHG emissions generated during the reporting period, expressed as metric tonnes of CO<sub>2</sub> equivalent, for its Scope 1 and Scope 2 GHG emissions;
  - (b) its Scope 1 and Scope 2 GHG emissions disaggregated separately for:
    - (i) the consolidated accounting group (the parent and its subsidiaries);
    - (ii) the unconsolidated investees (associates, joint ventures, unconsolidated subsidiaries or affiliates not included in [draft] S2 paragraph 21(a)(iii)(1));
  - (c) the approach it used to include its Scope 1 and Scope 2 GHG emissions for the unconsolidated investees not included in [draft] S2 paragraph 21(a)(iii)(1);
  - (d) the reason, or reasons, for the entity's choice of approach in [draft] S2 paragraph 21(a)(iv) and how that relates to the disclosure objective in [draft] S2 paragraph 19;
20. Connectivity between GHG emissions information and information in the financial statements helps users in their assessments of an entity's enterprise value, consistent with the objectives of [draft] S2. To facilitate such connectivity, [draft] S2 proposed a requirement that an entity disclose GHG emissions information separately for the consolidated accounting group and unconsolidated investees. Although one of the organisational boundary approaches included in the GHG Protocol Corporate Standard was originally designed to align with IFRS Accounting Standards, changes to IFRS Accounting Standards over time have resulted in misalignment, which the requirement is intended to address. In addition, this proposed disaggregation was designed to facilitate comparability. Having separate information about the GHG emissions and information about the measurement approaches applied was intended to assist investors to make adjustments and to be alert to differences when making comparisons between reporting entities.

21. The staff's analysis suggests that many of the concerns raised by stakeholders regarding the requirement to separately disclose Scope 1 and Scope 2 GHG emissions for the consolidated accounting group and unconsolidated investees stemmed from a lack of clarity in [draft] S2, and the staff recommends the ISSB amend the requirement to provide clarity by:
  - (a) restructuring the disclosure requirements; and
  - (b) making targeted drafting amendments to the requirements.
22. The staff believes that there is confusion about whether paragraph 21(a)(iii) proposed an approach to determining the GHG inventory for unconsolidated investees that would override the application of the GHG Protocol Corporate Standard, rather than requiring disaggregation of the emissions measured using the GHG Protocol Corporate Standard. The amendments recommended in paragraph 21 would clarify that the separate disclosures for the consolidated accounting group and the unconsolidated investees are intended to be consistent with a GHG inventory prepared according to the GHG Protocol Corporate Standard and do not conflict with the Protocol's approach to organisational boundaries. A potential approach to making this amendment is included in Appendix D.
23. The staff further recommends the ISSB develop guidance, such as an illustrative example, to further clarify the requirement to provide separate disclosures for the consolidated accounting group and the unconsolidated investees. The staff notes that the IFRS Sustainability Disclosure Taxonomy could help provide a digital link so that it's clear that the information disclosed in accordance with 21(a)(iii)(1) and 21(a)(iii)(2) would represent a disaggregation (or breakdown) of the information disclosed in paragraph 21(a)(i).

#### Questions for the ISSB

1. Does the ISSB agree with the staff recommendation to proceed with the proposed requirement as described in paragraph 19?
2. Does the ISSB agree with the staff recommendation to restructure, and make targeted amendments (such as the ones exemplified in Appendix D), to clarify the requirement that an entity be required to disclose its Scope 1 and Scope 2 GHG emissions disaggregated separately for the consolidated accounting group and the unconsolidated investees?

## Appendix A – extract of the proposed Scope 1 and Scope 2 GHG emission requirements in [draft] S2

A1. Proposal in question for this Board paper: paragraph 21(a)

- 21 An entity shall disclose information relevant to the cross-industry metric categories of:
- (a) *greenhouse gas emissions*—the entity shall disclose:
    - (i) its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, expressed as metric tonnes of *CO<sub>2</sub> equivalent*, classified as:
      - (1) *Scope 1 emissions*;
      - (2) *Scope 2 emissions*;
      - (3) *Scope 3 emissions*;
    - (ii) its greenhouse gas emissions intensity for each scope in paragraphs 21(a)(i)(1)—(3), expressed as metric tonnes of CO<sub>2</sub> equivalent per unit of physical or economic output;
    - (iii) for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)—(2), the entity shall disclose emissions separately for:
      - (1) the consolidated accounting group (the parent and its subsidiaries);
      - (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1);
    - (iv) the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard);
    - (v) the reason, or reasons, for the entity's choice of approach in 21(a)(iv) and how that relates to the disclosure objective in paragraph 19;
    - (vi) for Scope 3 emissions disclosed in accordance with paragraph 21(a)(i)(3):
      - (1) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;
      - (2) an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;
      - (3) when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement;
      - (4) if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure;

## Appendix B – summary of comments from AP4A Summary of Comments from September

### **Question 9(e)—Separate Scope 1 and Scope 2 emissions**

- B1. Most respondents agreed that entities should be required to disclose Scope 1 and Scope 2 emissions for the consolidated accounting group (the parent and its subsidiaries), saying that such disclosure would help users of general purpose financial reporting understand and compare the total emissions for entities with different business structures.
- B2. However, further clarity might be needed as many respondents understood the requirement to mean that an entity would be required to disclose all the GHG emissions from its associates, joint ventures, unconsolidated subsidiaries, or affiliates, irrespective of consolidation approach.
- B3. Some respondents requested more clarity on how entities should disclose their GHG emissions using the GHG Protocol Corporate Standard.

### **How staff quantified the feedback**

- B4. The papers use the following terms to describe the extent to which feedback was provided by respondents, which is defined as stakeholders who submitted a comment letter or survey response:

*Table 1 How staff quantified feedback*

<b>Term</b>	<b>Extent of response among respondents</b>
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

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## Appendix C – extract of the relevant requirements in the Exposure Draft of ESRS E1 and the U.S. SEC's proposed rule

- C1. At a high level, the U.S. SEC's proposed requirements include the disclosure of Scope 1 and Scope 2 GHG emissions in aggregate and disaggregated by each constituent GHG in terms of metric tons of CO<sub>2</sub> equivalent. The entity must describe the method, organisational boundaries, significant inputs and assumptions, calculation approach including emission factors and source of emission factors, and any tools used to calculate GHG emissions. The U.S. SEC's organisational boundaries are based on accounting principles, which require consistency in the scope of consolidation and reporting for financial and GHG emissions data. The U.S. SEC does not require an entity to use a particular method in calculating its GHG emissions.
- C2. At a high level, ESRS E1's proposed requirements include the disclosure of gross Scope 1 and Scope 2 GHG emissions in metric tons of CO<sub>2</sub> equivalent. For Scope 1 GHG emissions, it is also required to disclose the share of Scope 1 GHG emissions under regulated emission trading schemes. For Scope 2 GHG emissions, an entity must disclose gross location-based and market-based Scope 2 GHG emissions in metric tons of CO<sub>2</sub> equivalent. The boundaries require it to be consistent with financial statements expanded to upstream and downstream of the value chain. It includes the equity method for associates and joint ventures and proportional consolidation.
- C3. For the measurement method of Scope 1 GHG emissions, ESRS E1 requires entities to consider the principles, requirements, and guidance provided by the GHG Protocol Corporate Standard (version 2004), GRI 305 (version 2016), and also use the most recent GWP values published by the IPCC based on a 100-year time horizon for the calculation. For Scope 2 GHG emissions, it requires the entity to consider the principles and provisions of the GHG Protocol Scope 2 Guidance (version 2015). It also requires the entity to disclose the total GHG emissions of Scope 1, Scope 2, and Scope 3 GHG emissions and breakdown by major countries and operating segments.

## Appendix D – potential approach for restructuring [draft] S2 paragraph 21(a)(i)-(v)

- E1. Paragraph E2 lays out the proposed restructuring and example amendments to [draft] S2 for paragraph 21(a)(i)-(v) for consideration to make the disclosure requirement clearer for the consolidated accounting group and unconsolidated investees. This excludes any edits that may be considered by the ISSB following the redeliberation of the outstanding aspects of the GHG emissions proposal. Furthermore, the proposed restructuring and example amendments to [draft] S2 for paragraph 21(a)(i)-(v) are compared to the current proposal in [draft] S2, in table 2.
- E2. An entity shall disclose information relevant to the cross-industry metric categories of:
- (a) Greenhouse gas emissions—the entity shall disclose:
    - (i) its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, expressed as metric tonnes of *CO<sub>2</sub> equivalent*, classified as:
      - (1) *Scope 1 emissions*;
      - (2) *Scope 2 emissions*;
      - (3) *Scope 3 emissions*;
    - (ii) its greenhouse gas emissions intensity for each scope in paragraphs 21(a)(i)(1)—(3), expressed as metric tonnes of CO<sub>2</sub> equivalent per unit of physical or economic output;
    - (iii) the approach it used ~~when including~~ include emissions for entities outside the consolidated accounting group for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard);
    - (iv) the reason, or reasons, for the entity's choice of approach in 21(a)(~~iii~~v) and how that relates to the disclosure objective in paragraph 19;
    - (v) for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)—(2), the entity shall disaggregate the information disclosing emissions separately for:
      - (1) the consolidated accounting group (the parent and its subsidiaries);
      - (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(~~v~~ii)(1);

Table 2 Comparison of the recommended approach to restructuring and structure in [draft] S2

Recommended approach for restructuring		Structure in [draft] S2	Proposed amendment
21(a)	<i>greenhouse gas</i> emissions—the entity shall disclose:	21(a)	No change
21(a)(i)	its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, expressed as metric tonnes of CO <sub>2</sub> equivalent, classified as: <ul style="list-style-type: none"> <li>(1) Scope 1 emissions;</li> <li>(2) Scope 2 emissions;</li> <li>(3) Scope 3 emissions;</li> </ul>	21(a)(i)	No change
21(a)(ii)	its greenhouse gas emissions intensity for each scope in paragraphs 21(a)(i)(1)—(3), expressed as metric tonnes of CO <sub>2</sub> equivalent per unit of physical or economic output;	21(a)(ii)	No change
21(a)(iii)	the approach it used <del>when including</del> <u>include emissions for entities outside the consolidated accounting group for the entities included in paragraph 21(a)(iii)(2)</u> (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard);	21(a)(iv)	Restructuring  Exemplified targeted draft amendments blacklined
21(a)(iv)	the reason, or reasons, for the entity's choice of approach in 21(a)(iii) and how that relates to the disclosure objective in paragraph 19;	21(a)(v)	Restructuring
21(a)(v)	for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)—(2), the entity shall <u>disaggregate the information</u> disclosing emissions separately for: <ul style="list-style-type: none"> <li>(1) the consolidated accounting group (the parent and its subsidiaries);</li> <li>(2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(v)(1);</li> </ul>	21(a)(iii)	Restructuring  Exemplified targeted draft amendments blacklined