IFRS Sustainability

Staff paper

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ISSB Meeting

Date	**January 2023**
Project	**Climate-related Disclosures**
Topic	**Cover note and summary of redeliberations**
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Purpose of this meeting

1. At this meeting, the ISSB will continue redeliberating the proposals in the Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2) including the proposed requirements for the disclosure of information about climate resilience, climate-related metrics and climate-related targets. Specifically, this includes:

   (a) **climate resilience**—the proposed requirement in paragraph 15 of [draft] S2, focusing on how an entity would determine which approach to climate-related scenario analysis it should apply;

   (b) **climate-related metrics**—the proposed requirement in paragraph 21(a) of [draft] S2, focusing on whether and what relief the ISSB should provide relating to the compilation of an entity's Scope 1 and Scope 2 GHG emissions information when there are differences in the reporting entity's reporting period and that of entities in its value chain; and

   (c) **climate-related targets**—the proposed requirement in paragraph 23(e) of [draft] S2, focusing on the requirement that an entity disclose how its target compares with those created in the latest international agreement on climate change.

2. Furthermore, the ISSB will continue redeliberating joint proposals in Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1) and [draft] S2. Specifically, this includes:

   (a) **current and anticipated effects**—the proposed requirements in [draft] S1 and [draft] S2 that an entity disclose the effects of sustainability-related (and climate-related) risks and opportunities on an entity's financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long term.

   (b) **reasonable and supportable**—the proposed requirements in [draft] S1 and [draft] S2 that involve a high level of outcome or measurement uncertainty, particularly requirements where forward-looking information is required to be considered or disclosed. One of these requirements is the climate resilience requirement in paragraph 15 of [draft] S2. This paper should therefore be reviewed in conjunction with Agenda Paper 4A: *Using scenario analysis to assess climate resilience*.

3. The ISSB will also redeliberate on topics led by the General Sustainability-related Disclosures Project that have implications for [draft] S2. This includes the proposed requirements in [draft] S1 and [draft] S2 related to opportunities, which raised concerns among stakeholders that those requirements may result in the disclosure of commercially sensitive information. Information about the General Sustainability-led papers can be found in Agenda Paper 3: *General Sustainability-related Disclosures—Cover note and summary of redeliberations*.

4. The ISSB will discuss the following papers:

   (a) Agenda Paper 4A: Using scenario analysis to assess climate resilience;

   (b) Agenda Paper 4B: Greenhouse gas emissions—reporting period relief;

   (c) Agenda Paper 4C: Latest international agreement on climate change;

   (d) Agenda Paper 3C and 4D: Reasonable and supportable information that is available at the reporting date without undue cost or effort; and

   (e) Agenda Paper 3E and 4E: Current and anticipated financial effects and connected information.

Next steps

5. At this point the staff anticipates that the February ISSB meeting will be the last decision making meeting on [draft] S2.

Summary of redeliberations

6. The Appendix summarises the redeliberations for this project, including the ISSB's tentative decisions.

Appendix A—Tentative decisions by the ISSB

Topic and ref	Tentative decisions by the ISSB
Scalability/ proportionality	The ISSB tentatively decided that mechanisms should be identified to enable disclosure requirements to be scalable, when relevant. In particular, the ISSB considered whether to: (a) amend the proposed disclosure requirements so that an entity, based on specific criterion related to scalability, would not be required to provide a particular disclosure (or would be required to provide an alternative disclosure that is simpler to apply); (b) amend the proposed disclosure requirements so that an entity that meets a criterion of being unable to provide a disclosure is required to explain how it meets the criterion; (c) provide materials to assist preparers in the application of the standards, which include the ISSB providing guidance to support application; (d) provide materials to assist preparers in the application of the standards, which include referring to other sustainability-related protocols, frameworks and guidance as resources for further guidance, measurement methodologies and inputs to calculations to support application; and (e) amend the proposed disclosure requirements to differentiate the application by entities, by identifying requirements that are ‘basic’ and ‘advanced’ that could be utilised by a jurisdiction for a transition period. The ISSB tentatively decided on factors to assess which scalability mechanisms are appropriate for responding to specific scalability challenges: (a) whether the scalability challenges are temporary (in other words transitional) or more permanent (for example, due to data availability); (b) the extent to which the set of entities with a scalability challenge can be specifically identified; (c) the extent of available market guidance, methods, industry-practices and techniques; and (d) the maturity of the underlying methods and techniques that underpin the disclosure requirement.

Strategy and decision-making and targets Proposal: [draft] S2 paragraphs 13, 23 Feedback: Sept 22 AP4A questions 5, 10	In relation to emissions targets, the ISSB tentatively decided: (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; (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 emissions targets in transitioning to a low-carbon economy (paragraph 13(b) of draft S2); and (d) to clarify that an entity would be required to disclose any emissions targets it has set (both net emission targets and gross emissions reduction targets) and those it is required to meet by local legislation. In relation to climate-related targets, the ISSB tentatively decided: (a) to confirm and clarify the proposed requirements in paragraphs 13 and 23 of draft S2 for an entity to disclose how climate-related risks and opportunities affect its strategy and decision-making, its plans to transition towards a lower-carbon economy, and its climate-related targets; (b) to require an entity to disclose the assumptions it makes and the dependencies it identifies in developing its transition plans; (c) not to introduce a requirement for an entity to disclose the implications for its transition plans if its assumptions are not met; and (d) to require an entity to disclose additional information about its climate-related targets, including: (i) the scope of the entity's targets; (ii) the greenhouse gases and the emission scopes that are covered by the entity's emission targets; and (iii) which international agreement on climate change the entity is referencing when applying the requirements in paragraph 23 of draft S2.

Financial position, financial performance and cash flows Proposal: : [draft] S2 paragraphs 12, 13 Feedback: Sept 22 AP4A questions 4, 6	In relation to the proposed requirements in draft S2 about current effects, the ISSB tentatively decided to confirm: (a) that paragraph 14 of draft S2 would require an entity to disclose information about the effects of climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period (ie the current effects); (b) that separate disclosures are not required for physical risks, transition risks and climate-related opportunities, except as set out in paragraph 21(b)–(d) of draft S2; and (c) the requirement for separate disclosures about assets subject to physical risks, transition risks and climate-related opportunities, in the form of metrics as specified in paragraph 21(b)–(d) of draft S2.
Climate resilience Proposal: [draft] S2 paragraph 15 Feedback: Sept 22 AP4A question 7	In relation to climate resilience, the ISSB tentatively decided: (a) to confirm paragraph 15(a) of draft S2, requiring an entity to disclose the results of its analysis of climate resilience and the particular information set out in that paragraph; (b) to confirm paragraph 15(b) of draft S2, requiring an entity to describe how its climate resilience analysis has been conducted; (c) to confirm paragraph 15(b)(i)(4) of draft S2, requiring an entity to disclose whether it has used, among its scenarios, a scenario aligned with the latest international agreement on climate change, thus also confirming: that the language on the latest international agreement on climate change (ie the Paris Agreement) is not 'hard coded' into the requirements; and that entities are not required to use a specific scenario related to the latest international agreement on climate change or a 1.5C° scenario; and (d) to require an entity to disclose how it uses climate-related scenario analysis to inform its identification of climate-related risks and opportunities. Building on these decisions, the ISSB tentatively decided: (a) to require an entity to assess its climate resilience using a method of climate-related scenario analysis commensurate with the entity's circumstances. The ISSB will do further work to clarify the criteria for an entity to select a method of analysis; (b) to remove references to 'alternative methods' of assessing resilience from paragraph 15;

	(c) to develop application guidance for paragraph 15 based on guidance from the Task Force on Climate-Related Financial Disclosures; (d) to amend the definition of 'climate resilience' in Appendix A to draft S2 to clarify that, in relation to uncertainties associated with climate change, an entity's climate resilience includes its strategic and operational resilience; (e) to clarify that an entity would be required to disclose annually the information on climate resilience described in paragraph 15—even if the entity does not use scenario analysis annually; (f) to amend the terminology in paragraph 15 to clarify that 'analysis' describes the tool (scenario analysis) that an entity is required to use in order to assess its climate resilience; and also to clarify that 'assessment' in that paragraph describes the entity's objective when it uses scenario analysis to assess its climate resilience; and (g) to explore developing guidance based on third-party materials to help an entity choose relevant scenarios for assessing and preparing disclosures on climate resilience.
GHG emissions Proposal: [draft] S2 paragraph 21a Feedback: Sept 22 AP4A question 9(c)-(f)	In relation to Scope 1 and 2 GHG emissions, the ISSB tentatively decided to proceed with the proposed requirement for an entity to disclose: (a) its absolute gross GHG emissions generated during the reporting period, expressed as metric tonnes of CO_2 equivalent, for its Scope 1 and Scope 2 GHG emissions; (b) the approach it used to include its Scope 1 and Scope 2 GHG emissions for the unconsolidated investees (ie associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1) of draft S2); and (c) the reason, or reasons, for the entity's choice of approach required by paragraph 21(a)(iv) of draft S2, and how that relates to the disclosure objective in paragraph 19 of draft S2. (d) Furthermore, the ISSB tentatively decided to proceed with, but clarify, the proposed requirements for an entity to disclose its Scope 1 and Scope 2 GHG emissions disaggregated separately for: (i) the consolidated accounting group (ie the entity's parent and its subsidiaries); and (ii) the unconsolidated investees. In relation to Scope 3 greenhouse gas emissions, 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.

In relation to greenhouse gas emissions measurement methods, the ISSB tentatively decided:

(a) to amend its proposals so that an entity would be required to apply the GHG Protocol Standards subject to relief in specific circumstances; and

(b) to specify that an entity is required to apply the version of the GHG Protocol Standards in force on the date that draft S2 was exposed for comment (31 March 2022). For the GHG Protocol Corporate Standard this is, therefore, the 2004 version, and for the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard this is the 2011 version.

Building on these decisions for GHG emissions, the ISSB tentatively decided:

(a) to remove the proposed requirement in paragraph 21(a)(ii) of draft S2 for an entity to disclose its GHG emissions intensity;

(b) to confirm that draft S2 includes no explicit requirement for an entity to disaggregate its disclosure of GHG emissions by constituent gases;

(c) to introduce a requirement for an entity to use the global warming potential values in the latest assessment by the Intergovernmental Panel on Climate Change, based on a 100-year time horizon;

(d) to introduce a requirement for an entity to disclose information that would enable users of general purpose financial reporting to understand how and why the entity has used specific inputs, assumptions and estimation techniques to measure its GHG emissions. As part of this requirement, an entity would disclose information about changes in the estimation techniques it uses and changes in significant assumptions it makes during the reporting period; and

(e) to amend the requirement in paragraph 21(a)(i)(2) of draft S2 so that in disclosing its Scope 2 GHG emissions, an entity would be required to use the location-based method (reflecting the average emissions intensity of its local grid) along with relevant information about contractual instruments related to managing energy it has purchased.

	Building on these decisions for Scope 3 greenhouse gas emissions, the ISSB tentatively decided: (a) to introduce reliefs for an entity disclosing its Scope 3 GHG emissions. Specifically: (i) a temporary exemption from the requirement for the entity to disclose its Scope 3 GHG emissions for a minimum of one year after the effective date of IFRS S2; and (ii) a relief allowing the entity to measure its Scope 3 GHG emissions using information from entities in its value chain with reporting periods that are not aligned with the entity's reporting period, on condition that: (1) the entity uses the most recent data available without undue cost or effort to estimate and disclose its Scope 3 GHG emissions; (2) the length of the reporting periods is the same; and (3) the entity discloses the effects of significant events and changes in circumstances that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting. (b) to introduce a framework for measuring Scope 3 GHG emissions, as described in paragraph 48 and 50 in Agenda Paper 4B: *Climate-related Disclosures—Scope 3 greenhouse gas emissions* from the December 2022 ISSB meeting. (c) to introduce requirements, along with the framework for measuring Scope 3 GHG emissions, for an entity to disclose information that would enable users of general purpose financial reporting to understand how the entity measures its Scope 3 GHG emissions. Those requirements would specify that an entity disclose: (i) to what extent the Scope 3 GHG emissions disclosure is estimated using inputs from specific activities in the entity's value chain ('primary data'); (ii) to what extent the Scope 3 GHG emissions disclosure is estimated using inputs that are verified; and (iii) how the entity is managing (how it is 'thinking about') its Scope 3 GHG emissions if the entity determines it is impracticable to estimate its Scope 3 GHG emissions. (d) to introduce relief for an entity making disclosures about its value chain, namely:

	(i) guidance to help the entity assess which sustainability-related risks and opportunities in its value chain are relevant to users of general purpose financial reporting, using Scope 3 GHG emissions as an example; and (ii) a requirement for the entity to reassess the scope of its sustainability-related risks and opportunities only if a significant event or a significant change of circumstances occurs. (e) to confirm that all entities would be required to include information about which of the 15 Scope 3 GHG emissions categories—described in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard—are included in the entity's measurement of its Scope 3 emissions, irrespective of whether its measurement was in accordance with the GHG Protocol Corporate Standard.
Industry-based requirements: Appendix B Proposal: [draft] S2 Appendix B Feedback: Sept 22 AP4A question 11	In relation to the industry-based requirements set out in Appendix B to draft S2, the ISSB tentatively agreed to: (a) maintain the requirement that entities provide industry-specific disclosures; and (b) classify the content in Appendix B as illustrative examples, while stating its intention to make Appendix B mandatory in the future, subject to further consultation. Building on these decisions, the ISSB tentatively decided: (a) to amend draft S2 so that the industry-based requirements in Appendix B become part of the S2 illustrative guidance; (b) to enhance Appendix B by addressing international applicability and standard inconsistencies; and (c) to amend Appendix B to correct errors in its scope introduced by the inclusion or omission of some metrics.
Financed and facilitated emissions Proposal: [draft] S2 Appendix B	The ISSB tentatively decided: (a) to confirm the proposed requirements for financed emissions by entities engaged in activities associated with 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; (b) to confirm the proposed use of the term 'financed emissions', the approach to aggregation in the Asset Management & Custody Activities industry, the requirement for transparency around calculation methodology, and the use of the Global Industry Classification System;

Feedback: Sept 22 AP4A question 11(d)-(i)	(c) to remove the proposed requirements for GHG emissions intensity disclosures, and for entities involved in Investment Banking & Brokerage industry activities to disclose information about their facilitated emissions; (d) to confirm and clarify the proposed requirements for entities engaged in activities associated with the Commercial Banks or Insurance industries to disclose undrawn loan commitments, and for entities with Commercial Banking activities to provide disclosures on a gross basis (without consideration of risk mitigants); and (e) to amend the proposed requirements for financed emissions to remove references to and disclosure requirements on 'carbon-related industries', and to remove the proposed requirement for an entity to include derivatives when calculating its financed emissions.