
ISSB Meeting

Date	January 2023
Project	Climate-related Disclosures
Topic	Greenhouse gas emissions—reporting period relief
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Objective

1. At its December 2022 meeting, the International Sustainability Standards Board (ISSB) discussed and made decisions with regard to the requirement proposed in paragraph 21(a) of the Exposure Draft IFRS S2 *Climate-related Disclosures* ([draft] S2). Among those decisions, the ISSB decided to provide relief that relates to the compilation of Scope 3 greenhouse gas (GHG) emissions information when there are differences between the reporting period of the reporting entity and the reporting periods of entities in its value chain.
2. In particular, the ISSB decided to provide relief that allows an entity to measure its Scope 3 GHG emissions using information for reporting periods that are different from its own reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity, on condition that:
 - (a) the entity uses the most recent data available without undue cost or effort to estimate and disclose its Scope 3 GHG emissions;
 - (b) the length of the reporting periods is the same; and
 - (c) the entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions information) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.
3. During the December meeting, the question was raised whether similar relief should be provided for an entity's disclosure of Scope 1 and Scope 2 GHG emissions. These disclosures also may include GHG emission information from entities in the reporting entity's value chain—including consolidated and unconsolidated subsidiaries, joint ventures and associates—that have reporting periods that do not align with that of the reporting entity. The objective of this paper is to provide the staff's analysis and recommendations with regard to this question.

Summary of staff recommendations

4. The staff recommends the ISSB extend the relief described in Agenda Paper 4B (AP4B): *Climate-related Disclosures—Scope 3 greenhouse gas emissions* (December 2022) to Scope 1 and Scope 2 GHG emissions. This would allow an entity to measure its GHG emissions using information for reporting periods that are different from the entity's reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity, subject to the specific conditions laid out in paragraph 15.

Structure of the paper

5. This paper is structured as follows:
 - (a) background (paragraphs 6–11);
 - (b) staff analysis and recommendations (paragraphs 12–16);
 - (c) alternatives considered, but not recommended (paragraphs 17–22);
 - (d) questions for the ISSB (paragraph 23); and
 - (e) appendix A—Extracts from IFRS 10 *Consolidated Financial Statements* (IFRS 10) and IAS 28 *Investments in Associates and Joint Ventures* (IAS 28)

Background

6. In March 2022, the Chair and Vice-Chair published [draft] S2, setting out proposed requirements for the disclosure of climate-related information including the disclosure of Scope 1, Scope 2 and Scope 3 GHG emissions generated during the reporting period.
7. Specifically, paragraph 21(a)(i) and (iii) of [draft] S2 propose 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: A Corporate Accounting and Reporting Standard (the GHG Protocol Corporate Standard), expressed as metric tonnes of CO₂ equivalent (CO₂e); and
 - (b) its Scope 1 and Scope 2 GHG emissions separately for (i) the consolidated accounting group and (ii) unconsolidated investees (associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group).
8. At its meeting in October 2022, the ISSB decided to confirm its proposals as described in paragraph 7, with some additional relief related to the requirement to use the GHG Protocol Corporate Standard as a basis for measurement. This included confirming the requirement that an entity disclose its Scope 3 GHG emissions (when material). In addition, the ISSB decided that IFRS S2 would provide relief to assist with data availability and data quality challenges associated with Scope 3 GHG emissions.
9. At its meeting in December 2022, the ISSB decided to provide relief that relates to the compilation of Scope 3 GHG emissions information when there are differences between the reporting period of the reporting entity and the reporting periods of entities in its value chain. In particular, the ISSB decided to provide relief that allows an entity to measure its Scope 3 GHG emissions using information for reporting periods that are different from the entity's reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity, subject to specific conditions.
10. In that meeting, the question was raised whether similar relief should be provided for the disclosure of Scope 1 and Scope 2 GHG emissions. These disclosures also may include GHG emission information from entities in the reporting entity's value chain—including consolidated and unconsolidated subsidiaries, joint ventures and associates—that have reporting periods that are different from that of the reporting entity.
11. The staff notes that the ISSB's decision in December 2022 **includes** relief for Scope 3 GHG emission information in relation to consolidated and unconsolidated subsidiaries, joint ventures and associates.

This is because an entity's consolidated and unconsolidated subsidiaries, joint ventures and associates are included in the definition of an entity's value chain.¹

Staff analysis and recommendations

12. For the measurement of its GHG emissions, an entity may need to include GHG emission information from its consolidated and unconsolidated subsidiaries, joint ventures and associates as well as other partners in its value chain (including, but not limited to, its suppliers). An entity may need relief when GHG emission information is obtained from entities in its value chain with **a reporting period that is different from that of the preparer**, as raised in the consultation and discussed in AP4B: *Climate-related Disclosures—Scope 3 greenhouse gas emissions*.
13. In December 2022, the focus was on Scope 3 GHG emissions; however, the staff notes that preparers may face the same challenge when measuring and disclosing Scope 1 and Scope 2 GHG emissions. For example, a reporting entity with a year end of 31 December may have an investment in an associate with a reporting year end of 31 March. The associate measures its GHG emissions for the year ended 31 March to align with its reporting period. Without relief, the associate's GHG emission information would need to be adjusted to reflect the reporting entity's reporting period to be used in the reporting entity's GHG emissions measurement. Depending on the approach a reporting entity uses in the GHG Protocol Corporate Standard, information about its associate's emissions may be relevant for the reporting entity's Scope 1, Scope 2 or Scope 3 GHG emissions. As discussed in December, the same challenge exists (and could be more acute due to a lower level of influence) for other entities in the value chain including those in which the reporting entity has no ownership interest (for example, a supplier)².
14. The relief agreed by the ISSB in the December 2022 meeting assists preparers with this issue for **all entities in the value chain but only for the preparer's Scope 3 GHG emissions**. The staff thinks the relief provided to preparers should be tied to the challenges an entity may face with regards to obtaining GHG emission information from entities or activities in its value chain irrespective of whether those emissions fall into the preparer's Scope 1, Scope 2 or Scope 3.
15. Consequently, the staff recommends the ISSB extend the relief described in paragraph 2 of this paper to Scope 1 and Scope 2 GHG emissions. Specifically, the staff recommends that the ISSB provide relief that allows an entity to measure its GHG emissions using information for reporting periods that are different from the entity's reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity's, on condition that:
 - (a) the entity uses the most recent data available without undue cost or effort to measure and disclose its GHG emissions;
 - (b) the length of the reporting periods is the same; and
 - (c) the entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions information) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.

¹ The term 'value chain' is defined in Appendix A of the Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([draft] S1). In short, it includes the full range of activities, resources and relationships related to a **reporting entity's business model** and the external environment in which it operates.

² The staff notes that entities are not required to always measure GHG emissions by obtaining direct emissions information from entities in the value chain (for example estimation could be used in accordance with the ISSB's decisions of December 2022) – however it is of course a very relevant source of information.

16. The staff's recommendation would result in relief for all entities in the value chain—including but not limited to consolidated and unconsolidated subsidiaries, joint ventures and associates—and would apply to Scope 1, Scope 2 and Scope 3 GHG emissions.

Alternatives considered, but not recommended

17. The staff considered differentiating the relief based on the scope of GHG emissions—that is, providing different relief for Scope 1 and Scope 2 GHG emissions compared to the relief for Scope 3 GHG emissions—for all entities in the value chain. This was considered reflecting the fact that the primary sources of GHG emissions information for an entity's measurement of its Scope 1 and Scope 2 GHG emissions will be information about the entity and information about its consolidated and unconsolidated subsidiaries, joint ventures and associates. This contrasts with Scope 3, which includes emissions information associated with these entities but also GHG emissions arising from the activities of a much larger range of entities (including when the reporting entity has no ownership interest).
18. In particular, the staff considered whether there should be a maximum allowable difference (ie a maximum allowable 'misalignment') between the entity's reporting date and the reporting dates of its consolidated and unconsolidated subsidiaries, joint ventures and associates. Some may consider such a restriction appropriate on the basis that there could be a greater ability for the reporting entity to influence the investee to obtain aligned information/reporting dates due to the existence of an ownership interest. So, for example, such a restriction could allow GHG emissions information from these entities to be used by the reporting entity only if the difference in the reporting date is no more than three months. Such a restriction would be similar to restrictions included in IFRS Accounting Standards as set out in Appendix A.
19. The staff notes that the relief provided for an entity's measurement of its Scope 3 GHG emissions, following the ISSB's December 2022 meeting, could be described as broader than that provided by the International Accounting Standards Board (IASB) for the consolidated accounting group (IFRS 10) and joint ventures and associates (IAS 28), which is set out in Appendix A. Providing relief closer to IFRS 10 and IAS 28 for Scope 1 and Scope 2 GHG emissions (on the basis that when these emissions are not directly applicable to the reporting entity, these emissions most commonly relate to subsidiaries, associates or joint ventures) would be consistent with the most relevant IFRS Accounting literature, which restricts the 'disconnect' in the timeliness of information used by a reporting entity when preparing consolidated information and/or applying equity accounting.
20. The staff does not recommend this alternative because, depending on the choices that an entity makes when it applies the GHG Protocol Corporate Standard, the GHG emissions of unconsolidated subsidiaries, joint ventures and associates may be included in the entity's Scope 1 and Scope 2 or Scope 3 GHG emissions measurement³. This means that:
- there may be common data collection challenges across GHG emission scopes, suggesting that a differentiated approach to relief (based on scope) is not appropriate.
 - the relief provided may vary for the same GHG emission information. For example, an entity that applies the equity share approach and owns voting equity shares in a joint venture, but which does not have operational control, will need GHG emissions information from that joint venture for its Scope 1 and Scope 2 GHG emissions disclosure. Whereas if the same entity with the same investment had applied the operational control approach it would reflect the joint venture's GHG emissions in the entity's Scope 3 GHG emissions disclosure instead. Therefore, depending on the approach selected by the entity, different relief would be

³ This is why [draft] S2 proposed, and the ISSB has confirmed, separate disclosure for information about Scope 1 and 2 GHG emissions for the consolidated (accounting) group and other investees to facilitate comparability as set out in paragraph 7 in this paper

available. The staff believes the relief should not depend on the approach the entity chooses when applying the GHG Protocol Corporate Standard as the practical challenge is consistent.

21. Furthermore, the staff notes that there is little evidence to indicate that, in today's environment, the usefulness of the GHG emissions disclosure to users of general purpose financial reporting would be significantly reduced by allowing an entity to use data from its value chain that is based on a different reporting period, as described in AP4B: *Climate-related Disclosures—Scope 3 greenhouse gas emissions* (December 2022).
22. Finally, the staff notes that the reliefs agreed in relation to information arising from different reporting periods to a reporting entity, as agreed by the ISSB in December and recommended in this paper, relates specifically to GHG emission disclosures. The staff considered whether to recommend that the ISSB provide relief more broadly to all the (value chain related) requirements in [draft] S1 (thus more generally allowing the use of information for a different reporting period to an entity's when that information arises from entities in its value chain with a different reporting period). However, the staff notes that the relief recommended to the ISSB in December for Scope 3 GHG emissions was on the basis of stakeholder feedback specifically related to measurement challenges associated with Scope 3 GHG emissions. The staff has identified similar challenges for an entity's disclosure of Scope 1 and Scope 2 GHG emissions, particularly as a result of the application of the GHG Protocol Corporate Standard, and thus are recommending that similar relief is necessary. However, the staff does not believe we have sufficient evidence from stakeholder feedback or outreach to recommend that this relief should be provided for disclosures more generally in [draft] S1 or [draft] S2. Rather than recommending broad relief the staff recommends that the ISSB provide specific relief for GHG emission disclosures in S2 and continue to monitor this issue for disclosures beyond climate on an ongoing basis.

Question for the ISSB

23. The staff presents the following question for the ISSB.

Question for the ISSB

1. Does the ISSB agree to provide relief that relates to the compilation of an entity's GHG emission information when there are differences between the reporting entity's reporting period and that of entities in its value chain. In particular, to provide relief that allows an entity to measure its GHG emissions using information for reporting periods that are different from the entity's reporting period when that information arises from entities in its value chain with reporting periods that are different from that of the entity's, on condition that:
 - (a) the entity uses the most recent data available without undue cost or effort to measure and disclose its GHG emissions;
 - (b) the length of the reporting periods is the same; and
 - (c) the entity discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions information) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.

Appendix A—Extracts from IFRS 10 and IAS 28

IFRS 10 Consolidated Financial Statements (bold added for emphasis)	IAS 28 Joint Ventures and Associates (bold added for emphasis)
<p>B92 The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall have the same reporting date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the parent to enable the parent to consolidate the financial information of the subsidiary, unless it is impracticable to do so.</p>	<p>33 The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the entity, financial statements as of the same date as the financial statements of the entity unless it is impracticable to do so.</p>
<p>B93 If it is impracticable to do so, the parent shall consolidate the financial information of the subsidiary using the most recent financial statements of the subsidiary adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements. In any case, the difference between the date of the subsidiary's financial statements and that of the consolidated financial statements shall be no more than three months, and the length of the reporting periods and any difference between the dates of the financial statements shall be the same from period to period.</p>	<p>34 When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.</p>