
ISSB meeting

Date	September 2025
Project	Amendments to Greenhouse Gas Emissions Disclosures (Amendments to IFRS S2)
Topic	Disclosure requirements for use of the relief related to Scope 3 Category 15 greenhouse gas emissions
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Purpose

1. In April 2025, the International Sustainability Standards Board (ISSB) published the [Exposure Draft Amendments to Greenhouse Gas Emissions Disclosures](#). The Exposure Draft sets out proposed targeted amendments to IFRS S2 *Climate-related Disclosures* in response to application challenges related to greenhouse gas emissions measurement and disclosure requirements.
2. Agenda Paper 9 sets out the structure of the agenda papers for this meeting, background on the proposed amendments to IFRS S2, the summary statistics of stakeholder feedback, and the next steps.
3. The purpose of this paper is to set out the summary of stakeholder feedback about the proposed disclosure requirement for entities using the proposed relief from the measurement and disclosure of Category 15 greenhouse gas emission ('Category 15 GHG emissions') beyond financed emissions, and staff analysis and recommendations in response to that feedback. This feedback includes the survey responses and comment letters received from stakeholders about the Exposure Draft, and feedback from outreach activities.

4. At this meeting, the ISSB will be asked to vote on the staff recommendation on this proposed amendment to IFRS S2.

Structure of the paper

5. This paper is structured as follows:
 - (a) Summary of the staff recommendation;
 - (b) Overview of the proposed amendment;
 - (c) Feedback summary;
 - (d) Staff analysis of stakeholder feedback;
 - (e) Staff recommendations on the proposed amendment;
 - (f) Questions for the ISSB;
 - (g) Appendix A—Extract from the Exposure Draft.

Summary of the staff recommendations

6. The staff recommends that the ISSB proceed with the requirement to disclose information about what an entity excludes from its Scope 3 Category 15 GHG emissions disclosure—see Appendix A for the relevant extract from the Exposure Draft—with the following changes (relative to that proposed in the Exposure Draft):
 - (a) to replace the requirement to disclose the amount of derivatives and financial activities excluded from an entity’s measurement and disclosure of Category 15 GHG emissions with a requirement to *describe* the financial activities excluded including those associated with derivatives; and
 - (b) in addition to the proposed requirement for an entity to explain what financial instruments it treats as derivatives for the purposes of applying the relief, if that population differs from what it treats as derivatives in preparing its financial statements, require an entity to explain the difference.

7. The staff also recommend that the ISSB add a requirement to disclose:
 - (a) the total Category 15 GHG emissions; and
 - (b) a subtotal of the financed emissions that are included within the entity's measurement and disclosure of Category 15 GHG emissions, if the entity includes GHG emissions beyond financed emissions.

Overview of the proposed amendments

8. The ISSB proposed a relief to permit an entity to limit its measurement and disclosure of Category 15 GHG emissions to financed emissions as defined in IFRS S2. Further, the amendment specifies that, for the purpose of this limitation ('the Category 15 GHG emissions relief' or 'the relief'), an entity is permitted to exclude greenhouse gas emissions associated with derivatives. Refer to Agenda Paper 9A of this meeting for the feedback summary, staff analysis and recommendations about the proposed relief.
9. To provide transparency about the use of the relief, the ISSB proposed that an entity disclose information if the relief is used. Specifically, information about the magnitude of derivatives and other financial activities associated with the entity's Scope 3 Category 15 greenhouse gas emissions that are excluded—specifically, the amount of derivatives and financial activities excluded, and an explanation of what the entity treats as derivatives for the purpose of applying the relief. This information would enable primary users of general purpose financial reports (primary users) to understand the completeness of Category 15 GHG emissions information.
10. As noted in paragraph BC23 of the Basis for Conclusions on the Exposure Draft, the ISSB decided not to define 'amount' for the purpose of this proposed disclosure requirement. This decision is consistent with existing requirements in IFRS S2 which use the word 'amount' without defining this term (see, for example, paragraphs 29(b) and 29(c) of IFRS S2). This approach is intended to enable entities

to determine the most appropriate information to provide that is entity-specific and useful to users of general purpose financial reports.

Feedback summary

Overview of responses to Question 1(b)

11. Most respondents provided a response to Question 1(b) in the Exposure Draft. Overall, most respondents broadly support the proposed disclosure requirement. This includes many preparers and most investors. Additionally, many respondents that broadly disagree with the proposed relief in Question 1(a) of the Exposure Draft stated that they would be supportive of the proposed disclosure requirement if the proposed relief is finalised in IFRS S2. Some respondents, including some preparers and public interest organisations, broadly disagree with the proposed disclosure requirement. Notably, there is significant overlap in the respondents' concerns about the proposed disclosure requirement regardless of whether they broadly agree or disagree with the proposal.
12. The staff grouped the feedback about Question 1(b) into the following themes:
 - (a) support for disclosure that provides transparency about use of the relief;
 - (b) concerns about the usefulness of the proposed disclosure;
 - (c) concerns about the cost and effort of providing the disclosure; and
 - (d) suggestions for enhancing the disclosure requirement.

Disclosure that provides transparency about use of the relief

13. Most respondents that broadly support the proposed disclosure requirement comment on the importance of having information that helps a primary user understand whether an entity has used the Category 15 GHG emissions relief. Such comments include:

- (a) enhancing the ability to better contextualise Category 15 GHG emissions information, particularly allowing primary users to better understand the completeness of information about the entity's Category 15 GHG emissions; and
- (b) enhancing the ability to compare Category 15 GHG emissions disclosures both between entities and for the same entity over time. This is because the relief is optional which means information about exclusions supports an understanding about whether, and the extent to which, the relief has been used (in whole or in part).

We support the requirement for entities to disclose the magnitude of excluded derivatives and financial activities, as this promotes transparency and helps investors evaluate reporting gaps. (Comment letter 69, Impax Asset Management, an investor).

The ICA supports the proposed disclosure of the magnitude of the emissions under the relief. This approach reflects best practice for building trust in sustainability reporting and will enable users to better assess the reliability and relevance of reported data. (Comment letter 11, Insurance Council of Australia, a body representing preparers).

Usefulness of the proposed disclosure requirement

- 14. Many respondents that do not broadly agree with the proposed disclosure requirements cite concerns about whether, or the extent to which, the proposed disclosure could provide useful information. These respondents' concerns can be grouped into views that disclosing the amounts of derivatives and financial activities excluded from Category 15 GHG emissions:

- (a) would not provide useful information about GHG emissions or transition risk, because the disclosure might not enable primary users to understand the magnitude of GHG emissions excluded;
- (b) would be misleading because primary users might think the amount of financial activities excluded:
 - (i) is a proxy for the amount of GHG emissions excluded; or
 - (ii) can be applied to approximate the amount of GHG emissions;

However, we caution against introducing prescriptive quantitative disclosure requirements at this stage, particularly in areas where clear links to underlying emissions do not exist or are highly ambiguous. For example, in the case of financial derivatives, insurers typically hold significant positions for hedging and risk management purposes. These do not directly relate to financed or facilitated emissions, except in limited cases such as commodity-linked contracts. Requiring disclosure of the “amount” of such excluded derivatives risks creating confusion and misinterpretation among users, as such figures may not reflect real-world emissions exposure. (Comment letter 21, France Assureurs, a body representing preparers).

- (c) would not be comparable between entities because of the lack of:
 - (i) definitions for terms used in the disclosure requirement. Some respondents note concerns related to the absence of definitions for the terms ‘amounts’ or ‘derivatives’, and a few respondents note the absence of definitions for ‘financial activities’, ‘facilitated emissions’, or ‘insurance-associated emissions’. Stakeholders’ questions include: what these terms include; whether the amounts need to be information

from the financial statements; whether they can be relative values and in the case of derivatives, whether they are notional amounts or fair value; and whether the terms ‘magnitude’ and ‘amount’ are interchangeable; or

- (ii) clarity about the level of granularity required for the amounts.

These respondents are concerned that such lack of definitions and lack of clarity about the required level of granularity of the information might result in inconsistent interpretations of what information should be presented to meet the proposed disclosure requirement;

- (d) would not be useful without a common understanding of the full population of financial activities that are included in the scope of Category 15 GHG emissions. This concern is linked to the fact that the financial investments and financial services presented in the guidance for Category 15 in the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (‘Corporate Value Chain Standard’) is a non-exhaustive list¹; and
- (e) would not be useful if the amounts of derivatives and financial activities excluded from Category 15 GHG emissions do not demonstrate a clear connection with information in the financial statements.

Cost and effort to provide the proposed disclosure requirement

- 15. Many respondents that broadly disagree with the proposal are concerned that the cost and effort required to provide the proposed disclosure might be so substantial that it would outweigh the benefit of the relief. These respondents cite reasons including:

- (a) some of the information that respondents thought would be required to prepare the proposed disclosure is not reported currently. For example, the amounts underwritten for capital market activity is not reported in the

¹ However, the staff note that whether this proposed disclosure requirement is applied or entities apply IFRS S2.29(a)(i)(3) without using the proposed relief, entities need to determine the range of their activities and financial instruments relevant to Category 15 GHG emissions.

financial statements. Such information about off-balance sheet activity is not typically aggregated and integrated in the systems used for external reporting. Therefore, an entity might require a new process to gather and prepare this information for use in general-purpose financial reports.

Financial institutions generally do not track facilitated transactions in a way that aligns with absolute facilitated emissions reporting. Notional values are off-balance sheet, fee income is not linked to emissions outcomes, and attribution across complex, multi-entity structures is difficult. For many banks, disclosing this information would require new systems and significant judgment, with limited comparability or value to users. (Comment letter 97, Australian Financial Markets Association, a body representing preparers).

- (b) the complexity of identifying amounts representative of emissions excluded—which is what some respondents thought the requirement asks for;
- (c) the challenge in identifying a complete list of financial activities excluded from Category 15 GHG emissions (similar to concerns raised about the usefulness of the information referred to in paragraph 14(d) of this paper). These respondents believe that the lack of a common understanding of the complete population of financial activities that could be a part of Category 15, means that it would be impractical to assess whether their disclosure is complete.
- (d) would be challenging to verify for similar reasons that respondents raise for concerns about understanding the full population of financial activities and not specifying the level of granularity in the information provided.

Enhancing the disclosure requirement

16. Many respondents, including those supporting the proposed disclosure, share feedback about how the proposed disclosure requirement might be improved. This

includes comments to address concerns about the usefulness of the proposed disclosure, as well as the cost and effort of preparing this disclosure.

17. Some respondents suggest that in addition to the amounts of derivatives and other financial activities excluded, other information should be required such as:
 - (a) information that supports the understanding of the relative size or significance of the activities for the entity such as the percentage of activities excluded;
 - (b) disaggregating the information provided by industry or sector; and
 - (c) specifying the level of granularity to be provided about excluded financial activities such as by business line or segment.
18. Some respondents suggest that the ISSB require qualitative disclosure either:
 - (a) in place of amounts of excluded derivatives and other financial activities. These respondents believe that qualitative information such as descriptions of the activities or financial instruments excluded would simplify the disclosure requirement while still providing transparency about the exclusions. A few of these respondents note that primary users would likely understand the magnitude or importance of these activities and instruments if described; or
 - (b) in addition to amounts of excluded derivatives and other financial activities. The purpose of the additional qualitative disclosure would be to better understand the basis for calculating the amounts of exclusions and whether, or how, the amounts relate to the financial statements. For example, an entity might disclose:
 - (i) whether the amount of derivatives excluded represents notional amounts or fair value and how that relates to amounts in the financial statements; or
 - (ii) information about the relationship between the exclusions from Category 15 GHG emissions and transition risk.

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19. Some suggest that the ISSB define amounts used in the proposed disclosure requirement, including directing preparers to use definitions from GAAP, so that there would be clear connections with information provided in the financial statements.
 20. A few respondents suggest enhancing the disclosure by focusing on providing information about the Category 15 GHG emissions disclosed, instead of, or in addition to, requiring disclosure about the exclusions from Category 15. An example of such suggestions is requiring disaggregation of Category 15 GHG emissions; specifically, requiring a subtotal for financed emissions.
 21. A few respondents note that the purpose of the disclosure—providing transparency about completeness of Category 15 GHG emissions disclosures, rather than providing proxy information about transition risk—is not clear. These respondents suggest that the ISSB clarify the purpose of the proposed disclosure in:
 - (a) the drafting of the requirement in the amended IFRS S2; or
 - (b) the amended Basis for Conclusions on IFRS S2.
 22. Some respondents suggest that the ISSB provide guidance or other clarification to assist with application of the proposed disclosure requirement. Suggestions include illustrative examples of the disclosure that demonstrates the types of amounts that might be considered appropriate for the disclosure.
 23. A few respondents suggest that an entity disclose the reason why it has chosen to use the relief. Further, a few respondents suggest that the entity disclose its timeline to work towards disclosing the emissions associated with the Category 15 GHG emissions it has excluded.
 24. As noted in paragraph 29 of Agenda Paper 9A, a few respondents suggest that if what is treated as derivatives for the purpose of applying the relief is different to the definition applied in the entity's related financial statements, that differences in what is treated as derivatives is explained.

Staff analysis of stakeholder feedback

25. Although there is broad support for the proposed disclosure about the Category 15 GHG emissions excluded by an entity, the staff think that respondents' concerns about the usefulness of such disclosure and the cost and effort to prepare it warrant consideration in determining how to proceed with the proposal.

Concerns about usefulness related to providing information about transition risk

26. Most respondents that raised concerns about whether the proposed disclosure requirements would provide useful information question the relevance of that disclosure in providing information about transition risk associated with the activities excluded. However, the staff note that the objective of the disclosure requirement is not to provide information about the transition risk associated with the excluded activities, but to provide information that enables primary users to understand the transition risk information that has been disclosed. More specifically, the extent to which the particular GHG emission metric, Category 15 GHG emissions, includes emissions associated with the entity's financial activities.
27. The staff acknowledge that additional information about excluded activities—including some of the suggestions outlined in paragraph 17 of this paper—might result in the provision of more useful information about transition risk associated with excluded activities. However, the staff note that requiring additional information such as the disaggregation of amounts excluded by sector or industry would introduce additional cost and effort above the cost and effort to meet what was proposed in the Exposure Draft. This would increase the risk of disruption for those in the process of implementing IFRS S2.
28. In proposing amendments to IFRS S2 the ISSB agreed to use a set of criteria to consider potential amendments to the Standards during implementation. This criteria includes that potential amendments would not unduly disrupt entities processes for implementing or jurisdictional processes for adopting or using IFRS S1 and IFRS

S2.² Further, during the deliberations about how the ISSB might respond to the application challenge related to Category 15, concerns were raised by some ISSB members about requiring additional information about excluded activities at this time (that is, during implementation of IFRS S2 for some entities) and some ISSB members did not support the proposed disclosure (refer paragraph BC24 of the Basis for Conclusions on the Exposure Draft). The staff think that requiring additional information above what has been proposed in the Exposure Draft could result in disruption to implementation.

Concerns about cost and effort in relation to the disclosure of an amount

29. Concerns raised about the cost and effort to provide disclosure seem to assume that the amount needs to be representative of the amount of the excluded GHG emissions—see the respondents’ rationale for these concerns per paragraph 15(a)–(b). The staff observe that this interpretation of the requirement is in contrast with the objective of the proposed disclosure requirement which is to provide primary users with information to enable them to understand the completeness of the coverage of the entity’s activities and financial instruments that are associated with Category 15 GHG emissions.
30. However, the staff note that this interpretation might arise from the wording of paragraph BC22 of the Basis of Conclusions on the Exposure Draft. This paragraph explains that the intent of the proposed disclosure requirement is to provide primary users with an understanding of completeness of Category 15 GHG emissions by requiring an entity to disclose information about the derivatives and financial activities excluded as an indication of the *potential magnitude* of the GHG emissions excluded.

² The ISSB criteria for evaluating potential amendments to IFRS S1 and IFRS S2 in response to stakeholder feedback on application challenges arising from implementation is set out in the November 2024 ISSB Updated, [IFRS - ISSB Update November 2024](#). Criteria c states ‘...that potential amendments would not unduly disrupt entities’ processes for implementing or jurisdictional processes for adopting or using IFRS S1 and IFRS S2. The ISSB would balance the need for amendments with the potential disruption they could cause.’

31. Although information about excluded financial activities might provide some information about the potential magnitude of GHG emissions excluded from Category 15, the staff think that including ‘potential magnitude of emissions’ as part of explaining the rationale for the disclosure requirement results in confusion about what information is needed to meet the requirement. The staff believe that a clearer articulation of the disclosure objective could address the confusion. Specifically, the staff think that the requirement could include an explicit reference to the information providing an understanding of the *completeness* of the derivatives and financial activities associated with the Category 15 GHG emissions disclosed, without any reference to understanding the potential magnitude of GHG emissions either as part of an amended Standard or in an amended Basis of Conclusions on IFRS S2.
32. The staff also heard such concerns during outreach activities with stakeholders, particularly preparers. However, the staff observed that once the objective of the proposed disclosure requirement was explained—to provide contextual information about the completeness of Category 15 emissions by providing information that informed an understanding about *the significance of the excluded activity in the context of the entity’s business model*—these stakeholders’ concerns were abated. Therefore, the staff believe that clarifying the objective of the disclosure requirement, whether through the drafting of the requirement or in explaining the rationale for the disclosure requirement as part of an amended Basis for Conclusions on IFRS S2, this concern about cost and effort expressed by respondents would be addressed. Educational material could also be provided to support the understanding of the disclosure requirement.

Concerns about the lack of definitions for the terms used in the proposed disclosure requirement

General concerns about the lack of definitions

33. The staff acknowledge the concerns about the comparability of the information as a result of some terms not being defined, particularly the terms ‘amount’ and

‘financial activities’. However, the staff believe that a disclosure requirement that is less prescriptive is more likely to provide information that is entity-specific and relevant in the context of the objective of the disclosure requirement. The disclosure requirement provides contextual information so that a primary user can understand the extent to which information is provided about transition risk through the provision of GHG emissions information about an entity’s activities. The proposed disclosure requirement allows an entity to consider what information would be relevant to support a primary user’s understanding of excluded activities. This would be based on the entity’s own facts and circumstances, including how information is reported about its financial activities elsewhere within its general-purpose financial reporting.

34. As mentioned in paragraphs BC18–BC19 of the Basis for Conclusions on the Exposure Draft, the ISSB considered defining ‘derivatives’, ‘facilitated emissions’ and ‘insurance-associated emissions’ to explain the proposed exclusions but on balance considering the challenges associated with doing so, the ISSB proposed to define what was in scope instead. Defining these terms for the purposes of disclosing the magnitude of exclusions is considered to have the same challenges.
35. The staff understand the preference of some respondents that an entity be required to use amounts reported in the financial statements when providing information about the activities excluded from its Category 15 GHG emissions. Using such amounts reported in the financial statements or other disclosures reported as part of an entity’s general purpose financial reports would support the provision of connected information across an entity’s general purpose financial reports as required by IFRS S1.
36. As discussed in Agenda Paper 9A, respondents expressed concerns that the lack of a definition of the term ‘derivatives’ for the purpose of applying the proposed relief, may lead to differences between the populations of financial instruments that the entity treats as derivatives for this purpose and the population of financial instruments that are derivatives in the entity’s financial statements, and affect

primary users' ability to understand the connections between these populations. The staff think that the following actions could address these concerns:

- (a) requiring an entity to explain what it treats as a derivative for the purpose of applying this relief, as proposed in the Exposure Draft; *and*
- (b) requiring that, if what an entity treats as a derivative for the purpose of applying this relief is different to what it treats as derivatives in preparing its financial statements, the difference is explained.

Concerns about the scoping of financial activities

- 37. A few respondents raised concerns about the cost and effort related to determining the complete population of activities that are captured as part of Category 15 GHG emissions, specifically due to: (1) the absence of a definition of 'financial activities' and/or facilitated emissions and insurance-associated emissions (or the activities that are associated with these emissions); and (2) challenges associated with the Corporate Value Chain Standard describing Category 15 using a non-exhaustive list of financial activities. Concerns were also raised related to the usefulness of the information for the same reasons. The staff have analysed these concerns together because the concerns both relate to determining the complete population of activities that are captured as part of Category 15 GHG emissions.
- 38. The staff notes that the ISSB was careful to use terminology from IFRS S2—and the Basis for Conclusions on IFRS S2—in the proposed amendment, rather than to propose new terminology. The ISSB took this approach to minimise the risk of disruption to the implementation of IFRS S2. The staff acknowledge the concerns that a few respondents expressed about the lack of a definition of financial activities and its effect on their understanding of what activities are included in the population of financial activities and the resulting effect on comparability of the disclosures should the term be interpreted differently. However, the staff believe that the use of the term in the Standard and the Basis for Conclusions on IFRS S2 supports a clear understanding that the term 'financial activities' refers to activities that are captured

by Category 15 in the Corporate Value Chain Standard and that this understanding sufficiently supports the application of the requirement.³

39. To identify the population of financial activities associated with Category 15 GHG emissions—such that an entity can determine the population of excluded activities—an entity considers the description of Category 15 in the Corporate Value Chain Standard. The Corporate Value Chain Standard does not refer to activities associated with Category 15 GHG emissions as financial activities—instead referring to Category 15 GHG emissions as emissions associated with financial ‘investments’ and ‘services’.⁴ However, the staff think that in using the term ‘financial activities’ in IFRS S2 and in the proposed amendments, it is clear that it refers to Category 15 in the Corporate Value Chain Standard. Therefore, the staff do not think that the term ‘financial activities’ needs to be defined in IFRS S2.
40. The staff note that the relief addresses concerns related to clarity about the Category 15 GHG emissions required to be included in the amounts disclosed in accordance with paragraph 29(a)(i)(3) of IFRS S2 and not about challenges related to identifying the activities that are included in Category 15. The challenges associated with understanding the description of Category 15 activities provided by the Corporate Value Chain Standard and its alignment to activities of a particular entity is a distinct challenge.
41. IFRS S2 requires entities to consider their entire value chain and consider all 15 categories of Scope 3 GHG emissions as described in the Corporate Value Chain Standard—see paragraph B32 of IFRS S2. This already requires entities to form a view about the financial activities and financial instruments required to be considered. The staff acknowledge that the identification of Scope 3 GHG

³ Paragraph B59 of IFRS S2 refers to entities participating in ‘financial activities’ as part of the application guidance for the requirement to provide additional information about Category 15 GHG emissions; Paragraph BC122 of the Basis for Conclusions on IFRS S2 refers to ‘financial activities’ in relation to climate-related risks and opportunities faced by financial organisations through their activities; and Paragraphs BC127 and BC129 of the Basis for Conclusions on IFRS S2 refer to ‘financial activities’ when discussing the rationale for the ISSB’s decisions not to require disclosure of information about facilitated emissions, insurance-associated emissions and emissions associated with derivatives.

⁴ Tables 5.9 and 5.10, Corporate Value Chain (Scope 3) Accounting and Reporting Standard’, World Resources Institute and WBCSD, 2011, pages 52 and 54.

emissions—including Category 15—will involve judgement, particularly for entities that have recently started to measure and disclosure Scope 3 GHG emissions or are expanding the scope of their measurement and disclosure of Scope 3 GHG emissions. The need to make these assessments has not been introduced by the newly proposed disclosure requirement, so the staff do not believe it is necessary to define this term as a result of this amendment.

Additional investor outreach

42. Given the concerns from preparers and a few investors related to the proposed disclosure of the amount of Category 15 exclusions—including its usefulness—the staff conducted further outreach with investors to better understand whether the usefulness of the information warrants the cost and effort of preparing the information. Although investors that the staff engaged with during this targeted outreach supported the disclosure of information about the Category 15 exclusions, their views were mixed about the importance of disclosing quantitative information (i.e., disclosure of amounts) particularly where the information is not standardised. The results of this engagement is explained in the following paragraphs.

Benefits of disclosing amounts of Category 15 exclusions

43. Investors explained that information about GHG emissions (including when material, Category 15 GHG emissions) is used as part of a number of data points to understand an entity's exposure to transition risk. Taking financed emissions as an example, an investor's understanding of transition risk is developed through understanding:
- (a) the entity's risk management approach;
 - (b) its strategy to manage identified risks including any relevant target setting or transition plans; and
 - (c) its performance in relation to any targets the entity has set to respond to identified transition risks through its loan and investment portfolio, including targets for Scope 3 GHG emissions.

44. Investors explained that in the context of the relief being finalised, disclosure about the exclusions from an entity's measurement and disclosure of Category 15 GHG emissions would enable them to understand:
- (a) the extent to which the GHG emissions disclosed by the entity includes the activities of the entity; and
 - (b) what parts of the entity's activities are excluded. This information supports an investor determining whether to seek additional information through further engagement with an entity or by relying on other information provided to understand transition risk exposure in the absence of this GHG emissions disclosure.

This information enables an understanding about the relative size of activities that has not been captured in the GHG emissions information and therefore enables an investor to consider how that omission affects its pricing or valuation of risk.

45. These investors also noted that the amount reported could be useful if it enabled them to understand the relative size of excluded activities using other information provided in an entity's general purpose financial reports. For example, an entity disclosing that a business line excluded from their measurement and disclosure of Category 15 GHG emissions represents a percentage of its total revenue could provide useful information.
46. These investors acknowledged that the types of amounts that are likely to be useful would often already be reported in the entity's financial statements or management commentary, through for example disclosures about operating segments. However, they noted there would be efficiency benefits of this information being part of the sustainability-related financial disclosures. They noted that such efficiency is important when reviewing information for a large number of entities.
47. Investors did not express strong views on the usefulness of having information about the amounts of derivatives excluded. A few stated that they would not have a use of the amount of derivatives excluded that would be distinct from the amount of financial activities linked to the derivatives excluded.

Challenges associated with using amounts of Category 15 exclusions

48. Some investors stated that the lack of standardisation of the amounts that are required to be disclosed would likely reduce the potential benefit of this information. For example, a large investor might decide that in the absence of the information being standardised—for example by having a definition of the ‘amount’ that is required to be disclosed—the effort of having to perform additional analysis of an individual entity disclosures to understand the amounts provided would not be worth the additional benefit of having such information.
49. Additionally, some investors noted that investors often gather entities’ climate-related financial information through third party data vendors. These investors raised a concern that if the amounts were not standardised, there is a risk that the data collection process for this amount would be complicated. This complexity might disincentivise the collection of the information and therefore the benefits of entities providing this information would be reduced.

Other commentary about disclosure requirements related to use of the relief

50. Some investors commented on the importance of having clarity about the extent to which the Category 15 GHG emissions that an entity discloses are made up of financed emissions. These investors explained that it is important that the Category 15 GHG emissions that are required to be disclosed (i.e., financed emissions) is identifiable, especially in an environment in which entities might report more types of Category 15 GHG emissions over time as measurement methodologies evolve. That is, they highlighted the importance of the information that has been standardised, i.e., financed emissions, being sufficiently clear and that this would also facilitate comparisons (both between entities and for the same entity over time).

Staff analysis of feedback from targeted investor outreach

51. The staff note that the feedback from investors highlights the trade-off between entity-specificity—an aspect of relevance—and comparability between entities when

considering whether to require the disclosure of an amount in relation to Category 15 exclusions.

52. The staff observe that investors supporting the disclosure of amounts of financial activities and derivatives associated with Category 15 exclusions think that an entity would disclose this information based on how they disclose information about their business activities as part of the entity's broader general purpose financial reports including within the sustainability-related financial disclosures. These investors note that information about the use of the relief could allow them to connect this information to other information about those activities disclosed within the sustainability-related financial disclosures including about transition risk. Investors note that such an understanding is important for those using information from entities in the financial sector because these activities could represent substantial parts of those entities' activities.
53. The ability to provide entity-specific information about excluded activities might help investors more clearly understand how this information relates to other information provided about the entity's activities. However, some respondents think that such entity-specificity would reduce the ability to use the information including being able to compare this information between entities; these respondents believe the effect on comparability might not warrant the benefit of enabling entities to determine what information is relevant.
54. In the absence of a definition or other guidance to help preparers determine what amounts to use for the Category 15 exclusions, there is a risk that the efforts to prepare such information would not warrant the cost if some investors do not use the information. Therefore, it might be better from a cost-benefit perspective to limit the disclosure to qualitative information about the exclusions. This could be supported by providing guidance that clarifies the objective of the disclosure as described in paragraph 21. Further, removing the requirement to disclose an amount would address concerns that the disclosure of information about exclusions requires a higher level of granularity or precision than the ISSB intended.

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55. If an entity provides qualitative information about the excluded derivatives and financial activities, that information would enable investors to understand the completeness of coverage of an entity's Category 15 GHG emissions disclosure relative to its business model, *provided that* investors can relate that information to other information about the business model disclosed by the entity, such as information about operating segments disclosed in the entity's financial statements. The staff think that applying the requirements for connected information in IFRS S1 would result in providing information in that manner.⁵
56. Further, investors expressed a strong preference for information about the Category 15 activities excluded to be provided in such a way that they can understand how it relates to other disclosures about the entity's business activities, whether such information is quantitative or qualitative. Specifically, investors said that it would be helpful for them to relate this information to other information about transition risk in relation to those business activities. The staff observe that provision of information in this way is consistent with the requirements on connected information in IFRS S1 such as paragraph B41(a) of IFRS S1.
57. In the absence of providing an amount of derivatives excluded from Category 15 GHG emissions, the staff considered what qualitative information would be useful about derivatives. Based on outreach with investors the staff view is that the most useful information to enable an understanding of the coverage of financial activities excluded in the context of an entity's business model would be a description of the *financial activities that are related to these derivatives*. For example, understanding whether the activities excluded are hedging activities using derivatives or derivatives held for trading purposes. This is because discussions have suggested that the purpose for which derivatives are held influences whether the associated emissions are considered to be relevant in considering transition risk. Therefore, if the disclosure requirement was limited to qualitative information, the staff think that the

⁵ The staff note that this approach is also consistent with requirements on coherence of information in the revised IFRS Practice Statement 1 *Management Commentary*. Some entities may locate information provided using ISSB Standards in their management commentary prepared using this revised Practice Statement.

disclosure requirement could be limited to requiring a description of financial activities excluded that encompasses the financial activities related to derivatives—rather than requiring a description of derivatives *and* a description of other financial activities excluded.

58. In response to feedback from some investors about the need for clarity about the portion of Category 15 GHG emissions disclosed that is represented by financed emissions (if an entity chooses not to use the relief or only uses it in part) (see paragraph 20), the staff discussed the feedback from other respondents including the suggestion to require disclosure of financed emissions as a subtotal of Category 15 GHG emissions. These investors agreed that such disclosure would be useful in addressing this need.

Staff recommendations on the proposed amendment

59. The staff recommends that the ISSB proceed with the amendment to require an entity to disclose information about what an entity excludes from its Scope 3 Category 15 GHG emissions disclosure as proposed in the Exposure Draft—see Appendix A—with the following changes:
- (a) replace the requirements to disclose the amounts of derivatives and financial activities excluded from an entity's measurement and disclosure of Category 15 GHG emissions with a requirement to *describe* the financial activities excluded including those activities associated with derivatives; and
 - (b) in addition to the proposed requirement for an entity to explain what financial instruments it treats as derivatives for the purposes of applying the relief, if that population differs from what it treats as derivatives in preparing its financial statements, require an entity to explain the difference.
60. The staff also recommend that the ISSB add a requirement to disclose:
- (a) the total Category 15 GHG emissions; and

- (b) a subtotal of the financed emissions that are included within the entity's measurement and disclosure of Category 15 GHG emissions, if the entity includes GHG emissions beyond financed emissions.
- 61. The staff also suggest providing guidance that would explain the objective of the requirements related to financial activities excluded from Category 15 GHG emissions disclosure. This guidance could be provided by updating the IFRS Foundation's educational material about IFRS S2 GHG emissions requirements to include guidance that explains amended disclosure requirements.
- 62. To support the ISSB's considerations related to the recommendation, the staff illustrate the components of the disclosure that would be provided in applying the recommended modified disclosure requirement in Appendix B of this paper.

Rationale for the staff recommendation

- 63. The staff think that the ISSB should proceed with the proposal to require information to be provided if the relief to limit Category 15 GHG emissions to financed emissions is used, given the broad support from respondents. This includes support from investors that highlighted the benefit of information that provides transparency about what is not captured in an entity's measurement and disclosure of Category 15 GHG emissions such that an investor understands the extent to which the GHG emissions information supports an understanding of the entity's exposure to transition risk.
- 64. The staff think that limiting the requirement to disclose information about the use of the relief to qualitative information strikes the right balance between concerns from respondents about requiring disclosures about the amount of derivatives and other financial activities that are excluded (i.e., quantitative information) with the usefulness of the information. This includes the staff consideration that:
 - (a) although quantitative information is preferred by investors, if the information is not standardised—by being more specific about what amounts are required to be disclosed—the benefits of quantitative information might not warrant

the cost to provide that information. The staff do not think that the ISSB should standardise the information about amounts required to be disclosed given the relevant information is likely to be dependent on the specific activities. Thus, making the disclosure requirement more prescriptive is not likely to result in the provision of useful information;

- (b) removing the requirement to provide information about the amounts of derivatives and financial activities excluded removes the risk that preparers misinterpret the requirement and either (1) think they need to provide more granular information that the ISSB intended or (2) seek to provide information that supports an understanding of the transition risk associated with the excluded activities rather than to provide information that supports an investors understanding about the completeness of the activities included in the Category 15 GHG emissions disclosure; and
- (c) qualitative information that describes the financial activities excluded from an entity's measurement and disclosure of its Category 15 GHG emissions is useful information including to aid understanding of the connections with other parts of an entity's general purpose financial reporting such as the entity's financial statements and management commentary.

65. The staff think that the suggestion to disclose the financed emissions included within an entity's measurement and disclosure of Category 15 GHG emissions mitigates the risk to reduced comparability of information between entities and over time given that entities may provide disclosures about Category 15 GHG emissions beyond financed emissions. This is important because:

- (a) some entities might provide Category 15 GHG emissions beyond financed emissions whilst others may not;
- (b) an entity might change the type of financial activities included in its measurement and disclosure of Category 15 GHG emissions over time; or
- (c) an entity might include only some of their derivatives or only some of their financial activities in Category 15 GHG emissions, and the extent to which

these items are included might change over time. This information would provide clarity about those that are included in an entity's measurement and disclosure of Category 15 GHG emissions beyond financed emissions. This disclosure would also have the benefit of indicating that Category 15 GHG emissions information beyond financed emissions is useful and might be provided by entities applying IFRS S2.

Questions for the ISSB

66. The staff presents the following questions to the ISSB.

Questions for ISSB

1. Do you have any comments or questions on the feedback summary, staff analysis and recommendations?
2. Do you agree with:
 - a. the recommendation to require disclosure about financial activities excluded from Category 15 GHG emissions as described in paragraph 59(a)?
 - b. the recommendation to require disclosure about the treatment of derivatives excluded from Category 15 GHG emissions per paragraph 59(b)?
 - c. the recommendation to add a requirement for Category 15 GHG emissions totals as described in paragraph 60?
 - d. the suggestion to provide guidance about Category 15 GHG emissions as described in paragraph 61?

Appendix A—Extract from the Exposure Draft

The following is an extract from page 13 of the Exposure Draft *Amendments to Greenhouse Gas Emissions Disclosures* which presents the proposed disclosure requirement for entities using the relief for Category 15 GHG emissions.

29A In preparing disclosures to meet the requirement in paragraph 29(a)(i)(3):

[...]

(b) an entity shall disclose information that enables users of general purpose financial reports to understand the magnitude of the derivatives and financial activities associated with the entity's Scope 3 Category 15 greenhouse gas emissions that are excluded in accordance with paragraph 29A(a). Specifically, the entity shall disclose:

- (i) the amount of derivatives it excluded and an explanation of what it treats as derivatives for the purposes of limiting its disclosure of Scope 3 Category 15 greenhouse gas emissions; and*
- (ii) the amount of other financial activities it excluded.*

Appendix B—Example of the components of the recommended disclosure requirement

- B1. An entity with two lines of business describes these business lines in its segment disclosures reported in its financial statements as:
- (a) *‘retail & commercial banking’*: a segment that offers various lending and deposit services to individuals and companies; and
 - (b) *‘capital markets’*: a segment that offers various investment banking services—including securities underwriting services—to companies across a range of sectors.
- B2. The segment disclosures include information that shows that the retail & commercial banking and capital markets lines of business constitute 70% and 30% of the entity’s revenue respectively. The lines of business in the financial statement segment disclosures are consistent with the description of the entity’s operations disclosed in the entity’s management commentary. As part of its sustainability-related disclosures, the entity provides information about climate-related risks and opportunities for both lines of business. As part of its activities in these business lines, the entity enters into transactions involving various financial instruments which are accounted for as derivatives in the entity’s financial statements.
- B3. The entity chooses to use the relief for Scope 3 Category GHG 15 emissions but only in part—it only measures facilitated emissions associated with its securities underwriting activities with customers operating in particular sectors (i.e., not all sectors) and it uses the relief for derivatives.
- B4. In such a scenario, an entity would disclose the following information related its Category 15 GHG emissions:
- (a) the total Category 15 GHG emissions;
 - (b) the subtotal of its financed emissions (as defined in IFRS S2) reported as part of its total Category 15 emissions;

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- (c) a description of any financial activities that are excluded from its measurement and disclosure of Category 15 GHG emissions including the activities that it undertakes in relation to derivatives; and
 - (d) an explanation of the financial instruments that the entity treats as derivatives, which in this case is consistent with what it treats as derivatives in the preparation of the related financial statements (eg the entity could explain that for the purposes of applying the relief, derivatives are those financial instruments treated as derivatives for the purposes of preparing the financial statements).

The entity discloses this information in a manner that enables primary users to relate information about the financial activities excluded from its measurement and disclosure of its Scope 3 Category 15 GHG emissions to other information disclosed about its lines of business in the general purpose financial reports, such as its segment disclosures and other information disclosed about this line of business within its sustainability-related financial disclosures.