IFRS Sustainability

Staff paper

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Transition Implementation Group on IFRS S1 and IFRS S2

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Topic **Climate-related targets**

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Introduction

1. We have received a question about the meaning of the term 'targets' used in the requirements about climate-related targets in IFRS S2 *Climate-related Disclosures*.

2. The objective of this paper is to provide background and analysis to support discussion by the Transition Implementation Group on IFRS S1 and IFRS S2 (the TIG).

3. The TIG provides a public forum for the discussion of implementation questions related to the IFRS Sustainability Disclosure Standards and to provide information for the ISSB to determine what, if any, action will be needed to address those questions.

4. This paper:

   (a) sets out the relevant requirements in IFRS S1 and IFRS S2;

   (b) summarises the implementation question raised in the submission;

   (c) outlines the staff's analysis related to the implementation question; and

   (d) asks the members of the TIG for their views on the question raised.

Relevant requirements

5. The following paragraphs set out the main requirements in IFRS S2 related to the implementation question.

6. Paragraph 27 of IFRS S2 sets out the disclosure objective for metrics and targets:

> 27 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

7. Paragraph 28(c) of IFRS S2 sets out what an entity is required to disclose to achieve the objective in paragraph 27 of IFRS S2 in relation to the disclosure of climate-related targets:

> 28 To achieve this objective, an entity shall disclose:
>
> ...
>
> (c) targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets (see paragraphs 33–37).

8. Paragraph 33 of IFRS S2 sets out specific disclosure requirements on climate-related targets:

> 33 An entity shall disclose the quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals, and any targets it is required to meet

by law or regulation, including any greenhouse gas emissions targets. For each target, the entity shall disclose:

(a) the metric used to set the target (see paragraphs B66–B67);

(b) the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives);

(c) the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region);

(d) the period over which the target applies;

(e) the base period from which progress is measured;

(f) any milestones and interim targets;

(g) if the target is quantitative, whether it is an absolute target or an intensity target; and

(h) how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target.

9. Paragraph 36 of IFRS S2 sets out additional disclosure requirements on greenhouse gas (GHG) emissions targets:

36 For each greenhouse gas emissions target disclosed in accordance with paragraphs 33–35, an entity shall disclose:

(a) which greenhouse gases are covered by the target.

(b) whether Scope 1, Scope 2 or Scope 3 greenhouse gas emissions are covered by the target.

...

10. The Basis for Conclusions accompany but are not part of IFRS Sustainability Disclosure Standards. The Basis for Conclusions summarise the considerations of the ISSB in developing Standards and thus provide useful context to understand the requirements in Standards, but do not in themselves establish requirements.

11. Paragraph BC140 of the *Basis for Conclusions on IFRS S2* Climate-related Disclosures explains that IFRS S2 differentiates between climate-related targets and GHG emissions targets:

> BC140 … IFRS S2 differentiates between climate-related targets and greenhouse gas emissions targets. A climate-related target can be any target an entity has set to respond to climate-related risks and opportunities. A greenhouse gas emissions target is an example of a climate-related target. Paragraphs 33–35 of IFRS S2 outline the requirements that relate to all climate-related targets, whereas paragraph 36 of IFRS S2 focuses on requirements specifically relating to greenhouse gas emissions targets.

Implementation question received

12. The question asks about the meaning of the term 'targets' used in the requirements in IFRS S2 about climate-related targets, in the absence of a definition in IFRS S2. Three specific questions were asked:

    (a) *Question 1*: Are the requirements in IFRS S2 to provide information about climate-related targets limited to GHG emissions targets?

    (b) *Question 2*: Are the requirements in IFRS S2 to provide information about climate-related targets limited to things that are explicitly referred to or labelled as 'targets'? That is, do the requirements also apply to something that is not explicitly referred to as a 'target', such as a net-zero 'commitment'?

(c) *Question 3*: Are the requirements in IFRS S2 to provide information about climate-related targets limited to targets approved by a particular governance or management body of the entity?

13. These questions have been asked because IFRS S2 does not define the terms ‘targets’ or ‘climate-related targets’.[1]

Staff analysis

Question 1: Are ‘climate-related targets’ limited to GHG emissions targets?

14. In considering the first question, the staff note that paragraph 33 of IFRS S2 states that the requirement to disclose climate-related targets includes GHG emissions targets. The use of the word ‘includes’ means that a GHG emissions target is *one* example of a climate-related target and that not all climate-related targets are GHG emissions targets. Paragraph BC140 of the Basis for Conclusions on IFRS S2 confirms this, explaining that the Standard differentiates between climate-related targets and GHG emissions targets, and highlighting that paragraphs 33–35 of IFRS S2 outline the requirements that relate to *all* climate-related targets, whereas paragraph 36 of IFRS S2 focuses on requirements *specifically* relating to GHG emissions targets. That is, it explains that there are other types of climate-related targets beyond GHG emissions targets that are in scope of the disclosure requirements on climate-related targets.

[1] The staff note that the TIG discussed a question about undefined terms in March 2024 and specifically about how different components of IFRS Sustainability Disclosure Standards and the related materials can be used to inform an understanding of disclosure requirements that use undefined terms and require the application of judgement. Therefore, in responding to this question the staff note that, in addition to this paper, the TIG summary from this meeting can also be a helpful resource.

Questions 2 and 3: Are climate-related targets limited to things that are explicitly referred to or labelled as 'targets'? And are disclosures limited to targets that have been approved by a particular governance or management body?

15. The terms 'targets' and 'climate-related targets' are not defined in IFRS S2.[2] Further, IFRS S2 does not specify that targets must be explicitly referred to or labelled as a 'target', nor does it specify that targets must be approved by a particular governance or management body.

16. This means that an entity needs to apply judgement in identifying what is a 'target' and what is in the scope of climate-related targets disclosure requirements. In applying that judgement, the disclosure objective (paragraph 27 of IFRS S2) and related disclosure requirement (paragraph 28(c) of IFRS S2) on climate-related targets support an understanding of the meaning of the term 'targets' and what is in scope of the climate-related targets disclosure requirements.

The disclosure objective and related disclosure requirements

17. IFRS S2 includes specific disclosure objectives (paragraphs 5, 8, 24 and 27 of IFRS S2, all are in **bold type**), which describe the information needs of primary users that the specific disclosure requirements are intended to meet. To comply with those disclosure objectives, an entity will need to use its judgement to identify and disclose material information that satisfies those objectives.

18. Paragraph 27 of IFRS S2 explains that the objective of climate-related metrics and targets is to support primary users' understanding of an entity's **performance in relation to its climate-related risks and opportunities**, including progress towards any climate-related targets. To meet this disclosure objective, paragraph 28(c) of IFRS S2 requires an entity to disclose **targets set by the entity, and any targets it is**

[2] For context, the staff note that the European Sustainability Reporting Standards (ESRS) include a definition of the term 'target', and that the ESRS–ISSB Standards Interoperability Guidance explains how the requirements in IFRS S2 align with ESRS. The staff also note that the guidance may be affected by the European Commission's ongoing work to simplify ESRS.

required to meet by law or regulation, to **mitigate or adapt to climate-related risks or take advantage of climate-related opportunities**, including **metrics used by the governance body or management to measure progress towards these targets**.[3]

19. Therefore, the term 'climate-related targets' comprises both targets that are set by the entity and targets it is required to meet by law or regulation. When applying judgement to identify whether something is a climate-related target, an entity considers whether:

    (a) it is used to mitigate or adapt to its climate-related risks or take advantage of its climate-related opportunities (for example, it has been set to respond to climate-related risks or opportunities);

    (b) it provides information about an entity's performance in relation to such climate-related risks or opportunities; and

    (c) progress toward the 'target' can be monitored or measured, such as through the use of metrics that are used by the entity's governance body or management.

20. Together, the disclosure objective in paragraph 27 and the disclosure requirement in paragraph 28(c) of IFRS S2 are helpful in identifying what is in the scope of the climate-related targets disclosure requirements. With this context, an entity applies judgement to its facts and circumstances to determine whether something is a 'climate-related target'.

Other information about climate-related targets

21. In addition to the disclosure objective and the related disclosure requirement described above, the specific disclosure requirements in paragraph 33 of IFRS S2 are useful in understanding what is meant by the term 'targets' and can help an entity identify and determine the relevant climate-related targets to disclose.

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[3] The staff note that the disclosure requirements about climate-related targets in IFRS S2 does not mean that an entity is required to have climate-related targets. Instead, the requirements focus on the disclosure of useful information about climate-related targets (see paragraph BC141 of the Basis for Conclusions on IFRS S2).

22. Specifically, while the requirements set out in paragraph 33 of IFRS S2 provide useful information about the characteristics of an entity's climate-related targets for primary users, they are *also* useful in determining what is meant by 'climate-related targets'. For example, the requirement to disclose:

    (a) quantitative and qualitative climate-related targets highlights that IFRS S2 does not limit climate-related targets to either quantitative targets or qualitative targets (paragraph 33 of IFRS S2);

    (b) the metric used to set the target highlights that a target can be set against different type of metrics—cross-industry, industry-based or entity-specific metrics (paragraphs 33(a) and B67 of IFRS S2);[4]

    (c) the part of the entity to which a target applies highlights that a target can relate to an entity in its entirety or only a part of an entity (paragraph 33(c) of IFRS S2); and

    (d) whether a quantitative target is an absolute or an intensity target highlights that IFRS S2 does not limit climate-related targets to either absolute targets or intensity targets (paragraph 33(g) of IFRS S2).

Staff view

23. Based on the analysis in paragraphs 14-16 of this paper, the staff think that the climate-related targets required to be disclosed by IFRS S2 are not limited to:

    (a) GHG emissions targets;

    (b) things that are explicitly referred to or labelled as 'targets'; or

    (c) targets that have been approved by a particular governance or management body of the entity.

[4] In identifying and disclosing the metrics used to set targets and monitor progress toward reaching such targets, paragraph 37 of IFRS S2 requires an entity to refer to and consider the applicability of cross-industry metrics and industry-based metrics. For example, an entity might find it useful to refer to the metrics in the *Industry-based Guidance on Implementing IFRS S2*.

24. The terms 'targets' and 'climate-related targets' are not defined in IFRS S2. The staff think that in some cases it will be clear that something is a climate-related target, such as a target to meet a specific level of GHG emissions that an entity is required to meet by law or regulation, and in other cases judgement might be required. The staff note that the purpose of disclosing information about climate-related targets is to support primary users' understanding of an entity's performance in relation to its climate-related risks and opportunities (paragraph 27 of IFRS S2). This context may provide a useful framing for entities when exercising their judgement, as the information provided should inform primary users' understanding about how an entity is responding to and its progress in addressing its identified climate-related risks and opportunities.

25. In the staff's view, whether an entity explicitly refers to or labels something as a 'target' or whether something is approved by a particular governance or management body, does not determine if it is within the scope of IFRS S2 disclosure requirements about targets. Instead, an entity is required to consider the disclosure objective and the disclosure requirements related to targets and apply judgement. Paragraph 19 of this paper sets out key considerations in applying judgement and identifying whether something is a climate-related target. Paragraph 22 of this paper explains how the specific disclosure requirements in paragraph 33 of IFRS S2 are helpful to identify climate-related targets in practice. For example, whether a plan to reduce GHG emissions by X% by 20XX is referred to or labelled as a 'target', 'commitment' or 'objective' does not determine whether it is within the scope of IFRS S2. Instead, an entity considers the facts and circumstances related to the plan to reduce GHG emissions to address the entity's climate-related risks or opportunities and applies judgement considering the climate-related targets disclosure objective and related disclosure requirements.

26. As part of identifying targets to disclose in accordance with IFRS S2, an entity considers whether information about a climate-related target would be material for primary users. While IFRS S2 does not require a target to be approved by a particular governance or management body to be in scope of the climate-related targets

requirements, whether a target has been approved by a particular body might be a factor to consider in determining whether information about the target would be material. For example, if a target *has* been approved by the board of directors of an entity, this could indicate that information about the target is more likely to be material. Similarly, if the regulatory implications of not meeting a target would have significant consequences for the entity (such as the potential imposition of large fines), that could indicate that information about the target is more likely to be material.

27. Ultimately, IFRS S2 requires an entity to disclose decision-useful information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (the entity's prospects). Information about an entity's strategy for managing those risks and opportunities is a core component of IFRS S2 that contributes to meeting this requirement and includes information about an entity's response (including planned response) to mitigate or adapt to those risks and take advantage of those opportunities. Disclosing climate-related targets provides primary users with specificity about an entity's response to climate-related risks and opportunities and how it is progressing against those plans, in addition to its performance and progress in relation to targets required by law or regulation.[5] This information, therefore, provides relevant information that supports primary users' understanding about both how an entity is managing its risks and opportunities as well as how an entity's prospects might be affected because of that response.

28. The staff note that the questions submitted are about the term 'targets' used in the climate-related targets requirements in IFRS S2. However, Questions 2 and 3 could also be asked in relation to requirements on targets in IFRS S1. The term 'targets' is also not defined in IFRS S1, and IFRS S1 does not specify that targets must be

[5] The staff note that the connection between an entity's strategy to manage its climate-related risks and opportunities and information about targets is made in the Basis for Conclusions on IFRS S2. Specifically, paragraph BC51 of the Basis for Conclusions on IFRS S2 states that in the context of an entity's climate-related transition plan, an entity might set a target to reduce its GHG emissions. Disclosing information about such target would support primary users' understanding of the timing and pathway of the entity's plan to reduce its GHG emissions.

explicitly referred to or labelled as a 'target', nor does it specify that targets must be approved by a particular governance or management body to be in scope of the disclosure requirements about targets. Therefore, consistent with IFRS S2, in the staff's view what is in scope of the IFRS S1 disclosure requirements about targets is not dependent either on something explicitly being called a 'target', or a target being approved by a specific governance or management body. Although this paper does not address a question about the requirements on targets in IFRS S1, it may also be useful in understanding what is meant by 'targets' in IFRS S1. That is, in the absence of a definition in IFRS S1 of 'targets'—consistent with what is set out in this paper about identifying what is in scope of climate-related targets in IFRS S2—an entity would apply judgement to determine what is meant by 'targets' by considering the disclosure objective and disclosure requirements on targets in IFRS S1.

Connection to other disclosure requirements

29. The staff note that other paragraphs of IFRS S2 require additional information to be provided about the targets identified applying paragraph 28(c) of IFRS S2. Paragraph 14(a) of IFRS S2 requires an entity to disclose how it plans to achieve its climate-related targets, when disclosing information about how it has responded to, and plans to respond to, its climate-related risks and opportunities. Paragraph 6(a)(v) of IFRS S2 requires an entity to disclose how its governance body(s) or individual(s) responsible for oversight of climate-related risks and opportunities oversees the setting of the targets and monitors the progress towards those targets.[6] The staff note these paragraphs highlight the usefulness of information about climate-related targets for primary users, not only as it relates to understanding performance and progress in relation to climate-related risks and opportunities, but also about how an entity plans to achieve those targets as part of its strategy and how those targets are governed.

[6] The staff note that paragraph 6(a)(v) of IFRS S2 provides transparency about an entity's governance over targets but does not require the entity to govern or manage its targets in a specific manner.

Staff note

30. The staff has illustrated, through the use of examples, how an entity might identify climate-related targets by considering the disclosure objective and the disclosure requirements as set out in this paper. The examples illustrate different things that could be identified as climate-related targets.

Example A—Net zero commitment

Fact pattern	Identification of climate-related targets
Company A has identified a climate-related opportunity to strengthen its market position in the industry in which it operates by capturing growing demand for sustainable consumer goods. Capturing this growing demand would enable the company to generate new revenue and increase its margins. The company has established an overarching ambition to take advantage of this opportunity. In relation to that overarching ambition, the company determines that achieving net zero GHG emissions would contribute to strengthening its market position. As a result, it has set a commitment to achieve net zero GHG emissions for its own operations and key aspects of its value chain activities, setting out specific GHG emissions goals by scope and the period in which they apply.	Company A considers whether its overarching ambition is a climate-related target for the purpose of IFRS S2. The entity identifies that the ambition is set in response to a climate-related opportunity that the entity has identified, and considers whether the ambition, on its own, provides information about the company's performance in relation to that opportunity and whether progress toward achieving such ambition can be monitored or measured. Based on these considerations and its facts and circumstances, the company determines that the ambition is not a climate-related target for the purpose of applying the requirements in IFRS S2. Company A also considers whether its net zero GHG emissions commitment is a climate-related target for the purpose of IFRS S2. Company A determines that—unlike the overarching ambition—this commitment provides information about the company's performance in relation to the identified opportunity and progress towards achieving this commitment can be monitored or measured. Based on these considerations and its facts and circumstances, the company determines that the net zero GHG emissions commitment is a climate-related target for the purpose of applying the requirements in IFRS S2.

Example B—Relocation of powerlines

Fact pattern	**Identification of climate-related targets**
Company B operates in the electric utilities sector and has identified a climate-related risk associated with the effects of wildfires on its electricity transmission and distribution activities. Wildfires can cause utilities service disruptions for its customers in Location Y, a location which is at risk of wildfires. The frequency of wildfires has increased in Location Y in recent years due to the effects of climate change and thus presents a climate-related physical risk to the company. In response to the risk, the company has set out an initiative to relocate its powerlines underground to improve the resiliency of its electricity transmissions and distribution. The company has set a goal to relocate 2,500 kilometres of its powerlines by 20XX.	Company B considers whether its goal to mitigate the effects of wildfires by relocating powerlines underground is a climate-related target for the purpose of IFRS S2. The company considers whether the goal to relocate its powerlines is set in response to the identified climate-related physical risk. The company also considers whether disclosures about the goal provide information about the company's performance in relation to the identified risk, and whether progress toward achieving the goal can be monitored or measured. Based on these considerations and its facts and circumstances, the company determines that its goal to relocate 2,500 kilometres of its powerlines by 20XX is a climate-related target for the purpose of applying the requirements in IFRS S2.

Question for the TIG

31. The staff presents the following question for the TIG members.

Question for TIG members
1. What are your views on the questions and analysis presented?