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## Transition Implementation Group on IFRS S1 and IFRS S2

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Topic **Biogenic emissions applying IFRS S2**

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This paper has been prepared for discussion at a public meeting of the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

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## Introduction

1. We have received a submission about the requirements related to greenhouse gas (GHG) emissions in IFRS S2 *Climate-related Disclosures* and whether biogenic emissions are required to be included in an entity's measurement and disclosure of absolute gross GHG emissions generated during the reporting period.
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.

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## Relevant requirements

5. The following paragraphs set out the main requirements in IFRS S2 related to the implementation question.
6. Paragraph 29(a) of IFRS S2 sets out the requirements related to the measurement and disclosure of GHG emissions. This includes the requirement to disclose Scope 1, Scope 2 and Scope 3 GHG emissions—paragraph 29(a)(i) of IFRS S2—and the requirement to measure GHG emissions using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard)—paragraph 29(a)(ii) of IFRS S2:
  - 29 An entity shall disclose information relevant to the cross-industry metric categories of:
    - (a) greenhouse gases—the entity shall:
      - (i) disclose its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO<sub>2</sub> equivalent (see paragraphs B19–B22), classified as:
        - (1) Scope 1 greenhouse gas emissions;
        - (2) Scope 2 greenhouse gas emissions; and
        - (3) Scope 3 greenhouse gas emissions;
      - (ii) measure its greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless required by a jurisdictional authority or an exchange on which the entity is listed to use a different method for measuring its greenhouse gas emissions (see paragraphs B23–B25);
7. Appendix A of IFRS S2 defines ‘greenhouse gases’ as:

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The seven greenhouse gases listed in the Kyoto Protocol—carbon dioxide (CO<sub>2</sub>); methane (CH<sub>4</sub>); nitrous oxide (N<sub>2</sub>O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF<sub>3</sub>); perfluorocarbons (PFCs) and sulphur hexafluoride (SF<sub>6</sub>).

## Implementation question received

8. The submission asks if IFRS S2 requires biogenic emissions to be included in an entity's measurement and disclosure of Scope 1, Scope 2 and Scope 3 GHG emissions. Specifically, the submission asks whether an entity is:
- (a) required to measure and disclose its biogenic emissions:
    - (i) as part of its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions generated during the reporting period; or
    - (ii) separately from its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions generated during the reporting period; or
  - (b) not required to measure and disclose its biogenic emissions (either as part of or separately from its Scope 1, Scope 2 and Scope 3 GHG emissions generated during the reporting period).
9. This question is being asked because applying the GHG Protocol Corporate Standard CO<sub>2</sub> emissions from burning biomass/biofuels are reported separately from disclosures of Scope 1, Scope 2 and Scope 3 GHG emissions.<sup>1, 2</sup> More specifically, Chapter 9 *Reporting GHG Emissions*, within a list of required information on emissions, states: 'Emissions data for direct CO<sub>2</sub> emissions from biologically

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<sup>1</sup> The GHG Protocol Corporate Standard refers to 'CO<sub>2</sub> from burning biomass/biofuels', which are referred to in this paper as 'biogenic emissions'. 'Biofuels' are defined in the GHG Protocol Corporate Standard as 'fuel made from plant material, e.g. wood, straw and ethanol from plant matter'. The term 'biomass' is not defined in the GHG Protocol Corporate Standard.

<sup>2</sup> The question submitted focuses on biogenic emissions of CO<sub>2</sub> only, rather than biogenic emissions of other greenhouse gases, because the GHG Protocol Corporate Standard refers only to 'direct CO<sub>2</sub> emissions from biologically sequestered carbon' as being required to be reported separately from the scopes. For simplicity, throughout this paper the staff has used 'biogenic emissions' to refer to the CO<sub>2</sub> component of biogenic emissions.

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sequestered carbon (e.g., CO<sub>2</sub> from burning biomass/biofuels), reported separately from the scopes'.<sup>3</sup>

10. The emissions that the GHG Protocol Corporate Standard refers to as 'CO<sub>2</sub> emissions from burning biomass/biofuels' are referred to in this paper as 'biogenic emissions'. In addition, 'bioenergy' is used in this paper to describe the energy generated from the 'burning of biomass/biofuels'.
11. In the view of the submitter, the requirements in IFRS S2 could be read that an entity:
  - (a) is required to measure and disclose biogenic emissions as part of its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions because IFRS S2 requires disclosure of absolute gross GHG emissions which includes biogenic emissions;
  - (b) is required to measure and disclose biogenic emissions separately from its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions because IFRS S2 refers to the GHG Protocol Corporate Standard, which has separate reporting of biogenic emissions; or
  - (c) might not be required to measure and disclose its biogenic emissions because IFRS S2 does not require biogenic emissions to be separately disclosed like other standards or disclosure frameworks.
12. This question is important for entities applying IFRS S2, particularly for entities applying IFRS S2 that also apply other sustainability-related disclosure standards or frameworks that specifically require the disclosure of an entity's biogenic emissions separately from its Scope 1, Scope 2 and Scope 3 GHG emissions.<sup>4</sup>

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<sup>3</sup> The staff notes that Chapter 4 *Setting Operational Boundaries* of the GHG Protocol Corporate Standard refers to the requirement in Chapter 9 to report biogenic emissions separately from the scopes, stating that 'Direct CO<sub>2</sub> emissions from the combustion of biomass shall not be included in scope 1 but reported separately (see chapter 9).'

<sup>4</sup> European Sustainability Reporting Standards (ESRS) require disclosure of 'biogenic emissions of CO<sub>2</sub>' separately from Scope 1, Scope 2 and Scope 3 GHG emissions (see ESRS E1 paragraphs AR 43(c), AR 45(e) and AR46(j), respectively).

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## Staff analysis

### ***GHG emissions disclosure requirements in IFRS S2***

13. IFRS S2 requires an entity to disclose its absolute gross GHG emissions, measured in accordance with the GHG Protocol Corporate Standard. IFRS S2 provides definitions for Scope 1, Scope 2 and Scope 3 GHG emissions that in turn refer to the defined term ‘greenhouse gases’. IFRS S2 defines ‘greenhouse gases’ as the seven greenhouse gases listed in the Kyoto Protocol.
14. Therefore, the requirement to disclose an entity’s absolute gross GHG emissions, classified by scope, includes all of the seven gases defined in IFRS S2. That is, IFRS S2 requires the measurement and disclosure of an entity’s emissions of these seven gases.
15. IFRS S2 does not specifically require information to be provided about biogenic emissions. That is, IFRS S2 does not include an explicit requirement to disclose information about biogenic emissions. IFRS S2 requires an entity to disclose its absolute gross GHG emissions generated during the reporting period. The use of the word ‘gross’ means the entity measures *all* of its GHG emissions without taking into consideration any removal efforts.

### ***Biogenic emissions requirements in the GHG Protocol Corporate Standard***

16. The GHG Protocol Corporate Standard is referenced in IFRS S2 for the measurement of GHG emissions, including the characterisation of the sources of GHG emissions as Scope 1, Scope 2 or Scope 3. Therefore, IFRS S2 requires the GHG Protocol Corporate Standard to be applied for *measurement* only (see paragraph 29(a)(ii) of IFRS S2). This means that *disclosure* requirements in the GHG Protocol Corporate Standard are not relevant in applying IFRS S2.
17. The requirement in the GHG Protocol Corporate Standard that states that biogenic emissions are to be reported separately from the scopes explains how the information

about GHG emissions is to be *disclosed* rather than how GHG emissions are required to be *measured*. Therefore, this requirement is a *disclosure* requirement and is not applicable applying IFRS S2. The requirement is included in Chapter 9, which is a chapter about reporting requirements, and the requirement about biogenic emissions is part of a section titled ‘Required information’.

18. In addition, the staff notes that IFRS S2 requires an entity to apply the requirements in the GHG Protocol Corporate Standard only to the extent that they do not conflict with the requirements in IFRS S2 (paragraph B23 of IFRS S2).
19. Although the disclosure requirements related to biogenic emissions in the GHG Protocol Corporate Standard are not applicable, the staff notes that the requirements and guidance related to biogenic emissions highlight that the GHG Protocol Corporate Standard considers biogenic emissions to be GHG emissions. That is, the GHG Protocol Corporate Standard notes that the combustion of biofuels/biomass generates GHG emissions.

## Staff view

20. It is the staff’s view that biogenic emissions are required to be measured and disclosed when applying IFRS S2. In particular, the amount of such emissions are required to be included within an entity’s measurement and disclosure of Scope 1, Scope 2 and Scope 3 GHG emissions because—unlike the GHG Protocol Corporate Standard—IFRS S2 requires an entity to measure and disclose its absolute gross Scope 1, Scope 2 and Scope 3 GHG emissions and does not specifically require biogenic emissions to be measured and disclosed separately. Biogenic emissions are GHG emissions because they release greenhouse gases—as stated in the GHG Corporate Protocol Standard—that are defined in IFRS S2 and thus fall within the requirements for Scope 1, Scope 2 and Scope 3 GHG emissions disclosures.
21. The staff note that, although biogenic emissions are not explicitly required to be reported separately from other GHG emissions, applying the disaggregation

requirements in IFRS S1 might result in an entity disclosing the amount of its GHG emissions that are biogenic emissions. That is, in accordance with paragraphs B29–B30 of IFRS S1, an entity might determine that its GHG emissions need to be disaggregated to avoid obscuring material information. In doing so, an entity might need to disaggregate GHG emissions such that the amount of emissions from the use of bioenergy (an entity’s biogenic emissions) is provided.

22. The staff also note that information about an entity’s biogenic emissions might be required to be provided applying other requirements in IFRS S2. Examples of information about an entity’s use of bioenergy or about its biogenic emissions that might be provided pursuant to specific disclosure requirements could include information about:
- (a) how the entity has responded to, and plans to respond to, climate-related risks and opportunities in its strategy and decision-making including how the entity plan’s to achieve any climate-related targets—if, for example, the use of bioenergy forms part of an entity’s response to climate-related transition risks or the entity’s strategy to achieve GHG emissions targets involves the use of bioenergy (paragraph 14(a) of IFRS S2);
  - (b) the percentage of total energy consumed that is produced from biomass as a result of applying metrics within the *Industry-based Guidance on Implementing IFRS S2*<sup>5</sup>—if an entity operates in an industry for which the *Industry-based Guidance on Implementing IFRS S2* includes metrics about the amount of bioenergy used and the entity determines that the metric is applicable to its circumstances and would provide material information (paragraph 32 of IFRS S2);<sup>6</sup> and

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<sup>5</sup> IFRS S2 requires that an entity refer to and consider the applicability of the metrics in the *Industry-based Guidance on Implementing IFRS S2* to support it in determining the industry-based metrics to disclose about its climate-related risks and opportunities—that is, in identifying metrics that are associated with one or more particular business models, activities or other common features that characterise participation in an industry (paragraph 32 of IFRS S2). The educational material [Using ISSB Industry-based Guidance when applying ISSB Standards](#) explains the role of *Industry-based Guidance on Implementing IFRS S2* in applying IFRS S2.

<sup>6</sup> For example, the Air Freight & Logistics sector (Volume 60) provides metrics for an entity to, in disclosing fuel consumed by road transport-related operations, disclose the percentage of fuel consumed that was produced from renewable biomass (see metric TR-AF-110a.3 *Fuel consumed by (1) road transport, percentage (a) natural gas and (b) renewable, and (2) air transport, percentage (a) alternative and (b) sustainable*).

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- (c) quantitative and qualitative climate-related targets it has set to monitor progress towards achieving its strategic goals—if for example, the entity has a target related to its use of bioenergy or its biogenic emissions (paragraph 33 of IFRS S2).
23. In addition, having applied the requirements in the Standards—including those outlined in paragraph 22 of this paper—information might be provided about an entity’s use of bioenergy or about an entity’s biogenic emissions if such information would provide useful information to meet the objective of IFRS S2.<sup>7</sup>

## Staff note

24. ISSB Standards require information to be disaggregated if aggregating information would obscure information that is material. For example, in the context of biogenic emissions, if an entity determines that the amount of its biogenic emissions generated during the reporting period is material information, an entity would be required to disaggregate its GHG emissions such that its biogenic emissions are disclosed.
25. To illustrate how an entity might decide to disaggregate its GHG emissions, the staff has considered an example of a company that sells products used in the construction industry:
- (a) Company A’s strategic objective is to sell construction products (cement) that support companies transitioning to low-carbon construction. By manufacturing construction products that are considered low-carbon, the company is able to sell its products at premium prices in some markets. The entity believes that producing low-carbon cement will also help it gain market share as more companies operating in the construction industry transition to a lower-carbon economy.

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<sup>7</sup> Paragraph 15(b) of IFRS S1 requires an entity to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reports to understand the effects of sustainability-related risks and opportunities on the entity’s cash flows, its access to finance and cost of capital over the short, medium and long term.

- (b) To achieve its strategic objectives—to charge premium prices for its products in some markets and maintain and grow market share—part of the entity’s strategy is to reduce its use of non-renewable energy by increasing its use of renewable energy including bioenergy.
- (c) The company prepares sustainability-related financial disclosures applying ISSB Standards and provides information about its GHG emissions generated during the reporting period in accordance with paragraph 29(a)(i) of IFRS S2.
- (d) In preparing these disclosures, the company considers the aggregation and disaggregation requirements in paragraphs B29–B30 of IFRS S1 in the context of its measurement and disclosure of absolute gross GHG emissions. Thus, Company A considers whether information about its use of bioenergy (and the resulting biogenic emissions) is material information. The entity applies judgement and might determine that because the use of bioenergy is an important part of its strategy to produce and sell low-carbon construction products at premium prices and supports its ambitions to maintain and grow its market share, information about its biogenic emissions is material. That is, the company might determine that the amount of its biogenic emissions (disaggregated from total GHG emissions) is material information because omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make.

## Question for the TIG

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

### Question for TIG members

1. What are your views on the question and analysis presented?