Staff paper

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ISSB meeting

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Project	**Exposure Draft S2 *Climate-related Disclosures***
Topic	**Scope 3 greenhouse gas emissions**
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Objective

1. This paper initiates the International Sustainability Standards Board's (ISSB's) redeliberations of the proposed requirements for entities to disclose their Scope 3 greenhouse gas (GHG) emissions in paragraph 21(a) of [draft] IFRS S2 *Climate-related Disclosures* ([draft] S2). It sets out the staff's analysis and recommendations for particular aspects of the proposals, including:

   (a) a discussion of stakeholder feedback on the proposed requirement to disclose Scope 3 GHG emissions, which included:

      (i) broad support from users of general purpose financial reporting; and

      (ii) particular areas of concern raised by respondents to the consultation on [draft] S2, including preparers of climate-related disclosures;

   (b) an overview of the staff's analysis and recommendations for particular aspects of the proposals related to Scope 3 GHG emissions, including:

      (i) a recommendation to proceed with the proposal that entities disclose their Scope 3 GHG emissions, and

      (ii) consideration of approaches the ISSB may wish to use, including draft amendments and additional guidance, to address the feedback from respondents.

2. For the purpose of this session, the staff plans to limit the scope of the discussion to the matters described in paragraph 1. However, future sessions and associated papers will address additional aspects of the proposed requirements related to Scope 3 GHG emissions, including:

   (a) the proposed requirements associated with Scope 1 and Scope 2 GHG emissions, initial redeliberations of which are initiated in Agenda Paper 4A *Scope 1 and Scope 2 greenhouse gas emissions;*

   (b) the proposed GHG measurement methods associated with the disclosures in paragraph 21(a), initial redeliberations of which are initiated in Agenda Paper 4C *Greenhouse gas emissions measurement method;*

   (c) remaining aspects of the proposed requirements to disclose Scope 3 GHG emissions, such as:

      (i) recommendations on draft amendments and additional guidance needed to address some of the disclosure challenges raised in the consultation feedback;

(ii) recommendations with regards to whether paragraph 21(a) should include a requirement to disclose the disaggregation of greenhouse gases; and

(iii) recommendations on measures of GHG emissions intensity.

3. For completeness, we note that all proposed disclosure requirements in [draft] S2 would be subject to materiality. Therefore, any reference to required disclosure of Scope 3 GHG emissions information refers to instances when an entity considers this information material—in other words, information that if obscured, omitted or misstated could be reasonably expected to influence the decisions that users of general purpose financial reporting make on the basis of that information.

Summary of staff recommendations

4. The staff recommends the ISSB:

(a) proceed with the proposal to require an entity to disclose its Scope 3 GHG emissions;

(b) confirm that this includes considering the 15 Scope 3 GHG emissions categories described in the *Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (GHG Protocol Corporate Value Chain Standard);

(c) address the data availability and data quality challenges raised by respondents, by considering:

(i) introducing a later effective date for Scope 3 GHG emissions—addressing transitional challenges associated with data availability (paragraph 21–24);

(ii) collaboration with security regulators to provide safe harbour provisions—addressing transitional data availability challenges (paragraph 25–27);

(iii) supporting preparers in the application of the requirement by developing implementation guidance for Scope 3 GHG emissions—addressing persistent data quality challenges(paragraph 28–31);

(iv) amending the proposed requirement to introduce data quality tiers—addressing data availability and data quality challenges to differentiate between the levels of quality present in the entity's underlying data(paragraph 32–35);

(d) assist preparers in the application of the proposed requirement, by considering:

(i) amending the requirement to specify when the 'scope' of the Scope 3 GHG emissions disclosures must be reassessed (paragraph 36–38); and

(ii) amending the requirement to specify what a preparer can do when reporting cycles for entities in the value chain do not align with each other and/or with that of the preparer (paragraph 39–41).

Structure of the paper

5. This paper is structured as follows:

(a) overview of the proposed requirements in [draft] S2 (paragraph 6–9);

(b) staff analysis of feedback received (paragraphs 10–15);

(c) staff recommendations and areas for consideration (paragraphs 16–41);

(d) areas not recommended for further consideration (paragraph 42); and

(e) appendices

(i) Appendix A—extract of the proposed Scope 3 GHG emission requirements in [draft] S2

(ii) Appendix B—summary of relevant comments from AP4A *Climate-related Disclosures—Summary of comments* (September 2022)

(iii) Appendix C—an overview of the Scope 3 GHG emissions categories included in the GHG Protocol Value Chain

(iv) Appendix D—extract of the proposed requirements Exposure Draft of European Sustainability Reporting Standards (ESRS) E1 and U.S. Securities and Exchange Commission (SEC)'s Climate-related Disclosures on Scope 3 emissions

(v) Appendix E—Partnership for Carbon Accounting Financials (PCAF) general data quality score card

Overview of the proposed requirements in [draft] S2

6. Paragraph 21(a)(i) in [draft] S2 proposes that an entity be required to disclose its absolute gross Scope 3 GHG emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard (GHG Protocol Corporate Standard), expressed as metric tonnes of CO_2 equivalent.

7. Paragraph 21(a)(ii) in [draft] S2 proposes that an entity be required to disclose its GHG emissions intensity for Scope 3 GHG emissions expressed as metric tonnes of CO_2 equivalent per unit of physical or economic output.

8. Finally, paragraph 21(a)(vi) in [draft] S2 lays out further requirements for the proposed Scope 3 GHG emissions disclosures, which includes that an entity disclose the categories included within its measure of Scope 3 GHG emissions. The [draft] S2 Basis for Conclusions explains that there are 15 categories, eight of which are upstream and seven of which are downstream.

9. The proposed requirements are reproduced in full in Appendix A, with Appendix C describing the 15 categories in the GHG Protocol Corporate Value Chain Standard

Staff analysis of feedback received

10. As presented in Agenda Paper 4A *Climate-related Disclosures—Summary of comments* in September 2022, and reproduced in Appendix B to this paper, most users of general purpose financial reporting and those representing multilateral organisations agreed with the proposal to require the disclosure of absolute gross Scope 3 GHG emissions by all entities. Users argued that an entity is exposed to transition risks associated with its GHG emissions—and that this is not limited to the GHG emissions within the entity's control. For example, an entity could be exposed to the risk of higher costs, decreased availability of supplies or lower demand, due to the risk of increased carbon prices, the introduction of more stringent regulation on GHG emissions and changing customer preferences. Therefore, these respondents said:

(a) limiting disclosures to an entity's Scope 1 and Scope 2 GHG emissions would result in users having an incomplete picture of an entity's transition risk exposure, particularly in industries associated with significant Scope 3 GHG emissions;

(b) the comparability of entities' GHG emissions across business models, such as comparing the GHG emissions of an entity that relies on outsourcing to those of an entity that is vertically integrated, is enhanced by requiring the disclosure of Scope 1, Scope 2 and Scope 3 GHG emissions;

(c) disclosure of Scope 1, Scope 2 and Scope 3 GHG emissions provides users with more information about an entity's GHG emissions performance over time, including whether an entity reduces its Scope 1 and Scope 2 GHG emissions by outsourcing emissions (thereby increasing its Scope 3 GHG emissions) or by emissions reductions within the entity's control; and

(d) the main barrier to Scope 3 GHG emissions being used in the assessment of enterprise value is the lack of disclosure, or the lack of transparency with regards to the assumptions underpinning the disclosures.

11. Many preparers also broadly agreed with the proposal to require the disclosure of absolute gross Scope 3 GHG emissions by all entities. However, they and other respondents expressed a range of concerns about particular aspects of the requirements. The staff's analysis suggests these concerns fall into two categories—data availability and data quality—and that the ISSB can address the two types of data challenges separately. Specifically, the feedback indicated:

(a) data availability challenges, including concerns raised by respondents that a preparer may be unable to collect data because:

(i) the preparer may not control the entities in its value chain, and that in some cases the preparer may therefore be unable to get the GHG emissions data from the entities in the value chain.

(ii) the entities in the value chain may not be able to faithfully measure, or provide an estimate of, their GHG emissions.

(iii) some entities have complex corporate structures, such as conglomerate structures and/or multinational organisations, which can make it challenging to collect Scope 3 GHG emissions data.

(iv) there are availability challenges associated with aggregating and disclosing Scope 3 GHG emissions at the same time as the financial statements. Respondents highlighted that the disclosure of Scope 3 GHG emissions is complex and time consuming, which creates challenges for entities to prepare and disclose at the same time as financial statements. Furthermore, a preparer is dependent on data from its value chain to disclose aspects of its Scope 3 GHG emissions disclosures. This means that the preparer won't be able to get the data before the entities in the value chain have been able to aggregate their own Scope 1 and Scope 2 GHG emissions data for the period; this adds further complexity and time pressure for preparers. Staff notes that while this second point is the case for a number of categories detailed in the *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, there are categories such as Category 6 –*business travel* and category 7—*employees commuting* which are not reliant on data from entities in the value chain.

(b) data quality challenges, including concerns raised by respondents that a preparer may be unable to report GHG emissions data to a sufficient quality because:

(i) the preparer is unable to correctly assess which of the 15 Scope 3 GHG emissions categories are relevant to investors as a measure of the entity's transition risks, including which entities in the value chain would be relevant for each category.

(ii) there are quality challenges associated with aggregating and disclosure of Scope 3 GHG emissions consistently for the current reporting period in instances when entities in the value chain have a different reporting period to the preparer and/or a range of different reporting periods. For example, a preparer could have a December year-end reporting cycle, but needs data from entities in the value chain that have March year-ends. The aggregate Scope 3 GHG emissions disclosure would then either have to be based on estimates, or use underlying GHG emissions data that is inconsistent with regards to the time period in which the emissions arose.

(iii) measurement methods used by preparers are still developing, which means the data disclosed may not be accurate or consistent across entities.

(iv) double counting arising from calculating Scope 3 GHG emissions because two or more entities can account for the same emissions. Staff has identified two types of double counting concerns raised by respondents. One issue associated with double counting is that unclear, or inconsistent, definitions of how to include emissions across entities in the value chain, may result in double counting of emissions. For example, an entity may account for a unit of its GHG emissions in its Scope 1 and Scope 2 GHG emissions but also account for the same unit in its Scope 3 GHG emissions because another entity is also accounting for that unit of GHG emissions in its Scope 1 and Scope 2 emissions. The other type of double counting is a concern that multiple entities account for the same GHG emissions in their value chain. For example, a manufacturer and retailer would account for Scope 3 GHG emissions resulting from the third-party transportation of goods between them. This type of double counting may present challenges when aggregating a national GHG inventory but may not be an issue for understanding an entity's exposure to risks in its value chain.

12. The staff notes that some challenges raised by preparers in the consultation may be classified as both data availability and data quality challenges as lacking data can result in lower-quality disclosures of Scope 3 GHG emissions information. For example, the challenge to aggregate the data from the value chain for timely disclosure could be thought of as an underlying data availability challenge (that the preparer is unable to collect the data from the value chain in time) that results in data quality challenges (that the preparer discloses lower quality data in the absence of the information from the value chain). For the purposes of this paper, staff asks the ISSB to use the framework of data availability and data quality to identify ways to address the challenges. For challenges that affect both data availability and data quality, multiple levers to address the challenges may be required.

13. Furthermore, the staff has assessed the challenges raised by respondents based on whether the challenge, or aspects of the challenge, is likely to be transitional or persistent for the preparers. In instances staff identify challenges that are likely to be persistent, the staff will look to recommend more permanent amendments. Where the challenge is likely to be transitional, staff will recommend amendments or other areas to support application in a transition period or provide relief that is temporary.

14. Finally, staff notes that stakeholders have raised questions with regards to whether the GHG Protocol Corporate Value Chain Standard is required, because [draft] S2 specifically requires the use of the GHG Protocol Corporate Standard, and because of the requirement to disclose the categories included within the entity's measure of Scope 3 GHG emissions ([draft] S2 paragraph 21(a)(vi)(2)). However, there is no direct mention of the GHG Protocol Corporate Value Chain Standard in [draft] S2.

Staff recommendations and areas for consideration

Staff recommendations for decision-making

15. Based on the broad agreement for the Scope 3 GHG emissions requirement and its role in meeting investor information needs, staff recommends that the ISSB proceed with the proposal to require an entity to disclose its Scope 3 GHG emissions, subject to amendments to address respondents' concerns regarding data availability and data quality. Based on consultation feedback from users, staff believes it is important that the emissions included in the Scope 3 GHG emissions calculations are not limited by data availability—ie that data availability in itself is not a basis to exclude GHG emissions from Scope 3. Rather, in these cases, it would be necessary to estimate emissions. The staff recommendations are premised on this objective.

16. Furthermore, staff recommends that the ISSB clarify that the disclosure requirement in [draft] S2 paragraph 21(a)(vi)(2) refers to the 15 categories in the GHG Protocol Corporate Value Chain Standard. To make this clearer to preparers and users, the staff recommends the ISSB clarify the language in [draft] S2 to make a direct reference to the GHG Protocol Corporate Value Chain Standard. The implication of this recommendation is discussed further in Agenda Paper 4C *Greenhouse gas emissions measurement methods*.

Areas for further consideration by the ISSB

17. To address the data availability and data quality challenges raised by respondents, the staff asks the ISSB to consider:

    (a) introducing a later effective date for Scope 3 GHG emissions—addressing transitional challenges associated with data availability (paragraph 21–24);

    (b) collaboration with securities regulators to provide safe harbour provisions—addressing transitional data availability challenges (paragraph 25–27);

    (c) supporting preparers in the application of the requirement by developing implementation guidance for Scope 3 GHG emissions—addressing persistent data quality challenges (paragraph 28–31);

    (d) amending the proposed requirement to introduce data quality tiers—addressing data availability and data quality challenges to differentiate between the levels of quality present in the entity's underlying data(paragraph 32–35);

18. In addition to the areas in paragraph 17, the staff asks the ISSB to consider amendments that address aspects of the disclosure that will support preparers in the application of the proposed requirement: Specifically, the staff recommends that the ISSB consider:

    (a) amending the requirement to specify when the 'scope' of the Scope 3 GHG emissions disclosures must be reassessed (paragraph 36–38); and

    (b) amending the requirement to specify what a preparer can do when reporting cycles for entities in the value chain do not align with each other and/or with that of the preparer (paragraph 39–41).

19. Finally, the staff notes that there are additional proportionality mechanisms that will be considered alongside the considerations below. For example, Scope 3 GHG emissions is likely to be classified as a 'complex quantitative requirement' (an 'advanced' requirement). This means that the subset of entities that are likely to be more challenged in providing the disclosure could be provided with additional relief (for example, by jurisdictions allowing smaller entities more time before providing this disclosure).

20. The staff asks ISSB to provide input and ask questions with regards to the below considerations. At this point in time, the staff is envisioning addressing preparer concerns through all of the considerations summarised in paragraphs 17-18 and laid out in further detail in paragraphs 21-41, and as such the staff asks for input and feedback on the considerations not just in isolation but also as a package. The staff will later bring back specific recommendations to address the feedback from respondents for the ISSB's decision at a later meeting.

Introduce a later effective date for Scope 3 GHG emissions

21. The staff recommends that the ISSB consider requiring the disclosure of Scope 3 GHG emissions at a later date than other disclosures in IFRS S2, which affects paragraph 21(a)(i)(3), aspects of paragraph 21(a)(ii), and paragraph 21(a)(vi) in [draft] S2. This is addressing the challenge that many entities may not be able to provide Scope 3 GHG emissions disclosures of sufficient quality to be decision-useful for investors—or provide any disclosure at all on Scope 3 GHG emissions, in a transition period. By requiring disclosure of Scope 1 and Scope 2 GHG emissions for a time before requiring Scope 3 GHG emissions, the temporary data availability challenge will be addressed to a significant degree; partly as listed entities in a preparer's supply chain will be subject to the proposed requirement to disclose their Scope 1 and Scope 2 GHG emissions; and partly because it will give a preparer more time to work with the entities in its value chain to collect Scope 3 GHG emissions data.

22. A later effective date for this information is consistent with the proposed rules on climate-related disclosures by the U.S. SEC, which proposes an additional year before the rule mandates reporting of Scope 3 GHG emissions and the proposed Aotearoa New Zealand Climate Standards, which provides an exemption from Scope 3 GHG emissions disclosures in an entity's first reporting period (although disclosure in the interim is encouraged).

23. The staff will not provide a view at this time of how much later the effective date for the disclosure of its Scope 3 GHG emissions should be than the requirement for an entity to disclose its Scope 1 and Scope 2 GHG emissions. This is because the recommendation on a later effective date must be considered together with the effective date of [draft] S2 and the effective date to disclose Scope 1 and Scope 2 GHG emissions in particular: the longer it takes for the requirement on Scope 1 and Scope 2 GHG emissions to become effective, the less extra time should be provided for Scope 3 GHG emissions. However, staff would recommend the ISSB consider that the gap between the two effective dates should be a minimum of one year.

24. The risk of introducing a later effective date for Scope 3 GHG emissions is that entities that are currently able to provide disclosure of Scope 3 GHG emissions don't disclose the information until the requirement becomes effective. However, market forces might mitigate this, as users have articulated, both in comment letters and in outreach, that they consider the information about Scope 3 GHG emissions decision-useful, implying that entities are likely to face pressure, or be incentivised, to disclose their Scope 3 GHG emissions when they are able to. As such, the staff notes that this is consistent with the proposal in paragraph C1 in Appendix C in [draft] S2 which proposes permitting earlier application of the Standard.

Collaborate with securities regulators to provide safe harbour

25. The staff recommends the ISSB consider how it can work with regulators in facilitating safe harbour provisions, including any amendments in [draft] S2 that could be considered to help support this. A safe harbour can be a provision in law or regulation that affords entities protection from liability or penalty from capital market participants (ie, private third-party individuals) and reduces liability if certain conditions are met. A safe harbour does not prevent a regulator from taking action, if warranted.

26. The U.S. SEC proposed a safe harbour provision with respect to liability for Scope 3 GHG emissions disclosed pursuant to the proposed rule that would require domestic and foreign registrants to provide climate-related disclosures in their registration statements and annual reports. This limitation on liability would deem a Scope 3 GHG emissions disclosure not fraudulent unless it was made or

reaffirmed without a *reasonable basis* or disclosed other than in *good faith*. As a result, private plaintiffs (ie investors) would be unable to successfully sue on the basis of such disclosures. The U.S. SEC received feedback in its consultation that entities would find it difficult to judge what constitutes a reasonable basis given the current challenges of data availability and data quality.

27. A safe harbour provision should be considered if the ISSB believes that some protection from litigation risks would facilitate disclosures by entities, for a limited period, to resolve some of the data availability and data quality challenges. A safe harbour provision is ultimately a decision made by securities regulators, but the ISSB can support the introduction of safe harbour provisions through:

(a) collaborating with regulators to provide insight into the availability and development of the data needed by entities to provide reliable Scope 3 disclosure; and

(b) adding language in the IFRS S2 Basis for Conclusions that the risk of litigation may discourage the provision of Scope 3 GHG emissions disclosures by entities. In order to acknowledge this practical barrier, the ISSB could therefore note that the provision of safe harbour protection could assist in facilitating the disclosure of Scope 3 GHG emissions.

Support preparers in the application of the requirement by developing non-mandatory guidance for Scope 3 GHG emissions disclosure

28. The staff recommends that the ISSB consider supporting preparers in the implementation and application of the requirement that an entity disclose its Scope 3 GHG emissions by developing non-mandatory guidance. Such guidance could address the persistent challenges respondents raised regarding data quality. The staff recommends this non-mandatory guidance be published in a timely manner, either at the same time as, or shortly after, the publication of IFRS S2. A timely publication would enable entities to use the guidance to support the implementation of the requirement as well as its ongoing application.

29. This proposal would respond to feedback from many respondents to the consultation, who suggested that the ISSB create additional guidance for disclosing Scope 3 GHG emissions to assist preparers and improve the quality of the Scope 3 disclosures. For example, the guidance could cover:

(a) how preparers determine the ‘scope’ of their Scope 3 GHG emissions disclosures, including how preparers determine which entities in the value chain, and which of the 15 categories, are relevant to enable users’ assessment of enterprise value; and

(b) additional sector-specific guidance on which Scope 3 GHG emissions categories are likely to be most relevant by sector or industry.

30. The staff notes that, alternatively, the ISSB could point preparers to existing market guidance. For example, *CDP Technical Note: Relevance of Scope 3 Categories by Sector* could support entities in 16 high-impact sectors (as defined by CDP) by identifying which Scope 3 GHG emissions categories could be relevant to consider. CDP based its guidance on an assessment of relevance and significance (by size); and the steps are described on page 6 in CDP’s Technical Note:

> As a first step, the relevant categories for each sector were determined using a literature review of frameworks and resources relevant to that sector. As a second step, an analysis of 2021 CDP responses to question C6.5, and C-FS14.1a for the Financial Services sector was conducted to identify a) the proportion of responders in a sector selecting a Scope 3 category as “Relevant, calculated”, and b) the magnitude of each Scope 3 category relative to both total Scope 3 emissions and total Scope 1+2+3 emissions (as reported in C6.1, C6.3, C6.5, and C-FS14.1a for the Financial Services sector). Based on the data analysis results, other relevant categories were included if they comprised a large proportion of Scope 3 emissions reported by the sector.

31. However, in the example of the CDP guidance, the staff notes that there are inconsistencies with CDP's definitions of high-impact sectors and the sector classification in SASB Industry Standards. Similar inconsistencies may be present in other market guidance.

Amend the proposed requirement to introduce data quality tiers to differentiate between the levels of quality present in the entity's underlying data

32. The staff recommends the ISSB consider amending the proposed requirement to introduce data quality tiers—in other words, the preparer would differentiate between the levels of quality present in its underlying data. Due to the data availability and data quality challenges raised by respondents, high-quality data won't often be available throughout an entity's value chain, especially in a transition period. However, users of general purpose financial reporting have expressed broad agreement with the need for disclosure on Scope 3 GHG emissions and have said data that relies on estimates with considerable measurement uncertainty is preferrable to no data at all. These users have articulated a need, however, for transparency around the methods used, and ideally, the data quality.

33. This alternative would:

    (a) facilitate disclosure by entities that may struggle to obtain higher-quality or more accurate data;

    (b) enable transparency regarding the uncertainties associated with the data; and

    (c) accommodate preparers' ability to meet the requirement today, while enabling improved disclosure over time, as capital markets are likely to incentivise higher-quality tiers.

34. Introducing quality tiers builds upon a similar concept introduced by PCAF, which introduced a *general data quality score card*, with a description of how to deploy the hierarchy for each asset class (an example of which is laid out in Appendix E). PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with the loans and investments of financial institutions (i.e., category 15 in the GHG Protocol Corporate Value Chain Standard). As such, PCAF's general quality score cards offer a starting point for the ISSB to consider. The staff furthermore recommends the ISSB consider interoperability between any approach it may take to data quality tiering and PCAF's general data quality score card.

35. The approach of introducing data quality tiers is also similar to the fair value hierarchy in IFRS 13 *Fair Value Measurement*. The staff notes that the fair value hierarchy is not as analogous as PCAF's data quality score card, as IFRS 13 describes a hierarchy based on how observable inputs are, whereas this alternative, like PCAF's data quality score card, is trying to address uncertainty of measurement, and associated data availability and data quality challenges.

Amend the requirement to specify when the 'scope' of the Scope 3 GHG emissions disclosures must be reassessed

36. The staff recommends the ISSB consider whether to amend the requirement to specify criteria, or circumstances, for when the 'scope' of Scope 3 GHG emissions disclosure is required be reassessed. This is a measure that can be used to lower the cost for preparers to disclose the information, which is a key consideration of this redeliberation. Currently, the presumption in the proposed requirement in [draft] S2, is that an entity would reassess, at every reporting date, which categories and which entities in its value chain are relevant to include in its Scope 3 GHG emissions inventory to enable users' assessment of enterprise value.

37. The staff highlights three IFRS Accounting Standards that can provide precedence and guidance for how to amend the requirement:

(a) IFRS 10 *Consolidated Financial Statements* (IFRS 10)—this standard outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Paragraph 7 describes how an investor controls an investee if it has all of the following—power, exposure, or rights, to variable returns and the ability to use its power. Paragraph B80 describes how 'an investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed in paragraph 7'.

(b) IFRS 16 *Leases* (IFRS 16)—this standard specifies how a preparer will recognise, measure, present and disclose leases. Paragraph 18 requires an entity to determine the lease term, which includes an assessment of whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease. Paragraph 20 requires the entity to reassess this 'upon the occurrence of either a significant event or a significant change in circumstances that: (a) is within the control of the lessee; and (b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term'.

(c) IAS 34 *Interim Financial Reporting*—this standard applies when an entity prepares an interim financial report. Permitting less information to be reported than in annual financial statements (on the basis of providing an update to those financial statements), the standard outlines the recognition, measurement and disclosure requirements for interim reports. Paragraph 15 requires an entity to include 'an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. The reason for this, as laid out in paragraph 16, is that 'a user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report'.

38. The staff recommends that the ISSB in particular considers the approach established in IFRS 10, which instead of providing a high threshold ('significant'), would provide similar relief by only requiring entities to reassess the 'scope' of Scope 3 GHG emissions disclosure if there is information available that indicates that there might be a need to change the scope, noting that this could be because of changes in the value chain or because of changes in users' information needs.

Amend the requirement to specify what a preparer can do when reporting cycles for entities in the value chain do not align with each other and/or with that of the preparer

39. The staff recommends that the ISSB consider amending the requirement to specify what a preparer can do when the reporting cycles for entities in the value chain do not align with each other and/or with that of the preparer.

40. IAS 28 *Investments in Associates and Joint Ventures* (IAS 28) outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. It therefore provides a precedent for how the ISSB can provide relief to entities when the end of the reporting period of the preparer is different from that of entities in the value chain. Paragraph 34 in IAS 28 sets out a few requirements the ISSB can consider, including that:

(a) the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months;

(b) adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statement; and

(c) the length of the reporting periods and any difference between the ends of the reporting periods <u>shall be the same</u> from period to period.

41. The staff notes that due to the current data quality associated with Scope 3 GHG emissions (and the current use of estimates), we recommend the ISSB in particular consider the elements laid out in paragraph 40(b) and (c) in this paper. As long as the length of the reporting period is the same, the difference between the ends of the reporting periods remains the same, and an entity is able to make adjustments for the effect of significant transactions or events, the data quality of Scope 3 GHG emissions disclosed are unlikely to be affected significantly by a different end of the reporting period. As such, staff would recommend that the ISSB consider that the difference between the end of the reporting period of the entities in the value chain and the preparer could be extended from the three months precedent outlined above.

Alternative considered but not recommended

42. Another way to provide relief would be to require Scope 3 GHG emissions disclosure, but to constrain the value chain such as by limiting the value chain to tier 1 suppliers only. This would assist in addressing preparer concerns about obtaining information and managing estimation uncertainty by limiting the information required to be obtained to those where the entity has a direct relationship with the information provider. However, the notion of Scope 3 GHG emissions is designed to provide an inclusive picture of an entity's GHG emissions information. This is consistent with the notion of the value chain that is established in [draft] S1. The staff is concerned that constraining the information set in this way would reduce the usefulness of the information provided. It may result in costs being incurred to provide information that is not particularly useful compared to information that is more inclusive. The staff believes that the other approaches suggested to provide relief for preparers, notably by allowing a later effective date for the Scope 3 GHG emissions information to be provided and the proposals to address challenges with the quality of information, more effectively balance the practical concerns raised by preparers while enabling more useful information to be provided to users of the information.

Questions for the ISSB

1. Does the ISSB have any questions or comments about the matters described in this paper?

2. Does the ISSB agree with the following recommendations:

   (a) proceed with the proposal to require an entity to disclose its Scope 3 GHG emissions; and

   (b) confirm that this includes considering the 15 Scope 3 GHG emissions categories described in the GHG Protocol Corporate Value Chain Standard?

3. Does the ISSB agree with staff’s proposed approach to assess and address the feedback, including the areas highlighted in paragraphs 21–41, to assist preparers in the implementation and application of the Scope 3 GHG emissions disclosure requirement?

Appendix A—extract of the Scope 3 emission requirements in [draft] S2

A1. Proposal in the question for this paper: paragraph 21(a)

21. An entity shall disclose information relevant to these cross-industry metric categories:

(a) *greenhouse gas* emissions—the entity shall disclose:

(i) its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the *Greenhouse Gas Protocol Corporate Standard*, expressed as metric tonnes of *CO_2 equivalent*, classified as:

1. Scope 1 emissions;

2. Scope 2 emissions;

3. Scope 3 emissions;

(ii) its greenhouse gas emissions intensity for each scope in paragraphs 21(a)(i)(1)—(3), expressed as metric tonnes of CO_2 equivalent per unit of physical or economic output;

(iii) for Scope 1 and Scope 2 emissions disclosed in accordance with paragraph 21(a)(i)(1)—(2), the entity shall disclose emissions separately for:

1. the consolidated accounting group (the parent and its subsidiaries);

2. associates, joint ventures, unconsolidated subsidiaries or affiliates not included in paragraph 21(a)(iii)(1);

(iv) the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard);

(v) the reason, or reasons, for the entity's choice of approach in 21(a)(iv) and how that relates to the disclosure objective in paragraph 19;

(vi) for Scope 3 emissions disclosed in accordance with paragraph 21(a)(i)(3):

1. an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;

2. an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported;

3. if the entity includes emissions information provided by entities in its value chain in its measure of Scope 3 greenhouse gas emissions, it shall explain the basis for that measurement;

4. if the entity excludes those greenhouse gas emissions in paragraph 21(a)(vi)(3), it shall state the reason for omitting them such as, for example, because it is unable to obtain a faithful measure;

Appendix B—summary of comments from AP4A Summary of Comments from September 2022

B1. Most respondents that are users of general purpose financial reporting and those representing multilateral organisations agreed with the proposal to require the disclosure of absolute gross Scope 3 emissions by all entities. These respondents cited a range of reasons for their position, including statements suggesting that:

(a) Scope 3 emissions can represent a significant portion of an entity's overall emissions profile and leaving it out could present a misleading view of an entity's risk exposure;

(b) Scope 3 emissions disclosure is increasing and improving across all sectors and jurisdictions, which respondents said reflects an increasing recognition that Scope 3 emissions are an important component of investment risk analysis and enterprise value assessment; and

(c) Scope 3 emissions disclosure can help users evaluate the extent to which an entity is exposed to transition risk and is adapting to a lower-carbon economy or meeting its net zero targets.

B2. While many preparers broadly agreed with the proposal to require the disclosure of absolute gross Scope 3 emissions by all entities, they and other respondents expressed a range of concerns about particular aspects of the requirement. Specifically:

(a) many stated that data collection practices and technologies for measuring Scope 3 emissions are nascent and therefore it is difficult to obtain reliable, high-quality data for Scope 3 emissions from sources that fall outside an entity's direct control;

(b) many stated reporting Scope 3 data will place an undue burden on entities in the value chain;

(c) many stated that there are significant timing challenges in aggregating and reporting Scope 3 emissions data across different value chain entities and difficulties arising from the different financial reporting periods of those entities;

(d) many stated that Scope 3 measurement and disclosure methods are undeveloped or still developing and therefore it will be difficult to obtain a faithful, accurate or comparable measure given the significant reliance on estimates and assumptions; and

(e) a few stated that the usefulness of Scope 3 information is compromised by the risks of double counting.

B3. Some respondents agreed with the proposal to require entities to disclose gross Scope 3 emissions, but recommended a safe harbour or phased-in approach because:

(a) getting sufficient information from entities in the value chain, at least initially, is likely to prove challenging; and

(b) data availability and process maturity will differ by jurisdiction and entity.

B4. Many respondents asked for additional clarity on the reporting boundary for Scope 3 disclosure, and further guidance on how many levels up and down the value chain the entity should include when compiling Scope 3 emissions.

How staff quantified the feedback

B5. The papers use the following terms to describe the extent to which feedback was provided by respondents, which is defined as stakeholders who submitted a comment letter or survey response:

Term	Extent of response among respondents
Almost All	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

Appendix C—an overview of the Scope 3 GHG emissions categories included in the GHG Protocol Value Chain

C1. The GHG Protocol Corporate Value Chain Standard categorise Scope 3 GHG emissions into 15 distinct categories, as listed in figure 1 below, and table 1 below.

Figure 1 Overview of GHG Protocol scopes and emissions across the value chain. Source: figure [5.2] in the GHG Protocol Corporate Value Chain Standard

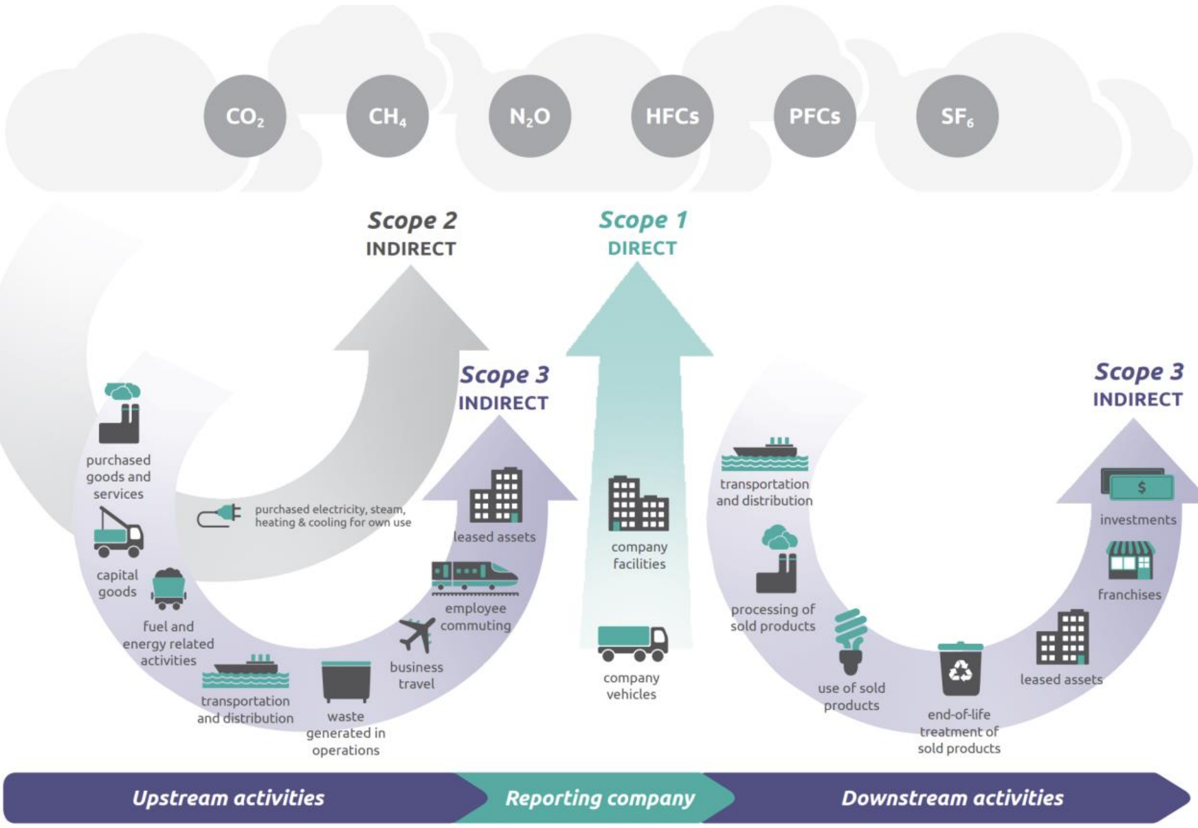

Table 1 List and description of Scope 3 GHG emission categories. Source: table [5.3] and table [5.4] in the GHG Protocol Corporate Value Chain Standard

Upstream or Downstream	Scope 3 Category	Description
Upstream	1. Purchased Goods and Services	Extraction, production, and transportation of goods and services purchased or acquired by the reporting company in the reporting year, not otherwise included in Categories 2 - 8
Upstream	2. Capital Goods	Extraction, production, and transportation of capital goods purchased or acquired by the reporting company in the reporting year

Upstream	3. Fuel- and energy-related activities (not included in scope 1 or scope 2)	Extraction, production, and transportation of fuels and energy purchased or acquired by the reporting company in the reporting year, not already accounted for in scope 1 or scope 2, including: a. Upstream emissions of purchased fuels (extraction, production, and transportation of fuels consumed by the reporting company) b. Upstream emissions of purchased electricity (extraction, production, and transportation of fuels consumed in the generation of electricity, steam, heating, and cooling consumed by the reporting company) c. Transmission and distribution (T&D) losses (generation of electricity, steam, heating and cooling that is consumed (i.e., lost) in a T&D system) – reported by end user d. Generation of purchased electricity that is sold to end users (generation of electricity, steam, heating, and cooling that is purchased by the reporting company and sold to end users) – reported by utility company or energy retailer only
Upstream	4. Upstream transportation and distribution	Transportation and distribution of products purchased by the reporting company in the reporting year between a company's tier 1 suppliers and its own operations (in vehicles and facilities not owned or controlled by the reporting company) Transportation and distribution services purchased by the reporting company in the reporting year, including inbound logistics, outbound logistics (e.g., of sold products), and transportation and distribution between a company's own facilities (in vehicles and facilities not owned or controlled by the reporting company)
Upstream	5. Waste generated in operations	Disposal and treatment of waste generated in the reporting company's operations in the reporting year (in facilities not owned or controlled by the reporting company)
Upstream	6. Business travel	Transportation of employees for business-related activities during the reporting year (in vehicles not owned or operated by the reporting company)

Upstream	7. Employee commuting	Transportation of employees between their homes and their worksites during the reporting year (in vehicles not owned or operated by the reporting company)
Upstream	8. Upstream leased assets	Operation of assets leased by the reporting company (lessee) in the reporting year and not included in scope 1 and scope 2 – reported by lessee
Downstream	9. Downstream transportation and distribution	Transportation and distribution of products sold by the reporting company in the reporting year between the reporting company's operations and the end consumer (if not paid for by the reporting company), including retail and storage (in vehicles and facilities not owned or controlled by the reporting company)
Downstream	10. Processing of sold products	Processing of intermediate products sold in the reporting year by downstream companies (e.g., manufacturers)
Downstream	11. Use of sold products	End use of goods and services sold by the reporting company in the reporting year
Downstream	12. End-of-life treatment of sold products	Waste disposal and treatment of products sold by the reporting company (in the reporting year) at the end of their life
Downstream	13. Downstream leased assets	Operation of assets owned by the reporting company (lessor) and leased to other entities in the reporting year, not included in scope 1 and scope 2 – reported by lessor
Downstream	14. Franchises	Operation of franchises in the reporting year, not included in scope 1 and scope 2 – reported by franchisor
Downstream	15. Investments	Operation of investments (including equity and debt investments and project finance) in the reporting year, not included in scope 1 or scope 2

Appendix D—extract of the proposed requirements in ESRS EI and U.S. SEC's Climate-related Disclosures on Scope 3 emission

D1. At a high level, the U.S. SEC's proposed requirements include disclosure of Scope 3 GHG emissions in metric tons of CO_2 equivalent and intensity if material. Or if an entity has reduction target that includes its Scope 3 GHG emissions. Within its phase-in periods and accommodations for the proposed disclosures, the U.S. SEC provides an additional phase-in period for Scope 3 GHG emissions disclosure, a safe harbour for Scope 3 GHG emissions disclosure, and an exemption from the Scope 3 GHG emissions for entities meeting the definition of a smaller reporting company (SRC).

D2. When there is no reasonably available Scope 3 GHG emissions data, the U.S. SEC permits entities to use a reasonable estimate of their GHG emissions for the fourth fiscal year along with GHG emissions data for the first three fiscal quarters. The entity will also need to promptly disclose any material difference between the estimate and the actual GHG emissions from the fourth fiscal quarter in a subsequent filing. The entity must also disclose which Scope 3 categories are included, consistent with the GHG Protocol.

D3. At a high level, the ESRS E1's proposed requirements include disclosure of Scope 3 GHG emissions in metric tons of CO2 equivalent. The Scope 3 GHG emissions disclosure will consist of significant Scope 3 categories from upstream purchasing, downstream sold products, goods transportation, travel, and financial investments. For calculating the Scope 3 GHG emissions, non-financial institutions are required to consider the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011), and financial institutions to consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF).

D4. Regarding limitation on Scope 3 GHG emissions data availability, the ESRS E1 allows exclusion for the disclosure of the total GHG emissions broken down by major countries and operating segments. The ESRS S1 allows Scope 3 GHG emissions to be excluded from this disclosure if data is not readily available. It also allows the entity to update the Scope 3 inventory every three years unless major changes occur (but disclose Scope 3 GHG emissions yearly). In addition, the entities are required to disclose the percentage of emissions from primary data obtained from entities in the value chain.

Appendix E—Partnership for Carbon Accounting (PCAF)'s general data quality score card

E1. PCAF's Global GHG Accounting and Reporting Standard for the Financial Industry describe a data hierarchy, which is laid out in figure 2 below. This is intended to facilitate disclosure of Scope 3 GHG emissions by financial institutions, even in instances when high-quality data is not available. Whilst figure 2 provides the general principle, the standard lays out data quality score cards specific to each asset. Table 2 reproduces the data quality score card for *listed equity and corporate bonds* as an example.

Figure 2 General data quality scorecard. Source: PCAF's Global GHG Accounting and Reporting Standard for the Financial Industry

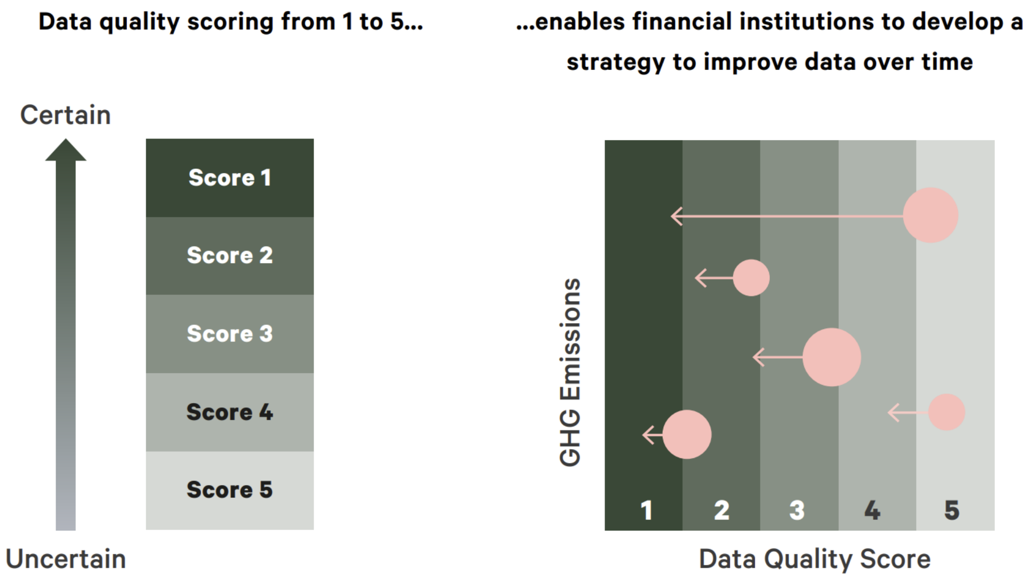

Table 2 General description of the data quality score table for listed equity and corporate bonds. Source: PCAF's Global GHG Accounting and Reporting Standard for the Financial Industry

Data Quality	Options to estimate the financed emissions		When to use each option
Score 1	**Option 1: Reported emissions**	**1a**	Outstanding amount in the company and EVIC are known. **Verified emissions** of the company are available.
Score 2		**1b**	Outstanding amount in the company and EVIC are known. **Unverified emissions** calculated by the company are available.
	Option 2: Physical activity-based emissions	**2a**[62]	Outstanding amount in the company and EVIC are known. Reported company emissions are not known. Emissions are calculated using primary physical activity data of the **company's energy consumption** and emission factors[63] specific to that primary data. Relevant process emissions are added.
Score 3		**2b**	Outstanding amount in the company and EVIC are known. Reported company emissions are not known. Emissions are calculated using primary physical activity data of the **company's production** and emission factors specific to that primary data.
Score 4	**Option 3: Economic activity-based emissions**	**3a**	Outstanding amount in the company, EVIC, and the **company's revenue**[64] are known. Emission factors for the sector per unit of revenue are known (e.g., tCO_2e per euro of revenue earned in a sector).
Score 5		**3b**	Outstanding amount in the company is known. Emission factors for the sector per unit of asset (e.g., tCO_2e per euro of asset in a sector) are known.
		3c	Outstanding amount in the company is known. Emission factors for the sector per unit of revenue (e.g., tCO_2e per euro of revenue earned in a sector) and **asset turnover ratios** for the sector are known.