IFRS Sustainability

Staff paper

Agenda reference: 4D

ISSB Meeting

Date	**September 2022**
Project	**Exposure Draft *S2 Climate-related Disclosures (2022)***
Topic	**Financed and Facilitated Emissions**
Contacts	**Emily Gaston** (emily.gaston@ifrs.org) **Jing Zhang** (jing.zhang@ifrs.org) **Rommie Johnson** (rommie.johnson@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). 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® Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

Objective

1. The Exposure Draft of IFRS S2 *Climate-related Disclosures* ([draft] S2) proposed the addition of 'Transition Risk Exposure' as a disclosure topic in four industries in the industry-based disclosure requirements. Specifically, [draft] S2 proposed several metrics relating to financed and facilitated emissions for the following four industries— commercial banks, investment banking and brokerage, asset management and custody activities, and insurance. For ISSB members' convenience, those metrics are reproduced in Appendix A1 of this paper.

2. The objective of this paper is to:

   (a) provide a high-level summary of the feedback received in comment letters and market outreach on the proposals related to financed and facilitated emissions;

   (b) describe the matters raised in that feedback that the staff thinks the International Sustainability Standards Board (ISSB) may need to consider in its redeliberations; and

   (c) discuss the staff's preliminary proposed approach to redeliberations and consider whether any additional research or outreach is required.

3. This paper sets out the matters that the staff thinks the ISSB will need to consider in its redeliberation on the proposed requirements for financed and facilitated emissions. The matters described in this paper were raised in feedback received in comment letters and survey responses, as well as the market outreach performed by ISSB members and staff during the comment period. For each matter, the staff has provided a high-level overview of the feedback received and the preliminary proposed approach for redeliberations. The staff asks the ISSB for input on the staff's proposed approach. This input will inform the staff's detailed analysis and recommendations in future board papers.

4. The proposals discussed in this paper are located in Appendix B - Industry-based disclosure requirements of [draft] S2, Volumes B15 to B18. This paper discusses only the proposed 'Transition Risk Exposure' disclosure topic and does not consider feedback related more generally to the role and status of Appendix B. Future board papers will discuss Appendix B more broadly. This paper does not make any assumptions about those future discussions.

5. We are not asking the ISSB to make any decisions in this session.

Structure of the paper

6. This paper is structured as follows:
   (a) background (paragraph 8–14);
   (b) summary of feedback received in comment letters and outreach (paragraph 15–17);
   (c) preliminary discussion of matters raised in comment letters and outreach (paragraph 18–63);
   (d) next steps (paragraph 64–65);
   (e) questions for the ISSB; and
   (f) Appendix
      (i) A. Proposed Financed and Facilitated Emissions Metrics
      (ii) B. Invitation to Comment (ITC) Questions

7. With respect to item (c) above, this paper discusses 12 matters that were raised in comment letters and outreach. The staff has endeavoured to group the matters in a logical manner as follows:
   (a) scope of the proposals:
      (i) objective, description, and name of the proposed disclosure topic;
      (ii) asset management and custody activities – Financed emissions as a total of assets under management (AUM);
      (iii) investment banking and brokerage – Facilitated emissions;
   (b) data considerations:
      (i) timing of underlying data
      (ii) inclusion of Scope 3 emissions in financed and facilitated emissions ('Scope 3 of Scope 3')
   (c) industry breakdown:
      (i) carbon-related industries;
      (ii) use of Global Industry Classification System;
      (iii) emissions intensity - defining units of measure;
   (d) complexity:
      (i) derivatives
      (ii) use of risk mitigants
   (e) requests for increased flexibility:
      (i) prescription of calculation methodology
      (ii) effective date of the financed and facilitated emissions disclosures

Background

8. Financial institutions, including commercial banks, investment banks, asset managers and insurance companies, are increasingly being asked to disclose the extent of their investment, lending and underwriting activity associated with sustainability-related matters. In relation to the topic of climate, this involves the disclosure of emissions-financing activities. The absolute greenhouse gas (GHG) emissions that banks and investors finance through their loans and investments are often referred to as 'financed emissions'. More recently, an additional classification known as 'facilitated emissions' has been applied to describe other, off-balance-sheet activities performed by financial institutions, such as underwriting, securitisation and advisory services.

9. The measurement of financed and facilitated emissions generally builds on the GHG Protocol Corporate Value Chain (Scope 3) Standard, which includes guidance on calculating indirect emissions resulting from Category 15 (investments). Indirect GHG emissions are those emissions emitted from sources not owned or controlled by an entity. For financial institutions, Scope 3 GHG emissions, especially those in Category 15, are by far the largest component of their total GHG emissions.

10. Metrics related to financed and facilitated emissions were proposed in Appendix B of the [draft] S2 under a new disclosure topic heading, 'Transition Risk Exposure', for four industries in the Financials sector: commercial banks, asset management and custody activities, investment banking and brokerage and insurance. The proposed metrics are an extension of the requirements proposed in the cross-industry metrics and targets section of [draft] S2, where paragraph 21(a) would require entities to disclose Scope 3 GHG emissions including Category 15 (investments). The proposed new disclosure topic and corresponding metrics related to financed and facilitated emissions aimed to address the need for more detailed disclosure guidance for particular industries that would go beyond what was proposed in paragraph 21(a) of [draft] S2.

11. The objective of the proposed disclosure topic and corresponding metrics was to measure potential risks relating to the transition to a low-carbon economy of a financial institution's lending, investing and other business activities. Specifically, financial institutions could face transition risks in the form of credit risk, market risk, counterparty risk and other financial and operational risks. To achieve this objective, a number of disclosure requirements were proposed for each respective industry. The two key elements of the proposals were to disclose the GHG emissions attributed to the financial institution's financing activity and to disclose the corresponding financial exposure of those financing activities. For convenience, the proposed metrics are summarised below.

    Commercial Banks and Insurance (financed emissions)

    - Scope 1, 2 & 3 GHG emissions (both emissions intensity and absolute) broken down by asset class (including but not limited to loans and advances, project finance, derivatives, debt securities and equity instruments);
    - Financial exposure broken down by asset class and industry;
    - Financed emissions for undrawn loan commitments, disclosed separately;
    - Description of the entity's methodology including the approach to data collection, the use of estimates, assumptions and proxies, third-party verification and an explanation for any omissions; and
    - Percentage of total assets covered by the disclosure of financed emissions.

    Additionally, a metric relating to financial exposure to carbon-related (high-emitting) industries was proposed (the proposals defined the list of 'carbon-related industries').

    Asset Management and Custody Activities (financed emissions)

    - Scope 1, 2 & 3 GHG emissions (both emissions intensity and absolute emissions) attributed to the entity's total assets under management (AUM);

- Description of the entity's methodology including the approach to data collection, the use of estimates, assumptions and proxies, third-party verification, and explanation for any omissions; and
- Percentage of total assets covered by the disclosure of financed emissions.

Investment Banking and Brokerage (facilitated emissions)

- Scope 1, 2 & 3 GHG emissions broken down by business line and industry (absolute emissions only); and
- Description of the entity's methodology including the approach to data collection, the use of estimates, assumptions and proxies, third-party verification, and explanation for any omissions.

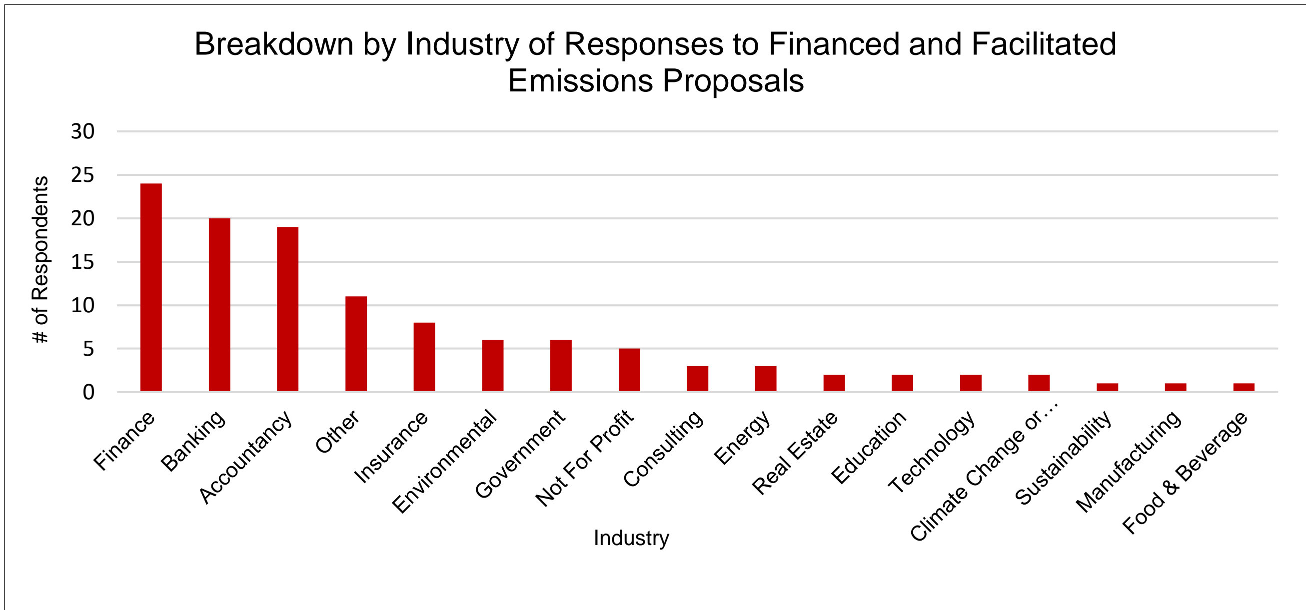
12. The design of these proposals considered that each industry has unique business models, risk profiles, asset classes, time horizons—and momentum and consensus—to measure financed and facilitated emissions. In taking this measured approach, [draft] S2 attempted to reflect significant, generally accepted aspects of current practice while also allowing for the development and refinement of technical measurement methods. For example, the proposals for all four industries would allow entities to design or choose a calculation method as long as the entity discloses information to ensure its methodology is clear.

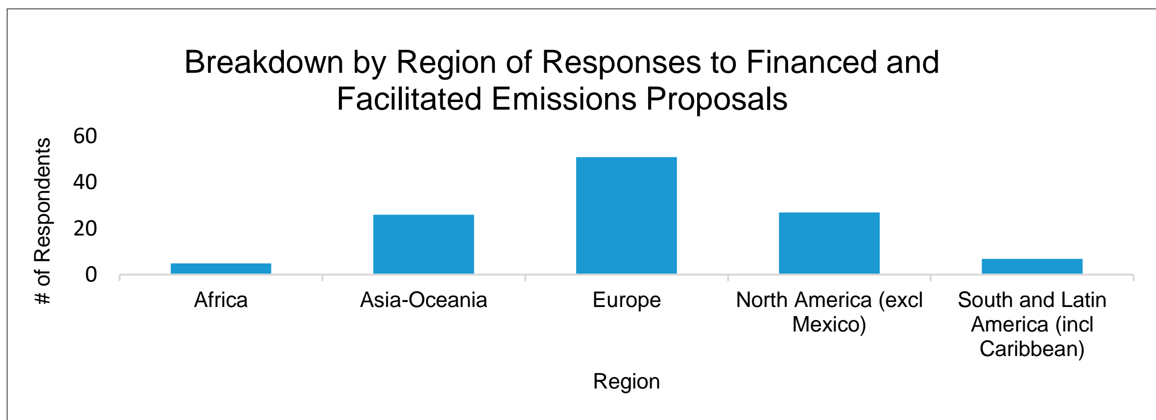
13. Financed and facilitated emissions is gaining substantial attention in global markets from investors, regulators and civil society groups, which is reflected in the amount of feedback received on the proposals (described in the next section of this paper). Prudential regulators have expressed interest in collaborating with the ISSB on the development of bank-specific sustainability disclosures, including financed and facilitated emissions, because such disclosures are also important to foster transparency in the financial system. Although the respective remits for the ISSB and prudential regulators are different, similar metrics are being considered for both purposes and, therefore, increased alignment could reduce or eliminate inconsistencies in the reporting obligations for banks.

14. While the difficulties inherent in the comparability, coverage, transparency and reliability of Scope 3 GHG emissions data are widely recognised, it is also acknowledged that the situation is improving. Specifically, an increasing number of investee entities across all sectors are disclosing Scope 1, Scope 2 and Scope 3 GHG emissions, which provide a critical foundational input for financial institutions to calculate financed and facilitated emissions. Moreover, the cross-industry metrics that were proposed in paragraph 21(a) of [draft] S2 could help improve the availability and quality of GHG emissions data over time. Furthermore, the Partnership for Carbon Accounting Financials (PCAF) has done significant work to advance the understanding and calculation of GHG emissions for financial institutions applying the GHG Protocol. As a result of this work, financial institutions' disclosures of Scope 3 GHG emissions are more comparable and complete. Accordingly, the proposals for financed and facilitated emissions in [draft] S2 are intended to provide decision-useful and increasingly relevant information to users of general purpose financial reporting in assessing enterprise value (of financial institutions) while acknowledging that a flexible approach is fundamental to allow for continued development.

Summary of feedback received in comment letters and outreach

15. The Invitation to Comment in [draft] S2 asked six questions specific to the financed and facilitated emissions proposals. For ISSB members' convenience, those questions are reproduced in Appendix B1 of this paper. Over 100 comment letters responded to those questions—industry and regional breakdowns of those responses are presented below. In addition, the staff performed targeted outreach which included more than 30 meetings with banks, insurers, asset managers, asset owners, industry bodies, research organisations, regulators and other experts.





16. Most respondents generally agreed with the proposed industry-based disclosure requirements for financed and facilitated emissions. These respondents said the proposals would result in more robust and complete disclosure and acknowledged that these proposed metrics would go beyond the requirements proposed in the cross-industry metrics and targets section of [draft] S2—i.e., where paragraph 21(a) of the [draft] S2 would require entities to disclose Scope 3 GHG emissions including Category 15 (investments).

17. However, respondents raised some concerns and questions about particular aspects of the proposals. Those matters are discussed in the next section of this paper.

Preliminary discussion of matters raised in comment letters and outreach

18. The staff's high-level analysis of matters raised in comment letters and during market outreach—and our preliminary proposed approach for redeliberations—is set out below. At this meeting, the staff is asking for the ISSB's input on that high-level analysis and preliminary approach. That input will inform our detailed analysis and recommendations in future papers, including consideration of whether any additional research or outreach is required. For the matters described in this paper—and any additional matters that may arise during that more detailed analysis—the staff plan to present that analysis, along with recommendations, to the ISSB for redeliberation at a future meeting.

Objective, description and name of the proposed disclosure topic

19. Financed and facilitated emissions metrics can be used as proxy for measuring transition risk to a low carbon economy. Counterparties, borrowers or investees with higher emissions may be more susceptible to transition risks such as technological changes, shifts in supply and demand and policy change which in turn can impact a financial institution's enterprise value that is providing financial services to these entities. Risks for the financial institution can also manifest through reputational damage and consumer preferences as investors are becoming increasingly more interested in a financial institution's 'net zero' pledges and ability to meet these pledges through transition planning and target setting.

20. Respondents generally agreed with the proposals to include these metrics as an indicator of potential transition risk. However, some respondents raised concerns about the name and description of the disclosure topic in conveying that objective and said it could be misleading to investors.

21. The staff believe the proposed disclosure topic and corresponding proposed financed emissions metrics are a useful representative of potential transition risk in relation to financing activities but acknowledge they are not a direct measure. As such, these metrics should not be used in isolation but rather should be used in conjunction with the information that would be disclosed applying the cross-industry proposals in [draft] S2 to provide users of general purpose financial reporting with important context, such as the strategy in place for the financial institution to manage transition risk, including emissions reduction targets.

22. The staff recognise the limitations in using these metrics as a proxy for transition risk. The staff believe that the description and name of the disclosure topic could be revised to alleviate confusion around its objective and avoid misleading investors. The staff will consider revising the disclosure topic description and name and plans to bring that analysis to the ISSB in a future meeting.

Asset management and custody activities – financed emissions as a total of AUM

23. The proposals related to financed emissions for asset management and custody activities would require a breakdown of total assets under management (AUM), with Scope 1, Scope 2 and Scope 3 presented separately. The proposed metric would not require a breakdown by asset class, sector or strategy.

24. Asset managers carry a different risk profile compared to commercial banks and insurers because AUM represents investments made by an asset manager on behalf of a third party and therefore are not part of an asset manager's statement of financial position. The potential risk relates to how, for example, reduced performance fee income or increased outflows from failing to adequately manage transition risks at a portfolio level could impact the overall financial performance of the asset manager. The proposals seek to provide an indication of the overall transition risk exposure at the entity level, as opposed to at an individual portfolio or strategy level.

25. Respondents had mixed views on these proposals. Some respondents supported the inclusion of financed emissions at the AUM level and agreed that the proposed metric is a sufficient indicator of overall transition risk. Some respondents also said that this metric would help distinguish between emissions from an asset manager's own investments and those from investments that the asset manager makes on behalf of a third party. Furthermore, some respondents, although generally supportive of the proposed metrics, said that the use of the term 'financed emissions' could be misleading because asset managers do not directly finance the emissions but instead manage the emissions being financed on behalf of their clients.

26. However, other respondents said that the proposed metric would not provide decision-useful information to investors that are trying to identify asset managers that are more susceptible to

transition risk. These respondents said that a breakdown by portfolio or strategy would be more useful. These respondents said that such risk is managed at a portfolio level within the confines of mandates that have different investment objectives and risk profiles, which may not be observable at an aggregate AUM level. Additionally, some respondents said the proposed metric would be more useful if emissions from passive strategies were disclosed separately from emissions from active investment strategies. As a result, they said a breakdown by product or by strategy may provide more decision-useful information.

27. Acknowledging the mixed views, the staff believe that the proposed metric provides users with decision-useful information to help assess how asset managers may be exposed to potential transition risk through their AUM. The staff acknowledge that the term 'financed emissions' could be misinterpreted and therefore will evaluate whether other labels such as 'managed emissions' or 'emissions from investment portfolios' would be more appropriate. Additionally, the staff plan to analyse if a breakdown by asset class, strategy or sector could provide more useful information to users while also considering the additional burden on preparers of providing more granular information. The staff plans to ask the ISSB to consider these matters at a future meeting.

Investment banking and brokerage – Facilitated emissions

28. The proposals for investment banking and brokerage would require an entity to disclose facilitated GHG emissions broken down by Scope 1, 2 and 3 and by business line. Facilitated emissions differ from financed emissions because facilitated emissions relate to GHG emissions associated with capital markets activities such as underwriting, securitisation and advisory services. Generally, these activities are fee-generating and do not provide direct financing, and therefore are not recognised on the entity's statement of financial position (i.e. they are 'off-balance sheet'). Facilitated emissions can present significant reputational risks to the entity providing the service and can potentially affect revenue streams.

29. Some respondents expressed concerns about the proposed metrics and said that it may be premature to include such requirements for facilitated emissions for investment banking because an accepted calculation methodology has not yet been established. Some respondents said that PCAF's 2021 consultation on Capital Market Instruments, for which feedback is not yet publicly available, may help establish such a calculation methodology.

30. The staff acknowledge that the development of a calculation methodology for facilitated emissions is in very early stages. However, the proposals were designed to provide flexibility to accommodate continued development in the market, for example, by allowing entities to choose and describe the methodology they use. The staff believe that including facilitated emissions in the industry-based requirements at this early stage of development may help drive the process forward and provide investors with transparency related to potential risks and opportunities associated with the transition to a low-carbon economy in relation to capital markets activities.

31. The staff plans to continue to analyse concerns from respondents that it may be premature to include the metrics relating to facilitated emissions in the investment banking and brokerage industry-based requirements at this time, including whether these metrics present an opportunity to drive standardisation of developing practices. The staff plans to ask the ISSB to consider this matter at a future meeting.

Timing of underlying data

32. In the exposure draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, paragraph 66 requires an entity to report its sustainability-related financial disclosures at the same time as its related financial statements and for the same reporting period as the financial statements. This includes the cross-industry requirements that would require entities to disclose Scope 1, Scope 2 and Scope 3 GHG emissions data that were proposed in paragraph 21(a) of [draft] S2.

33. An entity's ability to calculate financed and facilitated emissions relies on obtaining emissions data from the underlying investee entity or counterparty, as well as from other sources, such as estimations from data providers. Many respondents said that such underlying investee entities and counterparties may be required to disclose emissions data in accordance with the metrics proposed in paragraph 21(a) of [draft] S2 and therefore a financial institution likely would need that information in order to calculate its financed and facilitated emissions. Consequently, financial institutions may not be able to disclose their financed and facilitated emissions at the same time that they disclose other sustainability-related financial information required by [draft] S2.

34. The staff plans to analyse further whether a later reporting date would be appropriate for the disclosure of financed and facilitated emissions metrics, for example, because it would facilitate the use of more reliable data in the calculation of these metrics. This increased reliability could enhance the decision-usefulness and relevance of these disclosed metrics to investors. The staff also plans to consider alternatives to requiring a later reporting date like the use of estimates for the last quarter reporting of investees and counterparties. The staff plans to ask the ISSB to consider this matter at a future meeting.

Inclusion of Scope 3 emissions in financed and facilitated emissions ('Scope 3 of Scope 3')

35. Financed and facilitated emissions are part of an entity's Scope 3 emissions. To provide investors with more decision-useful information, the proposals for disclosure of financed emissions would require an entity to break down its total financed emissions into the investee entity's or counterparty's Scope 1, 2 and 3 emissions. In other words, a financial institution would be required to report a portion of its Scope 3: Category 15 (investments) broken down separately for the investee entity's or counterparty's Scope 1, 2, and 3 GHG emissions—the latter of which is referred to as 'Scope 3 of Scope 3'.

36. Some respondents said that an entity's financed and facilitated emissions should be limited to the investee entity's or counterparty's Scope 1 and Scope 2 emissions only. They pointed out that obtaining the investee entity's or counterparty's Scope 3 data for the purposes of reporting financed and facilitated emissions would require a financial institution to obtain data about a counterparty's or investee entity's value chain. These respondents said that the data is inherently more unreliable because it is so far removed from the financial institution's control. For example, it will be difficult for a financial institution to determine the extent that the investee entity or counterparty used estimations in compiling its Scope 3 emissions data. On the other hand, excluding Scope 3 of a counterparty's or investee entity's emissions may limit the decision-usefulness of the metric as a proxy for the financial institution's transition risk. In many sectors, Scope 3 emissions make up the majority of an investee entity's or counterparty's total emissions and thus can help identify areas of an investee or counterparty's business' model that may be more vulnerable to transition risk and, for example, potentially jeopardise the performance of loans or investments made by financial institutions.

37. Currently the GHG Protocol Corporate Value Chain (Scope 3) Standard requires that when an entity discloses information on Category 15 (investments), it must disclose the Scope 1 and Scope 2 GHG emissions of the investee or counterparty and should also disclose the investee's or counterparty's Scope 3 GHG emissions when they are significant. Whereas PCAF requires a phased-in approach to including Scope 3 emissions of investees or counterparties aligned to the European Union's (EU) Technical Expert Group in Sustainable Finance as follows:

Phase-in period	NACE[1] L2 sectors considered
From 2021	At least energy (oil & gas) and mining (i.e., NACE L2: 05-09, 19, 20)
From 2024	At least transportation, construction, buildings, materials, and industrial activities (i.e., NACE L2: 10-18, 21-33, 41-43, 49-53, 81)
From 2026	Every sector

38. The staff plan to analyse further whether Scope 3 GHG emissions of investees or counterparties should be included in the calculation of the metrics for financed and facilitated emissions. That analysis will include whether those metrics would faithfully represent an entity's exposure to transition risk if Scope 3 emissions were excluded. The staff plans to ask the ISSB to consider this matter at a future meeting.

Carbon-related Industries

39. For commercial banks and insurance, an additional metric was proposed relating to exposure to carbon-related industries. Although related, this metric does not require an emissions calculation. Instead, the purpose of this metric is to highlight an entity's exposure to a defined list of carbon-related industries and therefore identify areas of an entity's portfolio that may be more susceptible to transition risk. In addition, this proposed metric was intended to be a useful starting point for entities at the beginning of their emissions reporting journey, to highlight their emissions 'hotspots' until data and calculation methodologies are available to enable those entities to disclose financed emissions.

40. The carbon-related industries listed in the proposals were based on the October 2021 TCFD reporting guidance and Net Zero Banking Alliance (NZBA) classifications mapped to the Global Industry Classification System (GICS) naming conventions. The carbon-related industries listed in the proposal include:

(a) Oil, Gas & Consumable Fuels

(b) Chemicals, Construction Materials, Metals & Mining, and Paper & Forest Products

(c) Air Freight & Logistics, Airlines, Marine, and Road & Rail

(d) Automobiles

(e) Homebuilding

(f) Beverages and Food Products

(g) Electric Utilities, Gas Utilities and Multi Utilities

(h) Real Estate Management & Development

41. Respondents generally agreed with the proposed list. However, despite the intention to align the proposed list to TCFD and NZBA, some respondents noted certain industries were not included on the list—for example Agriculture and Capital Goods. In addition, some respondents said that the list is not 'sufficiently discriminatory' because the industries may capture companies that are carbon reducing e.g., a renewable energy utility. Moreover, other respondents said that a higher-level sector breakdown would be sufficient, as opposed to the proposed more granular 6-digit industry code level. These respondents said that an industry breakdown, like the one proposed, could create challenges for preparers that would not necessarily enhance the value of the information to investors.

[1] Nomenclature statistique des activités économiques dans la Communauté européenne

42. The staff note that the proposed list of carbon-related industries was prefaced with the statement '[c]arbon related industries include but are not limited to …' and therefore think that the list was not meant to exclude the identification of other carbon-related industries such as Agriculture and Capital Goods. However, the staff will review the industries that TCFD and NZBA identified as carbon-related, or high-emitting, to see if further alignment or clarification is appropriate. The staff will also evaluate whether the wording of this metric could be improved—such as by adding the words, 'likely' or 'usually' to the carbon-related industries list to provide flexibility to address concerns that particular companies in those industries are actually carbon reducing. The staff also plan to analyse further whether a higher-level breakdown would produce the same level of decision-useful information to investors and, at the same time, reduce the reporting burden on preparers. The staff plan to bring this matter to the ISSB for redeliberation at a future meeting.

Use of Global Industry Classification System (GICS)

43. The financed emissions proposals for commercial banks and insurance, and facilitated emissions for investment banking and brokerage, would require a breakdown of emissions by industry using the GICS 6-digit code. Such standardisation of the classification system that is used to categorise industries will help create consistency and comparability that will enhance the decision-usefulness of the metrics for users.

44. Moreover, as part of the staff's on-going internationalisation project to prepare the industry-based disclosures for public consultation, the disclosure topics and metrics relating to climate in the SASB Standards were reviewed to identify and address any jurisdictional bias. As a result, the reference to the North American Industry Classification System (NAICS) in the metric '*FN-IB-410a.1. Revenue from (1) underwriting, (2) advisory, and (3) securitization transactions incorporating integration of environmental, social, and governance (ESG) factors, by industry*' was replaced with GICS in the investment banking and brokerage industry. Therefore, staff recognise that this matter extends to other metrics in the Financials sector beyond the metrics for financed and facilitated emissions.

45. Some respondents agreed with the proposal to require GICS. Other respondents said that the European classification system 'Nomenclature statistique des activités économiques dans la Communauté européenne' (NACE), or another classification system, should be used instead. In particular, some respondents said that aligning the ISSB's metrics for financed emissions to NACE would enhance compatibility and interoperability with the EU's regulatory framework.

46. The staff believe that prescribing a classification system is important to ensure that entities apply a consistent approach but recognise the difficulty in aligning industries when an entity is using a different classification system for other reporting purposes. The staff plan to evaluate further the appropriateness of requiring GICS for industry classification. Additionally, the staff plan to consider the appropriateness and usefulness of providing a mapping between the varying classification systems to facilitate consistent disclosure.

Emissions intensity – defining units of measure

47. In the commercial banks and insurance industry-based requirements, the proposals would require financed emissions to be disclosed as a measure of intensity and also in absolute terms, by asset class and by sector. For emissions intensity, the proposals do not prescribe the unit of emissions intensity. Instead, the proposals refer to either a unit of physical or economic output.

48. Some respondents said the metric should specify the unit of emissions intensity measure to be used for each sector to drive further standardisation. For example, for the Utilities sector, the measure could be kg/CO2e per kWh (kilowatt hour) or for the Energy sector, the measure could be kg/CO2e per MJ (megajoule).

49. The staff acknowledge that prescribing emissions intensity units would help improve comparability of the metrics disclosed. However, the practice of calculating and disclosing financed emissions is still in the development phase and therefore the staff think that prescribing an emissions intensity unit for

each sector at this time may impose limitations on the decision-usefulness of the metric because in some industries this may not be established Additionally, the staff thinks this matter needs to be considered in a broader context because the proposals in paragraph 21(a)(ii) in the cross-industry metrics and targets requirements of [draft] S2 would require Scope 1, 2 and 3 emissions as a measure of physical and economic intensity.

50. The staff believe further analysis is required to understand the extent to which common emissions intensity units are used within a given sector and their usefulness in driving consistency and comparability if particular units were to be prescribed. The staff plans to ask the ISSB to consider this matter at a future meeting.

Prescription of a calculation methodology

51. Although there is emerging consensus on how to calculate financed and facilitated emissions for certain asset classes, the proposals did not require a particular calculation methodology. That approach was intended to provide appropriate flexibility and allow for innovation as development of calculation methodologies continues. The proposed metrics would require the entity to disclose a description of the methodology it used, including how it attributed the counterparty/investee emissions to its financing activities.

52. Respondents had mixed views about whether a prescribed calculation methodology is necessary. Some respondents said that prescribing a methodology would drive more comparable and decision-useful disclosures, and the majority of these respondents supported alignment with PCAF. On the other hand, other respondents said that, although consensus is emerging, it is still evolving, and they therefore agreed with the proposed approach to not prescribe a calculation methodology. For example, these respondents said that currently there is not an agreed upon methodology for calculating emissions related to derivatives or insurance underwriting, and the development of these methodologies is in a nascent state.

53. The staff think disclosure regarding the methodology used in relation to financed and facilitated emissions may provide sufficient transparency to provide decision-useful information to investors until best practices develop. However, acknowledging the feedback received, we will further analyse whether prescribing a calculation methodology could be appropriate at this time and plans to ask the ISSB to consider this matter at a future meeting.

Derivatives

54. For the commercial banks and insurance industry-based requirements, the proposals relating to two metrics—(1) financed emissions and (2) exposure to carbon related industries—included derivatives in the list of assets that would be within the scope of those disclosure requirements. Derivatives were included in the list for completeness purposes.

55. Some respondents said that derivatives should be removed from the list—and thus not be within the scope of the proposals for financed emissions—because the methodologies for calculating emissions related to derivatives are too nascent. These respondents said that such calculations are complex and different methodologies likely are appropriate depending on the type of derivative. For example, particular approaches are beginning to emerge for derivatives linked to an underlying equity instrument or corporate bond (for example, stock options or total return swaps) and those approaches may not be appropriate for other types of derivatives.

56. Moreover, the proposals described gross exposure for derivatives as ‘the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity’s financial statements.’ One respondent said that the notional amount may be a more appropriate measure of the gross exposure of a derivative.

57. Given that the development of methodologies for calculating emissions for derivatives is in an early stage, the staff will consider whether derivatives should be within the scope of the relevant metrics. Additionally, the staff will evaluate whether gross exposure to carbon-related industries should be required for derivatives (including what the best measure would be to capture that financial exposure). Additional outreach and research may be necessary for these matters. The staff plans to bring this analysis to the ISSB for redeliberation at a future meeting.

Use of risk mitigants

58. The scope of the financed emissions proposals in the commercial banking industry-based requirements extends to an entity's lending portfolios. However, the proposals do not provide guidance for how an entity should treat risk mitigants that are used to protect loans from credit risk manifesting from the transition to a low-carbon economy when the entity calculates financed emissions. In such circumstances, credit risk mitigants come in many forms such as physical or financial collateral, credit default swaps or climate insurance.

59. One respondent, an industry association representing a large number of banks, asked the ISSB for clarity in determining what emissions should be accounted for when loans are protected by credit and/or climate risk mitigants (for example, collateral).

60. The staff acknowledges that further development is required for financed emissions methodologies to take into account nuances related to the treatment of risk mitigants in lending portfolios. The staff plans to analyse further how transparency could be achieved related to the use of credit risk mitigants in relation to financed emissions. The staff plans to ask the ISSB to consider these matters at a future meeting.

Effective date of the financed and facilitated emissions disclosures

61. [Draft] S2 did not propose an effective date. Paragraph BC194 of the Basis for Conclusions explained that the ISSB will set the effective date when it approves the final Standard. The Invitation to Comment included questions on the effective date, including whether any disclosure requirements in [draft] S2 could be applied earlier than others. General feedback on those questions will be discussed in other papers. However, some respondents provided feedback on the effective date specifically for the disclosure requirements for financed and facilitated emissions.

62. Given the complexity involved in calculating financed and facilitated emissions, entities may need extra time to, for example, to understand what data is required, how to obtain that data and what calculation methodologies should be applied for various asset classes. Consequently, some respondents asked that a later effective date relative to the rest of the standard be considered for the proposed metrics to allow more time for reporting entities to prepare the disclosure.

63. The staff plans to evaluate whether the effective date for financed and facilitated emissions should be later than the effective date for the other requirements in the final climate Standard (and if so, how much extra time should be given). The staff plans to provide further information to the ISSB on this matter in a later meeting.

Next Steps

64. The staff plans to continue to analyse the feedback received from comment letters, survey responses and market outreach. For the matters described in this paper—and any additional matters that may arise during that more detailed analysis—staff plans to present that analysis, along with recommendations, to the ISSB for redeliberation at a future meeting. Further research or outreach may be required for some of those matters.

65. Additionally, due to the quickly evolving nature of financed and facilitated emissions, the staff plans to continue to research the topic more broadly to keep abreast of new developments that may impact the

scope of the proposals. The staff also plans to consider how collaborating more closely with other organisations on this topic (for example, prudential regulators, EFRAG) can promote interoperability between different reporting regimes.

Questions for the ISSB

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 staff's planned approach for redeliberations?

Appendix

Appendix A—Proposed Financed and Facilitated Emissions Metrics

A1. The following tables show the proposed metrics relating to financed and facilitated emissions in the industry-based disclosure requirements for commercial banks, asset management and custody activities, investment banking and brokerage and insurance under the Financials sector.

Volume B15 – Asset Management & Custody Activities

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	Percentage of total assets under management (AUM) included in the financed emissions calculation	Quantitative	Percentage (%)	FN-AC-1
	(1) Absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-AC-2
	(1) Gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e per unit of economic output, Presentation currency	FN-AC-3
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-AC-4

Volume B16 – Commercial Banks

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure Transition Risk Exposure	(1) Gross exposure to carbon-related industries, by industry, (2) total gross exposure to all industries, and (3) percentage of total gross exposure for each carbon-related industry	Quantitative	Presentation currency, Percentage %	FN-CB-1
	Percentage of gross exposure included in the financed emissions calculation	Quantitative	Percentage %	FN-CB-2
	For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, (c) Scope 3 emissions and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-CB-3
	For each industry by asset class: (1) gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e per unit of physical or economic output, Presentation currency	FN-CB-4

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-CB-5

Volume – B17 Insurance

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	(1) Gross exposure to carbon-related industries, by industry (2) total gross exposure to all industries, and (3) percentage of total gross exposure to each carbon-related industry	Quantitative	Presentation currency, Percentage %	FN-IN-1
	Percentage of gross exposure included in the financed emissions calculation	Quantitative	Percentage %	FN-IN-2
	For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-IN-3
	For each industry by asset class: (1) gross emissions intensity of (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO_2-e per unit of physical or economic output	FN-IN-4
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-IN-5

B18 – Investment Banking & Brokerage

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transition Risk Exposure	For each key business line by industry: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions and (c) Scope 3 emissions, and (2) associated revenue (i.e., facilitated emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-IB-1
	Description of the methodology used to calculate facilitated emissions	Discussion and Analysis	n/a	FN-IB-2

Invitation to Comment (ITC) Questions

B1. The following six questions [11 (d) – 11 (i)] were included in Invitation to Comment (ITC) section of the[draft] S2:

(a) Do you agree with the proposed industry-based disclosure requirements for financed and facilitated emissions, or would the cross-industry requirement to disclose Scope 3 emissions (which includes Category 15: Investments) facilitate adequate disclosure? Why or why not?

(b) Do you agree with the industries classified as 'carbon-related' in the proposals for commercial banks and insurance entities? Why or why not? Are there other industries you would include in this classification? If so, why?

(c) Do you agree with the proposed requirement to disclose both absolute- and intensity-based financed emissions? Why or why not?

(d) Do you agree with the proposals to require disclosure of the methodology used to calculate financed emissions? If not, what would you suggest and why?

(e) Do you agree that an entity be required to use the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard to provide the proposed disclosures on financed emissions without the ISSB prescribing a more specific methodology (such as that of the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting & Reporting Standard for the Financial Industry)? If you don't agree, what methodology would you suggest and why?

(f) In the proposal for entities in the asset management and custody activities industry, does the disclosure of financed emissions associated with total assets under management provide useful information for the assessment of the entity's indirect transition risk exposure? Why or why not?