

June 2023

# Project Summary

IFRS<sup>®</sup> Sustainability Disclosure Standards

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***IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information***

***IFRS S2 Climate-related Disclosures***

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# At a glance

The International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards in June 2023. This document provides an overview of the requirements in these Standards.

## The first two ISSB Standards

**IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*** sets out the general requirements for a company to disclose information about its sustainability-related risks and opportunities that is useful to users of general purpose financial reports (referred to as ‘investors’ throughout this document) in making decisions relating to providing resources to the company.

**IFRS S2 *Climate-related Disclosures*** sets out the requirements for a company to disclose information about its climate-related risks and opportunities, while building on the requirements described in IFRS S1. IFRS S2 integrates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and requires the disclosure of information about both cross-industry and industry-specific climate-related risks and opportunities.

## Effective date

IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024, meaning that investors can begin to see information in 2025 based on companies applying the Standards for their 2024 reporting cycle.

Companies are required to apply the two Standards together to assert compliance with IFRS Sustainability Disclosure Standards. However, the ISSB has provided reliefs from some requirements in the first year a company applies the Standards. For example, a company has the option to limit disclosures to information about climate-related risks and opportunities in the first year that it applies IFRS S1 and IFRS S2.

Although all public and private companies can apply IFRS S1 and IFRS S2, the ISSB does not have the right to mandate the application of the Standards. Companies can voluntarily apply these Standards, and jurisdictional authorities can decide whether to require companies to apply them.

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# Better information for better decisions

## Decision-useful information about sustainability-related risks and opportunities

Global capital markets demand more consistent, comparable and verifiable information about companies' exposure to, and management of, sustainability-related risks and opportunities. Having this information will enable investors to make more informed decisions relating to providing resources to companies. The ISSB was created to meet this demand.

The ISSB aims to establish a comprehensive **global baseline** of sustainability-related financial disclosures to meet the needs of capital markets.

### About the ISSB

The Trustees of the IFRS Foundation announced the creation of the ISSB at the United Nations Climate Change Conference (COP26) in November 2021.

The ISSB's remit is to issue standards that establish a comprehensive global baseline of sustainability-related financial disclosures for capital markets. The ISSB operates alongside the International Accounting Standards Board (IASB). Both boards are overseen by the Trustees.

The ISSB issues IFRS Sustainability Disclosure Standards (ISSB Standards).

## Built on established frameworks

The ISSB aims to simplify the global sustainability disclosure landscape, reducing the complexity of having multiple sources of reporting guidance, while building on the established expertise and practice associated with market-leading frameworks and standards.

The creation of the ISSB involved the consolidation of the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation, which governed materials from the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC).

Using relevant concepts from IFRS Accounting Standards, where applicable, IFRS S1 and IFRS S2 integrate the recommendations of the TCFD and build on materials from the CDSB, IIRC and SASB.

Like all Standards issued by the IFRS Foundation, IFRS S1 and IFRS S2 have undergone a rigorous and transparent due process designed to capture and integrate feedback from a wide range of stakeholders around the world.

Details on responses to the ISSB's consultation on IFRS S1 and IFRS S2 can be found in the [Feedback Statement for IFRS S1 and IFRS S2](#).

### Extensive consultation

- Exposure Drafts for IFRS S1 and IFRS S2 published in March 2022
- More than 1,400 comment letters and survey responses received
- 36 staff papers discussed at 10 public ISSB meetings between July 2022 and April 2023
- More than 400 outreach events held with more than 30,000 stakeholders with wide geographical representation
- More than 20 meetings with IASB and ISSB consultative groups



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# Designed for global markets

## A global baseline of sustainability-related financial disclosures

The International Organization of Securities Commissions (IOSCO), the Financial Stability Board, the G20 and a range of stakeholders across jurisdictions support the establishment of a global baseline of sustainability-related financial disclosures to meet the information needs of capital markets.

The ISSB is working closely with other international organisations and jurisdictions to support the use of its Standards in jurisdictional requirements—including in combination with incremental jurisdictional requirements (commonly referred to as ‘building blocks’). This ensures that ISSB Standards are compatible with other reporting requirements, including jurisdictional requirements and those aimed at broader stakeholder groups.

## Efficiency through interoperability

A key objective of the ISSB is to reduce the complexity associated with various sustainability disclosure frameworks and standards, to address the reporting burden for companies and improve the efficiency of the reporting system.

The ISSB is working with jurisdictional representatives through the [Jurisdictional Working Group](#) and with organisations, including the European Commission, the European Financial Reporting Advisory Group (EFRAG) and the Global Reporting Initiative (GRI) to help achieve this objective. An important priority has been to establish interoperability between IFRS S1 and IFRS S2 and the European Sustainability Reporting Standards (ESRS), the GRI Standards and other major jurisdictional requirements. For example, efforts have been made to identify common disclosures in ESRS and IFRS S2, and ensure the requirements are aligned wherever possible, to prevent duplicative reporting.

## GAAP agnostic

Companies can apply IFRS S1 and IFRS S2 whether their financial statements are prepared in accordance with IFRS Accounting Standards or other generally accepted accounting principles or practices (GAAP).

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# Proportionate and phased requirements

## Designed for proportionality

The ISSB has sought to achieve a balance between the costs for companies in applying the requirements and ensuring investors are provided with consistent, comparable and verifiable information.

The ISSB designed many requirements in IFRS S1 and IFRS S2 to be applied in a manner appropriate for a company's circumstances—that is, the requirements are 'proportionate' to the range of capabilities and preparedness of companies around the world.

The Standards also allow for temporary or permanent relief from some requirements, depending on a company's circumstances. For example, a company may provide qualitative rather than quantitative information about the anticipated financial effects of a sustainability-related risk or opportunity if the company does not have the skills, capabilities or resources to provide quantitative information.

## Use of reasonable and supportable information

The ISSB included the concept of '**reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort**' in key areas of IFRS S1 and IFRS S2 to mitigate the challenges companies might encounter when applying requirements that involve a high level of judgement or uncertainty, including identifying sustainability-related risks and opportunities and using climate-related scenario analysis. For example, the efforts expected of a company with more limited resources are likely to be less than those expected of a more well-resourced company, with all else being equal.

## First year transition reliefs for companies

IFRS S1 and IFRS S2 provide **transition reliefs in the first year** of application, including relief from the requirements to:

- report information about sustainability-related risks and opportunities beyond climate-related risks and opportunities;
- report sustainability-related financial disclosures, including climate-related financial disclosures, at the same time as the related financial statements;
- disclose Scope 3 greenhouse gas (GHG) emissions information, including relief from the requirements for companies that have asset management, commercial banking or insurance activities to provide additional information about financed emissions;
- use the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol Corporate Standard) to measure Scope 1, Scope 2 and Scope 3 GHG emissions in specific circumstances; and
- disclose comparative information.

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## Resources to support companies

IFRS S1 and IFRS S2 are both accompanied by a Basis for Conclusions that summarises the ISSB's considerations in developing each Standard. Furthermore, the ISSB has developed **application guidance**, along with **illustrative guidance** and **illustrative examples** to support companies in applying IFRS S1 and IFRS S2.

The ISSB is committed to continue supporting the implementation of IFRS S1 and IFRS S2, including by developing further guidance and training material, and establishing a Transition Implementation Group on IFRS S1 and IFRS S2 (TIG).

### The ISSB has developed application guidance on the following:

#### IFRS S1

- Identifying sustainability-related risks and opportunities and disclosing material information about such risks and opportunities
- Material information
- Connected information

#### IFRS S2

- Applying scenario analysis to assess a company's climate resilience
- Measuring Scope 1, Scope 2 and Scope 3 GHG emissions, including a framework for the measurement of Scope 3 GHG emissions
- Disclosing information relevant to the cross-industry metric categories
- Disclosing information about the climate-related targets a company may have set or is required to meet by law or regulation

### Illustrative guidance and illustrative examples that accompany the Standards include the following:

#### IFRS S1

- Guidance on who 'primary users' are and how companies should apply sources of guidance for identifying sustainability-related risks and opportunities and applicable disclosure requirements, including the SASB Standards and CDSB Framework Application Guidance
- Examples of considering and applying the SASB Standards

#### IFRS S2

- Guidance on metrics that could be disclosed as part of information relevant to the cross-industry metric categories
- Examples of disclosing GHG emissions information applying the principles in IFRS S1 for aggregation and disaggregation
- Industry-based guidance on identifying appropriate disclosures about climate-related risks and opportunities that are associated with common business models and activities in a particular industry

# 1

## **IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information***

IFRS S1 requires a company to disclose information about its sustainability-related risks and opportunities that is useful to investors in making decisions relating to providing resources to the company. It sets out the general requirements for how a company should disclose that information, and the requirements for providing a complete set of sustainability-related financial disclosures.

Many of the conceptual foundations and general requirements of IFRS S1 are adapted from the IASB's *Conceptual Framework for Financial Reporting* and the IFRS Accounting Standards, including IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These foundations and requirements will be familiar to companies that prepare financial statements, particularly companies that prepare them in accordance with IFRS Accounting Standards.



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# How is sustainability-related financial information useful to investors?

IFRS S1 states that information about sustainability-related risks and opportunities is useful to investors because a company's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the company and its stakeholders, society, the economy and the natural environment throughout the company's value chain.

Together, a company and the resources and relationships throughout its value chain form an interdependent system in which the company operates. The company's dependencies and impacts on those resources and relationships give rise to its sustainability-related risks and opportunities.

IFRS S1 does not require a company to provide information about every sustainability-related risk and opportunity. Rather, the Standard requires a company to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect its 'prospects'—its cash flows, access to finance or cost of capital over the short, medium or long term.

IFRS S1 builds on concepts from the **Integrated Reporting Framework**, which helps companies articulate how they rely on, use and affect different types of resources and relationships (financial, social, human, natural, etc.) to create, preserve or erode value for investors over time.

## Connecting the dots ... how can sustainability-related risks and opportunities affect a company's prospects?

When a company's business model depends on a natural resource, for example, water, it is likely to be affected by changes in the quality, availability and pricing of that resource. When a company's activities result in adverse external impacts, like harm to local communities, it could be subjected to stricter government regulations or see its reputation damaged. When a company's business partners face significant sustainability-related risks and opportunities, the company could be exposed to related consequences.

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## Core content

IFRS S1 requires a company to disclose information about its **governance**, **strategy** and **risk management**, as well as **metrics and targets**, in relation to its sustainability-related risks and opportunities. These four core content areas reflect how companies manage those risks and opportunities.

The four core content areas are consistent with, and build on, the TCFD Recommendations—extending the structure of the recommendations to sustainability-related risks and opportunities beyond climate.

### Governance

Information that enables investors to understand the governance processes, controls and procedures a company uses to monitor, manage and oversee sustainability-related risks and opportunities.

### Strategy

Information that enables investors to understand a company's strategy for managing sustainability-related risks and opportunities.

### Risk management

Information that enables investors to understand a company's processes to identify, assess, prioritise and monitor sustainability-related risks and opportunities.

### Metrics and targets

Information that enables investors to understand a company's performance in relation to its sustainability-related risks and opportunities, including progress towards any targets the company has set, or any targets it is required to meet by law or regulation.

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# Conceptual foundations

## Material information

The aim of IFRS S1 is to meet the information needs of users of general purpose financial reports ('investors'). To comply with the requirements of IFRS S1, a company will disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects.

The definition of material information is aligned with that used in IFRS Accounting Standards.

### Definition of material information

'In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.'

## Fair presentation

IFRS S1 requires that a complete set of sustainability-related financial disclosures presents fairly all sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects. The fair presentation requirements in IFRS S1 include a requirement for a company to disclose relevant information about its sustainability-related risks and opportunities and to faithfully represent—provide a complete, neutral and accurate depiction of—those risks and opportunities.

## Reporting entity

IFRS S1 requires the reporting entity for sustainability-related financial disclosures to be the same as the reporting entity for the financial statements. For example, a parent company using IFRS Accounting Standards that presents consolidated financial statements would provide sustainability-related financial disclosures for itself and its subsidiaries.

## Information related to a company's value chain

IFRS S1 requires disclosure of material information about sustainability-related risks and opportunities throughout a company's value chain. In the Standard, the 'value chain' is the full range of interactions, resources and relationships related to a company's business model and the external environment in which it operates.

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# Conceptual foundations *continued ...*

## Connected information

IFRS S1 requires a company to provide information that enables investors to understand connections, including:

- connections between various sustainability-related risks and opportunities;
- connections within sustainability-related financial disclosures, such as connections between disclosures on governance, strategy, risk management and metrics and targets; and
- connections across the sustainability-related financial disclosures and the financial statements.

A company is required to use data and assumptions in preparing its sustainability-related financial disclosures that are consistent—to the extent possible—with the corresponding data and assumptions used in preparing its related financial statements.

IFRS S1 also specifically requires that a company provide information about the current and anticipated financial effects of sustainability-related risks and opportunities (see 'Current and anticipated financial effects').

### Examples of connected information

- **Example 1:** A company finds that its supplier has employment practices that fall short of international norms and decides to terminate its contract with that supplier. This decision has an impact on the cost of the company's supplies. The company discloses the connection between its decision to terminate the contract with its supplier and related information presented in its financial statements.
- **Example 2:** A company decides to discontinue a product associated with significant greenhouse gas emissions and therefore closes the related production facility. In its disclosures, the company makes clear the link between its decision to manage the climate-related risk, and any effects this has on its financial statements (as prepared in accordance with applicable GAAP). The company discloses the linkage between this decision and other sustainability-related risks and opportunities, such as effects on the company's reputation and its relationships with local communities.

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# General requirements

## Location of disclosures

A company is required to provide disclosures as required by ISSB Standards as part of its general purpose financial reports, which include the company's financial statements.

A company may provide additional information on sustainability-related matters beyond what is required by IFRS S1 and IFRS S2, but only if that additional information does not obscure material information required by IFRS S1 and IFRS S2.

## Timing of reporting

A company is required to publish its sustainability-related financial disclosures at the same time as its related financial statements, both covering the same reporting period. In the first year a company applies the ISSB Standards, it is relieved from this requirement, and may provide its sustainability-related financial disclosures with its next half-year financial report.

## Comparative information

A company is required to disclose comparative information for all amounts disclosed in the reporting period, unless another ISSB Standard permits or requires otherwise. However, comparative information need not be provided in the first year a company applies the ISSB Standards. In addition, a company that elects to provide information only about climate-related risks and opportunities in the first year it applies IFRS S1 is not required to provide comparative information about sustainability-related risks and opportunities beyond climate in its second year of reporting.

## Statement of compliance

A company that complies with all requirements in the ISSB Standards is required to make an explicit and unreserved statement of compliance. A company is able to assert compliance only if it meets all the requirements of the ISSB Standards.

IFRS S1 relieves a company from disclosing information otherwise required by an ISSB Standard if law or regulation prohibits the company from disclosing that information. The Standard also relieves a company from disclosing information about a sustainability-related opportunity if that information is commercially sensitive.

## Current and anticipated financial effects

A company is required to disclose information that enables investors to understand:

- the effects of sustainability-related risks and opportunities on the company's financial position, financial performance and cash flows for the reporting period; and
- the anticipated effects of sustainability-related risks and opportunities on the company's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how these risks and opportunities are included in the company's financial planning.

## Judgments, uncertainties and errors

A company is required:

- to disclose information to help investors understand the significant judgements it has made in preparing its sustainability-related financial disclosures;
- to disclose information about the most significant uncertainties affecting the amounts reported in its sustainability-related financial disclosures; and
- to restate comparative information relating to previously reported errors unless it is impracticable to do so.

# Identifying information to report

IFRS S1 requires a company to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect its prospects. IFRS S1 specifies **sources of guidance** to help companies identify this information. These sources of guidance are provided to help companies identify:

- sustainability-related risks and opportunities; and
- disclosure requirements applicable to those sustainability-related risks and opportunities.

Identifying sustainability-related risks and opportunities	Identifying applicable disclosure requirements
<p>To identify sustainability-related risks and opportunities, a company shall apply the ISSB Standards. In addition to the ISSB Standards, a company:</p> <ul style="list-style-type: none"> <li>• shall refer to and consider the applicability of the disclosure topics in the SASB Standards; and</li> <li>• may refer to and consider the applicability of:               <ul style="list-style-type: none"> <li>○ the CDSB Framework Application guidance for water-related disclosures and CDSB Framework Application guidance for biodiversity-related disclosures (collectively referred to as ‘the CDSB Framework Application Guidance’);</li> <li>○ the most recent pronouncements of investor-focused standard-setters; and</li> <li>○ sustainability-related risks and opportunities identified by companies that operate in the same industries or geographical regions.</li> </ul> </li> </ul>	<p>To identify applicable disclosure requirements, a company shall apply the ISSB Standards. In the absence of an applicable ISSB Standard, a company:</p> <ul style="list-style-type: none"> <li>• shall refer to and consider the applicability of the metrics associated with the disclosure topics in the SASB Standards; and</li> <li>• may refer to and consider the applicability of (to the extent these do not conflict with an ISSB Standard):               <ul style="list-style-type: none"> <li>○ the CDSB Framework Application Guidance;</li> <li>○ the most recent pronouncements of investor-focused standard-setters;</li> <li>○ the information, including metrics, disclosed by companies that operate in the same industries or geographical regions;</li> <li>○ the GRI Standards; and</li> <li>○ the European Sustainability Reporting Standards.</li> </ul> </li> </ul>

# 2

## IFRS S2 *Climate-related Disclosures*

A company applying IFRS S1 is required to apply IFRS S2 to identify and disclose material information about its climate-related risks and opportunities.

IFRS S2 requires a company to disclose information about its **governance, strategy and risk management**, as well as **metrics and targets**, in relation to its climate-related risks and opportunities.

Climate-related risks refers to the potential negative effects of climate change on a company. Climate-related risks are associated with both **physical risks** (such as those resulting from increased severity of extreme weather) and **transition risks** (such as those associated with policy action and changes in technology).

Climate-related **opportunities** refers to the potential positive effects arising from climate change for a company. Efforts to mitigate and adapt to climate change can produce opportunities for companies, such as opportunities to develop new products or capture new business.

## Governance

IFRS S2 requires a company to disclose information that enables investors to understand the governance processes, controls and procedures the company uses to monitor, manage and oversee climate-related risks and opportunities. A company is required to identify the governance bodies, such as a board or committee (or individuals) with oversight of climate-related risks and opportunities.

A company is required to disclose information about:

- how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates and role descriptions of the governance bodies or individuals;
- how the bodies or individuals determine whether the company has people with the right skills and competencies, or whether these should be developed, to oversee its strategies; and
- what management's role is in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities.

### Integrating disclosures

IFRS S1 emphasises that a company is required to provide information that enables investors to understand the connections between various sustainability-related risks and opportunities. This information includes the climate-related risks and opportunities set out in IFRS S2. When a company uses the same governance and oversight processes for different sustainability-related risks and opportunities, it would also integrate its disclosures on governance—rather than providing separate governance disclosures for each sustainability-related risk and opportunity.



# Strategy

IFRS S2 requires a company to disclose information that enables investors to understand the company's strategy for managing climate-related risks and opportunities.

## Climate-related risks and opportunities

Climate change is likely to present risks for nearly all companies and economic sectors. It also might create opportunities for companies, including those focused on mitigating and adapting to the effects of climate change. As such, a company is required to disclose the climate-related risks and opportunities that could reasonably be expected to affect its prospects.

## Strategy and decision-making

Climate-related risks and opportunities can affect how a company sets its strategy and makes decisions. To help investors understand the effects of climate-related risks and opportunities on a company's strategy and decision-making, the company is required to disclose information about:

- current and anticipated changes to its business model;
- current and anticipated direct and indirect adaptation or mitigation efforts;

- plans, if it has any, to transition to a lower-carbon economy; and
- how it plans to achieve its climate-related targets.

Furthermore, a company is required to disclose information about how it is currently resourcing, or plans to resource, its response to climate-related risks and opportunities.

## Current and anticipated financial effects

IFRS S2 requires a company to identify how climate-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period. For example, a company might disclose how an asset impairment was affected by its strategy for managing a transition risk. Or the company could identify how an investment in new technologies reflected in the statement of financial position is related to its strategy to pursue a climate-related opportunity.

A company is also required to explain the anticipated effects of climate-related risks and opportunities on the company's financial position, financial performance and cash flows over the short, medium and long term. For example, a company could disclose the anticipated financial effects of its transition to a lower carbon economy, such as increased revenue from products and services or anticipated costs associated with climate adaptation or mitigation.

IFRS S2, like IFRS S1, sets out criteria for when quantitative and qualitative information is required, and when disclosing only qualitative information is permitted.

## Climate resilience

Climate-related changes, developments and uncertainties can affect the resilience of a company's strategy and business model. To help investors understand its resilience, a company is required to disclose information about the implications of climate change for its strategy and business model, and its financial and operational capacity to adjust or adapt over the short, medium and long term.

IFRS S2 requires all companies to use climate-related scenario analysis to inform their disclosures about their resilience to climate change. However, climate-related scenario analysis can be carried out in varied ways and IFRS S2 requires a company to use an approach that is commensurate with the company's circumstances.

IFRS S2 contains application guidance on how a company is required to determine the method of scenario analysis it uses to assess its climate resilience.

IFRS S2 does not specify which scenarios a company should use in its analysis but requires the company:

- to use relevant scenarios and provide information about the scenarios it has selected; and
- to provide information about other relevant assumptions it has used in the scenario analysis to enable investors to understand its disclosures and the related methodology.

IFRS S2 requires a company to disclose information that enables investors to understand the processes the company uses to identify, assess, prioritise and monitor climate-related risks and opportunities.

This information includes the extent to which, and how, processes to identify, assess, prioritise and monitor climate-related risks and opportunities are integrated into, and inform, the company's overall risk management process.

A company is also required to explain whether and how it has used climate-related scenario analysis to inform its identification of climate-related risks and opportunities.

### Integrating disclosures

When a company uses the same risk management process to identify, assess, prioritise or monitor different sustainability-related risks and opportunities, it would also integrate its disclosures—rather than providing separate risk management disclosures for each sustainability-related risk and opportunity.

## Metrics and targets

IFRS S2 requires a company to disclose information that enables investors to understand the company's performance in relation to its climate-related risks and opportunities.

A company is required to disclose:

- information related to cross-industry metric categories;
- industry-based metrics associated with its business model and economic activities; and
- targets it has set, or those it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used to measure progress towards these targets.

### GHG emissions disclosure

IFRS S2 requires a company to disclose its absolute GHG emissions, expressed as metric tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). Emissions must be measured in accordance with the GHG Protocol Corporate Standard unless a jurisdiction requires a company to use a different approach to measurement. A company is required to provide information about Scope 1, Scope 2 and Scope 3 GHG emissions.

The requirement to disclose Scope 3 GHG emissions reflects the importance of providing information related to a company's value chain, to more fully inform investors' understanding of a company's exposure to transition risk. A company must consider the 15 categories of Scope 3 GHG emissions set out in the GHG Protocol Corporate Value Chain (Scope 3) Standard, with information being disclosed when material, and provide disaggregated information about its Scope 3 GHG emissions when material.

Companies with activities in asset management, commercial banking or insurance are required to disclose information about their 'financed emissions,' including absolute gross financed emissions disaggregated by Scope 1, Scope 2 and Scope 3 GHG emissions (in some cases for each industry by asset class), in accordance with the application guidance in IFRS S2.

### Measuring Scope 3 GHG emissions

A company's measurement of Scope 3 GHG emissions is expected to include the **use of estimation**. The ISSB developed a Scope 3 measurement framework to provide additional guidance about the relevant information to use in measuring Scope 3 GHG emissions.

IFRS S2 does not specify the inputs a company is required to use to measure its Scope 3 GHG emissions. Instead, IFRS S2 requires a company to prioritise inputs (such as data from specific activities in the value chain) that are most likely to enable a representative measurement of the company's Scope 3 GHG emissions.

A company is required to use all reasonable and supportable information that is available at the reporting date without undue cost or effort when selecting the measurement approach, inputs and estimations used in measuring its Scope 3 GHG emissions. As such, the approach taken will depend on a company's facts and circumstances.

### Cross-industry metric categories

In addition to GHG emissions, cross-industry metric categories include:

- **climate-related transition risks**—the amount and percentage of assets or business activities vulnerable to transition risks;
- **climate-related physical risks**—the amount and percentage of assets or business activities vulnerable to physical risks;
- **climate-related opportunities**—the amount and percentage of assets or business activities aligned with climate-related opportunities;
- **capital deployment**—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;
- **internal carbon prices** used to assess the cost of emissions; and
- **remuneration** of executives and management linked to climate-related considerations.

### Industry-based metrics

IFRS S2 requires a company to disclose information on industry-based metrics that are associated with common business models and activities in a particular industry. As the effects of climate-related risks and opportunities vary significantly by activity or industry, such metrics are important for investor understanding.

Companies are required to refer to and consider disclosure topics and associated industry-based metrics in the *Industry-based Guidance on Implementing IFRS S2*. This guidance is based on the SASB Standards with modifications aimed at enhancing their international applicability.

Disclosure topics identified in this guidance represent the climate-related risks and opportunities most likely to affect companies in a particular industry, and the associated metrics that are most likely to result in the disclosure of material information.

Disclosure topic—example	Industry-based metrics—example
<p>A company in the automobiles industry might determine that the disclosure topic ‘Fuel Economy and Use-phase Emissions’, from the industry-based guidance that accompanies IFRS S2, is relevant to its circumstances. The disclosure topic notes that ‘more stringent emissions standards and changing consumer demands are driving the expansion of markets for electric vehicles and hybrids, as well as for conventional vehicles with high fuel efficiency.’</p> <p>The disclosure topic identifies:</p> <ul style="list-style-type: none"> <li>• a climate-related transition risk—if the company needs to mitigate the risk of changing buyer preferences and adapt its business model; and</li> <li>• a climate-related opportunity—if the company decides to innovate to meet or exceed regulatory standards and capture an increasing share of an evolving market.</li> </ul>	<p>A company is required to disclose information about how it plans to achieve any climate-related targets it has set or is required to meet by law or regulation. If a company in the automobiles industry has established an emissions reduction target, it could show progress towards that target by disclosing the metrics associated with the ‘Fuel Economy and Use-phase Emissions’ disclosure topic. These metrics include:</p> <ul style="list-style-type: none"> <li>• the fuel economy of the company’s fleet; and</li> <li>• sales of zero-emission vehicles.</li> </ul> <p>These metrics are identified as relevant to the automobiles industry in the <i>Industry-based Guidance on Implementing IFRS S2</i>.</p>

### Climate-related targets

IFRS S2 requires a company to disclose the climate-related targets it has set, as well as those it is required to meet by law or regulation, including any GHG emissions targets. A company is required to disclose information about the characteristics of each target, how it sets and reviews each target, and its performance against each target.

In disclosing this information, a company is required to disclose how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target.

If a company has a GHG emissions target, the company is required to specify whether the target is a gross emissions target or a net emissions target. If a company discloses a net emissions target, it is also required to separately disclose its associated gross emissions target. When a company discloses net GHG emissions targets it is required to include information about any carbon credits it plans to use.

# Important information

This Project Summary has been compiled by the staff of the IFRS Foundation for the convenience of interested parties. The views within this document are those of the staff who prepared it and are not necessarily the views or the opinions of the ISSB. The content of this document does not constitute advice and should not be considered as an authoritative document issued by the ISSB. Official pronouncements of the ISSB are available in electronic format to IFRS Digital subscribers. Publications are available at [www.ifrs.org](http://www.ifrs.org).

## Other relevant documents

**IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information***—specifies the requirements for the disclosure of sustainability-related financial information.

**IFRS S2 *Climate-related Disclosures***—specifies the requirements for the disclosure of climate-related financial information.

**Basis for Conclusions on IFRS S1**—summarises the ISSB’s considerations in developing the requirements in IFRS S1.

**Basis for Conclusions on IFRS S2**—summarises the ISSB’s considerations in developing the requirements in IFRS S2.

**Accompanying Guidance on IFRS S1**—illustrates aspects of IFRS S1 but provides no interpretative guidance.

**Accompanying Guidance on IFRS S2**—illustrates aspects of IFRS S2 but provides no interpretative guidance.

**Effects Analysis on IFRS S1 and IFRS S2**—describes the likely benefits and costs of IFRS S1 and IFRS S2.

**Feedback Statement for IFRS S1 and IFRS S2**—summarises feedback on the proposals that preceded IFRS S1 and IFRS S2 and the ISSB’s response.

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