IFRS® Sustainability

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# Exposure Draft

IFRS® Sustainability Disclosure Standard

## Basis for Conclusions on Amendments to Greenhouse Gas Emissions Disclosures

Proposed amendments to IFRS S2

Comments to be received by 27 June 2025

International Sustainability Standards Board

ISSB/ED/2025/1

# Basis for Conclusions on Exposure Draft **Amendments to Greenhouse Gas Emissions Disclosures**

## Proposed amendments to IFRS S2

*Comments to be received by 27 June 2025*

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# CONTENTS


| | *from paragraph* |
|---|---|
| **BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT *AMENDMENTS TO GREENHOUSE GAS EMISSIONS DISCLOSURES*** | |
| **BACKGROUND** | **BC1** |
| **MEASUREMENT AND DISCLOSURE OF SCOPE 3 CATEGORY 15 GREENHOUSE GAS EMISSIONS** | |
| **The proposed amendments** | **BC7** |
| **Why the ISSB proposed the amendments** | **BC9** |
| **How the proposed amendments would work** | **BC14** |
| **USE OF THE GLOBAL INDUSTRY CLASSIFICATION STANDARD IN APPLYING SPECIFIC REQUIREMENTS RELATED TO FINANCED EMISSIONS** | |
| **The proposed amendments** | **BC25** |
| **Why the ISSB proposed the amendments** | **BC26** |
| **How the proposed amendments would work** | **BC31** |
| **JURISDICTIONAL RELIEF FROM USING THE GHG PROTOCOL CORPORATE STANDARD** | |
| **The proposed amendment** | **BC39** |
| **Why the ISSB proposed the amendment** | **BC40** |
| **How the proposed amendment would work** | **BC42** |
| **APPLICABILITY OF JURISDICTIONAL RELIEF FOR GLOBAL WARMING POTENTIAL VALUES** | |
| **The proposed amendment** | **BC44** |
| **Why the ISSB proposed the amendment** | **BC45** |
| **How the proposed amendment would work** | **BC48** |
| **EFFECTIVE DATE** | **BC50** |
| **CONSEQUENTIAL AMENDMENTS TO SASB STANDARDS** | **BC52** |
| **EFFECTS ANALYSIS** | **BC53** |

# Basis for Conclusions on Exposure Draft *Amendments to Greenhouse Gas Emissions Disclosures*

*This Basis for Conclusions accompanies, but is not part of, Exposure Draft* Amendments to Greenhouse Gas Emissions Disclosures. *It summarises the considerations of the International Sustainability Standards Board (ISSB) when developing the Exposure Draft. Individual ISSB members gave greater weight to some factors than to others.*

## Background

BC1 In June 2023 the ISSB issued its first two IFRS Sustainability Disclosure Standards—IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. The ISSB developed IFRS S2 in response to calls from users of general purpose financial reports for more consistent, complete, comparable and verifiable information about an entity's climate-related risks and opportunities. IFRS S2 sets out the requirements for entities to disclose information about their climate-related risks and opportunities.

BC2 In response to application challenges identified by entities implementing IFRS S2, the ISSB proposes targeted amendments to this Standard. These proposed amendments would provide additional relief and clarify existing relief from specific greenhouse gas emissions disclosure requirements. The proposed amendments are set out in the Exposure Draft *Amendments to Greenhouse Gas Emissions Disclosures*. This Basis for Conclusions explains the ISSB's rationale for the proposed amendments.

BC3 The application challenges were identified through stakeholder questions submitted to the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG) and through the ISSB's other engagement activities, including with jurisdictions as part of jurisdictional processes to adopt or otherwise use IFRS Sustainability Disclosure Standards. These matters provided additional information that was not previously considered by the ISSB prior to the issuance of IFRS S2.

BC4 The ISSB decided to act on a timely basis to propose these amendments. This was done to support entities in applying IFRS S2—in particular, to assist those in the process of implementation—while not significantly reducing the usefulness of information for users of general purpose financial reports. The proposed amendments are expected to reduce the complexity and risk of potential duplicative reporting, as well as to reduce the cost of applying specific greenhouse gas emissions disclosure requirements in IFRS S2. Applying the requirements to measure and disclose greenhouse gas emissions would typically make it necessary for entities to have systems and processes to manage large amounts of data. By acting as early as possible to propose these amendments, the ISSB aims to reduce uncertainty in implementing the Standard at a time when many entities are establishing systems and setting up processes to apply these requirements.

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BC5 The ISSB has set out criteria for evaluating any amendments during the implementation phase of IFRS S1 and IFRS S2. The ISSB proposes amendments to IFRS S2 only if it concludes that each proposed amendment meets these criteria:

(a) the ISSB identifies a demonstrated need, after it has explored all other options, to respond to pervasive application challenges arising during implementation, including concerns related to diversity in practice.

(b) the amendments would not result in a significant loss of useful information compared with that provided by entities applying the requirements in IFRS S1 and IFRS S2.

(c) the amendments would not unduly disrupt entities' processes for implementing or jurisdictional processes for adopting or otherwise using IFRS S1 and IFRS S2. The ISSB would balance the need for amendments with the potential disruption they could cause. The ISSB would seek to avoid amendments that, compared to the issued requirements, would:

(i) reduce interoperability between IFRS Sustainability Disclosure Standards and either the European Sustainability Reporting Standards or the Global Reporting Initiative Standards.

(ii) reduce connectivity between IFRS Sustainability Disclosure Standards and IFRS Accounting Standards.

(iii) increase the complexity of applying the requirements in IFRS S1 or IFRS S2, reducing the proportionality of the Standards.

BC6 Before proposing the amendments to IFRS S2, the ISSB considered whether other options could be taken to respond to the application challenges instead of amending the Standard. However, the ISSB concluded that none of the other options would effectively address the application challenges; therefore, the ISSB decided to propose amendments to IFRS S2. The alternative options considered were:

(a) *taking no action*—a decision to take no action could include relying on the summary of the TIG discussion to support entities in responding to the application challenges.[1] The ISSB noted that the TIG discussion would not resolve the application challenges and could not add to or change the requirements in IFRS Sustainability Disclosure Standards.

(b) *publishing educational materials*—educational materials cannot add to or otherwise change the requirements in IFRS Sustainability Disclosure Standards; therefore, such materials would not resolve the application challenges.

(c) *relying on proportionality mechanisms in the Standards*—these mechanisms would not resolve the application challenges because:

1 The meetings of the Transition Implementation Group on IFRS S1 and IFRS S2 are publicly webcast. All meeting recordings, agenda papers and meeting summaries can be found at https://www.ifrs.org/groups/tig-ifrs-s1-and-ifrs-s2/#meetings.

(i) the requirement to use all reasonable and supportable information without undue cost or effort does not exempt entities from measuring and disclosing greenhouse gas emissions, but instead establishes parameters for the type of information required to be considered and the amount of effort required to obtain such information, as explained in paragraphs BC15–BC17 of the *Basis for Conclusions on IFRS S1* General Requirements for Disclosure of Sustainability-related Financial Information.

(ii) the requirement to apply the Scope 3 measurement framework in IFRS S2 does not resolve the specific application challenges identified. The Scope 3 measurement framework would simply support entities in making prioritisation decisions related to inputs and assumptions when measuring such greenhouse gas emissions.

(iii) the exemption from disclosing the amount of Scope 3 greenhouse gas emissions because it is impracticable to do so, is expected to be rarely available to entities, as noted in paragraph B57 of IFRS S2.

## Measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions

### The proposed amendments

BC7 The ISSB proposes:

(a) to permit an entity to limit its measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions to financed emissions as defined in IFRS S2; and to specify that, for the purpose of this limitation, an entity is permitted to exclude greenhouse gas emissions associated with derivatives; and

(b) to require an entity that limits its disclosure of Scope 3 Category 15 greenhouse gas emissions—in accordance with the proposed limitation described in (a)—to disclose the amount of derivatives it excluded, an explanation of the derivatives it excluded and the amount of other financial activities it excluded.

BC8 The result of the proposed amendments would be to permit entities to exclude from the measurement and disclosure of Scope 3 Category 15 greenhouse gas emissions, those emissions associated with:

(a) derivatives; and

(b) other financial activities including those related to:

(i) investment banking ('facilitated emissions'); and

(ii) insurance and reinsurance underwriting ('insurance-associated emissions').

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## Why the ISSB proposed the amendments

BC9 Financed emissions are part of Scope 3 Category 15 greenhouse gas emissions. Paragraph 29(a)(i)(3) of IFRS S2 requires entities to disclose their absolute gross Scope 3 greenhouse gas emissions, and Category 15 greenhouse gas emissions would be included in this disclosure if they are material. Further, an entity that participates in asset management, commercial banking or insurance activities is required to disclose additional information about its Scope 3 Category 15 greenhouse gas emissions—specifically, additional information about its financed emissions in accordance with paragraphs 29(a)(vi)(2) and B58–B63 of IFRS S2.[2]

BC10 Paragraphs BC127 and BC129 of the *Basis for Conclusions on IFRS S2* Climate-related Disclosures provide context for the ISSB's decisions related to disclosures about Scope 3 Category 15 greenhouse gas emissions. After public consultation on the exposure draft of IFRS S2, the ISSB decided not to proceed with the proposed requirements to disclose greenhouse gas emissions associated with derivatives and facilitated emissions. Additionally, the ISSB decided not to require entities to disclose insurance-associated emissions. The ISSB cited the lack of established methodologies for these types of emissions as the reason for these decisions as explained in paragraphs BC127 and BC129 of the Basis for Conclusions on IFRS S2.

BC11 The application challenge identified relates to a potential conflict between the requirement in IFRS S2 to measure and disclose Scope 3 greenhouse gas emissions in accordance with paragraph 29(a)(i)(3)—which does not have any explicit limitation on the types of financial activities or asset classes that are required to be included in an entity's measurement and disclosure of its absolute gross Scope 3 Category 15 greenhouse gas emissions—and the rationale for the ISSB's decisions as set out in paragraphs BC127 and BC129 of the Basis for Conclusions on IFRS S2. Stakeholders indicated that these paragraphs in the Basis for Conclusions on IFRS S2 could be interpreted as explaining that the ISSB decided either:

(a) to exclude specific greenhouse gas emissions from the additional disclosure requirements in paragraphs B58–B63 of IFRS S2; or

(b) to exclude specific greenhouse gas emissions from the additional disclosure requirements in paragraphs B58–B63 of IFRS S2 *and* exclude those greenhouse gas emissions from the requirement to disclose the amount of absolute gross Scope 3 greenhouse gas emissions in accordance with paragraph 29(a)(i)(3) of IFRS S2.

BC12 Stakeholders' confusion related to the potential for differing interpretations of BC127 and BC129, was in part due to the ISSB citing the lack of established methodologies as the reason for its decision related to some Category 15 greenhouse gas emissions as noted in these paragraphs of the Basis for Conclusions on IFRS S2. That is, some stakeholders questioned why the ISSB would decide not to require the disclosure of additional information about

2 As with all disclosures required by IFRS Sustainability Disclosure Standards, information about Scope 3 greenhouse gas emissions is required to be provided when it is material.

some Scope 3 Category 15 greenhouse gas emissions—citing a lack of established measurement methodologies—while requiring disclosure of the amount of such Scope 3 Category 15 greenhouse gas emissions, which would require application of a measurement methodology.

BC13 The ISSB concluded that the misalignment between paragraph 29(a)(i)(3) of IFRS S2 and the Basis for Conclusions on IFRS S2 that provide context for paragraphs B58–B63 of the Standard might lead to inconsistent application of the requirements. The proposed amendments would resolve this misalignment by explicitly permitting the application of paragraph 29(a)(i)(3) of the Standard in a manner consistent with the discussion in the Basis for Conclusions on IFRS S2. In addition, the ISSB proposes minor editorial changes to paragraphs 29(a)(vi)(2) and B59 of IFRS S2 as a consequence of the use of the term 'financed emissions' to describe a particular subset of Scope 3 Category 15 greenhouse gas emissions in the proposed paragraph 29A. Were IFRS S2 to be amended as proposed, the Basis for Conclusions on IFRS S2 would also be clarified to reflect the changes made to the Standard.

## How the proposed amendments would work

### Scope of the relief

BC14 Paragraph B32 of IFRS S2 requires an entity to consider all 15 categories of Scope 3 greenhouse gas emissions, as described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) (GHG Corporate Value Chain Standard) and determine which are relevant to the entity's value chain. If relevant, the entity shall include the emissions associated with those categories in its disclosure of Scope 3 greenhouse gas emissions if this disclosure would provide material information. Scope 3 Category 15 emissions, as described in the GHG Corporate Value Chain Standard, can arise from a range of financial activities. Therefore, when an entity considers whether Category 15 is relevant to its value chain, it considers all the financial activities that could give rise to greenhouse gas emissions in this category.[3]

BC15 IFRS S2 defines financed emissions as 'the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the *loans and investments* made by an entity to the investee or counterparty' [emphasis added]. The ISSB proposes to provide relief by limiting the Scope 3 Category 15 greenhouse gas emissions that are required to be measured and disclosed to financed

3 In IFRS S2 *Climate-related Disclosures*, the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011) (GHG Corporate Value Chain Standard) is not referenced in relation to the *measurement* of Scope 3 greenhouse gas emissions. IFRS S2 requires that the determination of which Scope 3 greenhouse gas emissions to include is based on relevance to an entity's value chain and materiality as required by IFRS Sustainability Disclosure Standards. Therefore, the optional provisions in the GHG Corporate Value Chain Standard—such as the optionality as to which financial investments and financial activities to include in Category 15 greenhouse gas emissions—are not used to determine what is included in the measure of the entity's Scope 3 greenhouse gas emissions. Refer to pages 8–9 in Agenda Paper 1 and paragraph 21 in Agenda Paper 4 of the September 2024 TIG meeting, which can be found at: https://www.ifrs.org/content/dam/ifrs/meetings/2024/september/tig/ap1-questions-submitted.pdf and https://www.ifrs.org/content/dam/ifrs/meetings/2024/september/tig/ap4-scope-3-category-15-ghg-emissions-financial-activities-s2.pdf.

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emissions as defined in IFRS S2. The ISSB noted that financed emissions are a subset of Scope 3 Category 15 greenhouse gas emissions, distinct from other types of Category 15 emissions such as facilitated emissions and insurance-associated emissions. Therefore, although the proposed amendment does not refer to facilitated and insurance-associated emissions, the result of limiting the required disclosure of Scope 3 Category 15 greenhouse gas emissions to financed emissions would be to exclude other types of Category 15 emissions such as facilitated and insurance-associated emissions. However, the proposed amendment would not prevent an entity from choosing to disclose these other types of Scope 3 Category 15 greenhouse gas emissions should it elect to do so.

BC16 The ISSB also noted that by simply referencing financed emissions it may not be clear that the proposed amendment would permit an entity to exclude emissions associated with derivatives. Thus, for the avoidance of doubt, the ISSB proposes explicitly permitting an entity to exclude emissions associated with derivatives when measuring and disclosing its Category 15 greenhouse gas emissions.

BC17 Similarly, to clarify the scope of the exclusion and to further support the alignment of the requirements in paragraph 29 of IFRS S2 with the requirements in paragraphs B58–B63 of the Standard, the proposed amendment states that:

(a) the term 'loans and investments' used in the definition of financed emissions in IFRS S2 includes loans, project finance, bonds, equity investments and undrawn loan commitments; and

(b) for an entity that participates in asset management activities, financed emissions include greenhouse gas emissions attributed to assets under management.

BC18 The ISSB observed that scoping the proposed amendment by using the definition of financed emissions in IFRS S2 and explicitly excluding derivatives is a clear and succinct way to amend IFRS S2—especially compared with other possible approaches that would require 'facilitated emissions' and 'insurance-associated emissions' to be defined. This included consideration that although definitions of facilitated emissions and insurance-associated emissions can be found in greenhouse gas emissions measurement methodologies, the scopes of these methodologies are still evolving.

BC19 The Exposure Draft does not include a proposed definition of 'derivatives'. The ISSB has not identified a definition for derivatives in published greenhouse gas emissions measurement methodologies such as the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard) or the Partnership for Carbon Accounting Financials (PCAF) Part A Standard. Similarly, 'derivatives' is not defined in IFRS Sustainability Disclosure Standards or in the SASB Standards. Although IFRS Accounting Standards and other generally accepted accounting principles and practices (GAAP) provide definitions of derivatives, the ISSB decided that using those definitions for the purposes of greenhouse gas emissions measurement might introduce unintended complexity. The financial instruments defined as derivatives for accounting purposes were not defined for the purpose of

reporting sustainability-related financial information. Therefore, using a GAAP definition for the amendments might not result in the information about greenhouse gas emissions that is most useful for users of general purpose financial reports. For example, some financial instruments that are accounted for as derivatives in financial statements are not categorised as derivatives in greenhouse gas emissions measurement methodologies.[4] Additionally, the definition of derivatives varies by GAAP; so if the ISSB were to provide a definition of derivatives in IFRS S2 aligned with a particular GAAP, it might create a disconnect with an entity's related financial statements if an entity uses a GAAP other than the one used as a basis for the IFRS S2 definition of derivatives. Lastly, the ISSB considered that definitions of derivatives for operational purposes may differ from those under GAAP, which would create additional complexity.

BC20 The ISSB decided that in the absence of a definition of derivatives in IFRS S2, an entity could determine what it treats as derivatives for the purpose of its Scope 3 Category 15 greenhouse gas emissions disclosure. The ISSB observed that the comparability of financed emissions disclosures might be affected if entities determine what they treat as derivatives differently when applying the proposed amendment. Therefore, the ISSB proposes that an entity using the relief be required to explain what it has treated as a derivative for these purposes. An explanation of the financial instruments that an entity treats as derivatives would aid understandability of their disclosures, and support their comparability with the disclosures of other entities. For example, an entity applying IFRS Accounting Standards might explain that it has used the definition of a derivative as set out in IFRS 9 *Financial Instruments* in using the relief. The ISSB noted that deciding what to treat as derivatives for the purposes of the limitation would require an entity to apply judgement. Thus, an entity would be required to consider the applicability of the requirements in paragraph 74 of IFRS S1 to disclose the judgements that have the most significant effect on the information included in its disclosures. The ISSB further noted that this approach would avoid reducing the connectivity between financial statements and sustainability-related financial disclosures.

### Duration of the relief

BC21 The ISSB considered whether the proposed permission to limit an entity's measure of Scope 3 Category 15 greenhouse gas emissions should be provided for a finite duration—that is, as a transition relief. However, the ISSB was unable to identify a basis to determine an appropriate duration for a transition relief. Additionally, the ISSB noted that derivatives, facilitated emissions and insurance-associated emissions were excluded from the Scope 3 Category 15 additional information requirements in paragraphs B58–B63 of IFRS S2 without a transition period. Therefore, excluding these types of emissions from the measurement and disclosure required by paragraph 29(a)(i)(3) of IFRS S2 is consistent with that approach.

4 For example, IFRS 9 *Financial Instruments* requires some loan commitments to be accounted for as derivatives.

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### Information to be disclosed about derivatives and financial activities excluded from Scope 3 Category 15

BC22 The ISSB considered whether the proposed limitation to the requirement to disclose Scope 3 Category 15 greenhouse gas emissions would result in the need for additional information to be provided to enable users of general purpose financial reports to understand the potential magnitude of the emissions that had been excluded and thus the completeness of the entity's Scope 3 Category 15 information. To address this potential need, the ISSB proposes to require an entity using the relief to provide information about the magnitude of derivatives and financial activities associated with the entity's Scope 3 Category 15 greenhouse gas emissions that are excluded—specifically, the amount of derivatives and financial activities excluded. This disclosure would include, for example, information about investment banking activities or insurance underwriting activities if emissions associated with those financial activities were not included in the entity's measure of Scope 3 Category 15 greenhouse gas emissions as a result of applying the relief.

BC23 The ISSB decided not to define 'amount' for the purpose of this disclosure requirement. This decision is consistent with existing requirements in IFRS S2 which use the word 'amount' without defining this term (see, for example, paragraphs 29(b) and 29(c) of IFRS S2). This approach is intended to enable entities to determine the most appropriate information to provide that is entity-specific and useful to users of general purpose financial reports. In particular, it would enable these users to understand the potential magnitude of the derivatives and financial activities associated with emissions that are excluded from the entity's Scope 3 Category 15 greenhouse gas emissions disclosure. For example, an entity might decide that an amount disclosed in its financial statements about revenue associated with such activities provides useful entity-specific information about its exclusions from Scope 3 Category 15 to meet this requirement.

BC24 Some ISSB members expressed concern about requiring disclosures of the amount of derivatives and financial activities excluded. Concerns expressed included whether the potential cost of providing this information would be warranted by its potential usefulness to users of general purpose financial reports. Some ISSB members were also of the view that a new disclosure requirement should not be introduced while implementation of IFRS S2 is underway for many entities. Requiring this information might result in additional work that entities had not anticipated and could cause disruption to implementation. However, other ISSB members noted that in addition to considering the cost and complexity of applying IFRS S2, it is important to ensure that the usefulness of information provided to users of general purpose financial reports is not significantly reduced. Therefore, the ISSB proposes that an entity be required to disclose information to enable users of general purpose financial reports to understand the magnitude of the financial activity that has been excluded from its Scope 3 Category 15 greenhouse gas emissions disclosures. Additionally, this proposed disclosure requirement about the amounts is not expected to be unduly burdensome relative to the relief provided from the requirement to measure and disclose such greenhouse gas emissions. IFRS S2 has similar requirements for entities that

participate in particular financial activities to disclose information about the completeness of their financed emissions disclosure. For example, an entity that participates in commercial banking activities is required to disclose the percentage of its gross exposure that is included in its financed emissions calculation as set out in paragraph B62(c) of the Standard.

## Use of the Global Industry Classification Standard in applying specific requirements related to financed emissions

### The proposed amendments

BC25 IFRS S2 requires an entity with commercial banking or insurance activities to disclose additional information about its financed emissions disclosed in accordance with paragraph 29(a)(i)(3) of IFRS S2. This includes a requirement to disaggregate its absolute gross financed emissions by industry. The ISSB proposes to:

(a) amend the requirement for this disaggregation such that an entity is permitted to use an industry-classification system other than the Global Industry Classification Standard (GICS)—in specific circumstances—for the purposes of meeting the applicable requirements in IFRS S2; and

(b) add a requirement for an entity to disclose the industry-classification system it uses to disaggregate its financed emissions information and, if the entity does not use GICS, to explain the basis for the industry-classification system it selected.

### Why the ISSB proposed the amendments

BC26 Entities participating in financial activities face risks and opportunities related to greenhouse gas emissions that are associated with those activities. Counterparties, borrowers or investees with higher greenhouse gas emissions might be susceptible to risks associated with technological changes, shifts in supply and demand, and policy change, which in turn can affect the financial institution that is providing financial services to these entities. Financed emissions disclosures serve as indicators of an entity's exposure to climate-related risks and opportunities, and how the entity might need to adapt its financial activities over time (refer to paragraph B58 of IFRS S2).

BC27 IFRS S2 requires an entity participating in commercial banking or insurance activities to use GICS for classifying its counterparties (as set out in paragraphs B62–B63 of IFRS S2) when disclosing its disaggregated financed emissions by industry. During the redeliberation of the exposure draft of IFRS S2, the ISSB noted that GICS is designed for use in global capital markets and is widely used in the investment industry due to its integration into a range of systems, tools and resources used in such capital markets. The ISSB decided to require the use of a single, widely used industry-classification system—GICS—to meet the needs of users of general purpose financial reports because it promotes consistency and comparability in these financed emissions disclosures.

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BC28 Stakeholder feedback suggests that in some cases there are challenges in applying the requirement to use GICS, including possible legal and cost implications. Entities that are not already using GICS would have to enter into a licensing arrangement to use GICS. The requirement to use GICS might also result in duplicative reporting if an entity is subject to other reporting requirements (for example, prudential regulatory requirements) that require the use of an industry-classification system other than GICS.

BC29 During the redeliberation of the exposure draft of IFRS S2, the ISSB decided to require the use of GICS for the disaggregation of information about financed emissions to facilitate comparability, and because of the extensive use of GICS globally. At the time, the ISSB acknowledged that entities applying this IFRS S2 requirement might be subject to duplicative reporting requirements in some limited circumstances.[5] However, the ISSB has since learned that several prudential regulators use classification systems other than GICS as a basis for the disaggregation of information by industry for regulatory purposes. These regulatory requirements are relevant because the GICS-based disaggregation in IFRS S2 relates to entities participating in commercial banking or insurance activities; therefore, many entities applying these IFRS S2 requirements are expected to be subject to such prudential regulatory requirements.

BC30 The ISSB understands that these challenges are significant and pervasive. These challenges are expected to be particularly pervasive for smaller entities and entities in developing and emerging economies that might be less likely to be using GICS already. A few jurisdictions are considering not requiring entities in their jurisdictions to use GICS to disaggregate such financed emissions information to facilitate entities' application of IFRS Sustainability Disclosure Standards in those jurisdictions. Such modifications create a risk of fragmenting the application of IFRS S2 and reducing comparability for users of general purpose financial reports because in addition to introducing a difference to the Standard, jurisdictions could amend this requirement in various ways.

## How the proposed amendments would work

BC31 The proposed amendments seek:

(a) to maintain the comparability of disclosures by preserving the use of GICS, where possible, by requiring an entity that is already using GICS in any part of the entity to classify its lending or investment activities at the reporting date also to use GICS when disaggregating the entity's financed emissions information by industry to meet the requirements in IFRS S2; and

5 During the redeliberation of the exposure draft of IFRS S2, the ISSB considered that entities reporting within the European Union's regulatory framework are required to use the NACE industry-classification system (the Statistical Classification of Economic Activities in the European Community). However, since there are publicly available resources to map the NACE and GICS, the ISSB did not consider this to be an impediment to the use of GICS for the financed emissions disaggregation requirements in IFRS S2. Refer to paragraphs 44–45 in Agenda Paper 4D of the December 2022 ISSB meeting, which can be accessed at: https://www.ifrs.org/content/dam/ifrs/meetings/2022/december/issb/ap4d-climate-related-disclosures-financed-and-facilitated-emissions.pdf.

(b) to alleviate application challenges for entities not using GICS at the reporting date by permitting an alternative industry-classification system when disaggregating financed emissions information by industry.

BC32 The ISSB's proposed amendments seek to reduce additional legal and cost implications by limiting the requirement to use GICS for the disaggregation of financed emissions. Only an entity using GICS—in any part of the entity—to classify its lending or investment activities at the reporting date would be required to do so. Requiring these entities to use GICS for the purposes of applying IFRS S2 would support the comparability of entities' financed emissions disclosures. For the avoidance of doubt, the proposed amendments would mean that the requirement to use GICS would not apply to an entity that used GICS to classify its lending or investment activities prior to the reporting date but has ceased to use GICS for such a purpose at the reporting date.

BC33 The ISSB proposes to provide relief so that an entity that does not use GICS in any part of the entity to classify its lending or investment activities at the reporting date would be required to use an alternative industry-classification system for disaggregating its financed emissions information. If an entity does not use GICS to classify its lending or investment activities and is required by a jurisdictional authority or an exchange on which it is listed to use an industry-classification system to report climate-related financial information or for other financial reporting purposes (which is intended to include prudential reporting), the ISSB proposes to require the entity to use one of those industry-classification systems when applying IFRS S2. In making that selection, the ISSB proposes to require the entity to use an industry-classification system used to report climate-related financial information if the entity is subject to such a jurisdictional or exchange requirement. The ISSB proposes this to seek to align as much as possible with the objective of IFRS S2 of providing relevant industry disaggregation to users of general financial reports, while not imposing undue costs or burdens on entities. The amendment is also intended to reduce the potential for a regulated entity to be subject to duplicative reporting because of the requirements in IFRS S2. For example, in some circumstances, the proposed amendment would require an entity not otherwise using GICS for classifying lending or investment activities to use the industry-classification system required to be used by prudential regulators instead of requiring the use of GICS.

BC34 If an entity does not use GICS to classify its lending or investment activities and is not subject to any jurisdictional or exchange requirements to use an industry-classification system to report climate-related financial information or for other financial reporting purposes, the ISSB proposes that the entity use an industry-classification system of its choice. The ISSB proposes that, in making this choice, the entity be required to choose a system that enables it to provide the information in a manner that is useful to users of general purpose financial reports. This proposed amendment would ensure that useful information is provided while providing relief to some entities by enabling

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them to use available systems and processes to meet the applicable IFRS S2 requirements.

BC35 The ISSB acknowledged that the proposed change from requiring all entities to use the same industry-classification system for disaggregating financed emissions would affect comparability of these disclosures. However, it also noted, as stated in paragraph D20 of IFRS S1, that 'comparability is not uniformity'. Consequently, comparability in the context of the proposed amendment is not dependent solely on the use of a uniform industry-classification system. Financed emissions information disaggregated by an entity using an industry-classification system that is different from the system used by entities with which it is being compared could still provide useful information to users of general purpose financial reports about an entity's exposure to climate-related risks, including climate-related transition risks.

BC36 The proposed requirement to use GICS—to disaggregate financed emissions—would apply in circumstances when *any part* of an entity uses GICS for the purposes of classifying its lending or investment activities. This means that in applying IFRS S2 an entity may, for example, be required to use GICS in relation to parts of the entity where that classification system is not otherwise used or that GICS would need to be used to disaggregate financed emissions even if it was not used for that purpose. The ISSB decided that this approach was appropriate to balance the intention to promote the comparability of information provided as much as possible, with the potential additional cost of imposing the use of GICS in these circumstances. The ISSB considered that if the requirement to use GICS was limited to circumstances when an entity as a whole used GICS, the result might be that in practice very few entities would be required to apply GICS for the purposes of providing this disaggregated information, which would adversely affect comparability.

BC37 A few ISSB members expressed concerns that the proposed amendment might be insufficient to respond to the application challenges. These ISSB members were concerned about possible legal and cost implications of an entity being required to use GICS to meet the IFRS S2 requirements, if GICS is only used in a part of the entity, or if there are additional costs of using GICS for this requirement in addition to its ongoing use by the entity for other purposes.

BC38 Given the application challenges identified, the ISSB considered whether it should remove GICS as a required classification basis for all entities when disaggregating financed emission information by industry. However, the ISSB's original decision to require the use of GICS reflected the importance of comparability in disclosures for users of general purpose financial reports. These amendments are intended to alleviate entities' challenges and concerns while ensuring that there is not a significant loss in information provided to users of general purpose financial reports.

## Jurisdictional relief from using the GHG Protocol Corporate Standard

### The proposed amendment

BC39 The ISSB proposes to amend IFRS S2 to clarify the scope of jurisdictional relief available if an entity is required by a jurisdictional authority or exchange on which it is listed to use a method for measuring greenhouse gas emissions other than the GHG Protocol Corporate Standard. The proposed amendment would clarify that the relief is available when such a requirement from a jurisdictional authority or exchange on which it is listed ('jurisdictional or exchange requirement') applies to an entity in whole or in part.

### Why the ISSB proposed the amendment

BC40 Without the proposed amendment, the jurisdictional relief as set out in paragraph 29(a)(ii) of IFRS S2 refers to the 'entity' and it does not specify whether the jurisdictional relief is available when the jurisdictional or exchange requirement to measure greenhouse gas emissions using a method other than the GHG Protocol Corporate Standard applies to a part or parts of the entity, or if the relief is only available when such a jurisdictional or exchange requirement applies to the entity as a whole. This question is particularly important for entities that operate around the world and might thus be subject to various such requirements for the measurement of their greenhouse gas emissions.[6]

BC41 The absence of specificity in the jurisdictional relief could result in confusion for stakeholders—particularly for preparers, assurance providers and regulators—about whether an entity is able to apply the jurisdictional relief to part of an entity and this confusion could result in diversity in application. The absence of specificity might also increase the amount of duplicative reporting. Specifically, if the relief is misunderstood as being available only in circumstances in which a whole entity is subject to a jurisdictional or exchange requirement, then an entity that is subject to such a requirement, but only in part, would not use the jurisdictional relief in IFRS S2 and such an entity would need to measure part of its emissions more than once.

### How the proposed amendment would work

BC42 The ISSB noted that the term 'entity' is used in IFRS Sustainability Disclosure Standards in the same way as in IFRS Accounting Standards—that is, it is used to refer to the reporting entity. The clarification does not change the way that the term 'entity' is used in IFRS Standards. The ISSB proposes to clarify that the relief is available if an entity, in whole or in part, is subject to a

6 For example, consider sustainability-related financial disclosures provided by a reporting entity with a subsidiary that operates in a jurisdiction that requires it to measure greenhouse gas emissions using a method other than the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) (GHG Protocol Corporate Standard). This is the only part of the entity where this other method is applicable; the parent and other subsidiaries are not subject to this jurisdictional requirement. In such circumstances, the entity might question whether the jurisdictional relief is available.

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jurisdictional or exchange requirement to measure greenhouse gas emissions using a method other than the GHG Protocol Corporate Standard. The ISSB also proposes to clarify that if only part of an entity is subject to such a jurisdictional or exchange requirement, the relief to measure greenhouse gas emissions using the method other than the GHG Protocol Corporate Standard is only applicable to that part of the entity. The entity would be required to measure greenhouse gas emissions for the rest of the entity using the GHG Protocol Corporate Standard.

BC43 The ISSB observed that if the relief is only applied to part of an entity it would then use more than one method to measure its greenhouse gas emissions. The entity would measure some of its greenhouse gas emissions using the GHG Protocol Corporate Standard, and some of these emissions using one or more alternative methods required by one or more jurisdictional authorities or exchanges. Since there could be more than one jurisdictional or exchange requirement, paragraph B28 of IFRS S2—which requires an entity to disclose the applicable method and measurement approach that the entity uses to determine its greenhouse gas emissions when it uses the jurisdictional relief—has been amended to more clearly reflect this. The ISSB further noted the potential applicability of the requirements related to disaggregation of information in accordance with paragraphs B29–B30 of IFRS S1.

## Applicability of jurisdictional relief for global warming potential values

### The proposed amendment

BC44 The ISSB proposes to amend IFRS S2 to extend the jurisdictional relief set out in paragraphs 29(a)(ii) and B24 of the Standard in relation to the measurement of greenhouse gas emissions to permit an entity, in specific circumstances, to use global warming potential (GWP) values that differ from those otherwise required in the Standard. The relief would be available if an entity, in whole or in part, is required by a jurisdictional authority or an exchange on which it is listed to use GWP values other than the GWP values based on a 100-year time horizon from the latest Intergovernmental Panel on Climate Change assessment available at the reporting date (GWP values from the latest IPCC assessment) for converting the seven constituent greenhouse gases into a $CO_2$ equivalent value. In such circumstances, the entity would be permitted to use the GWP values required by such a jurisdictional authority or exchange instead of the GWP values from the latest IPCC assessment for the relevant part of the entity, for as long as such a jurisdictional or exchange requirement applies to that part of the entity.

### Why the ISSB proposed the amendment

BC45 Paragraphs B21–B22 of IFRS S2 require entities to use GWP values from the latest IPCC assessment when converting the seven constituent greenhouse gas emissions into $CO_2$ equivalent values. However, stakeholders reported that some jurisdictions require the use of GWP values that are not from the latest

IPCC assessment. Therefore, entities operating in jurisdictions that require the use of specific GWP values other than those from the latest IPCC assessment would be required to use GWP values from the latest IPCC assessment to comply with IFRS S2 and then separately use other specific GWP values to meet those jurisdictional or exchange requirements. Thus, this IFRS S2 requirement would result in a duplication of effort and increased costs for those entities that would be required to recalculate some of their greenhouse gas emissions using additional sets of GWP values.

BC46 The jurisdictional relief in paragraph 29(a)(ii) of IFRS S2 permits an entity to use a measurement method for greenhouse gas emissions that is different from the GHG Protocol Corporate Standard, if the entity is required to use a different measurement method by a jurisdictional authority or an exchange on which the entity is listed. A question was submitted to the TIG about whether that jurisdictional relief extends to the use of GWP values required by a jurisdictional authority or an exchange on which an entity is listed for converting the seven constituent greenhouse gases emissions into $CO_2$ equivalent values. That TIG discussion confirmed that the relief does not extend to permitting an entity to use alternative GWP values from that required by IFRS S2. The proposed amendment would provide relief in a similar manner to that included in paragraph 29(a)(ii) of IFRS S2 by allowing an entity to use the GWP values required by a jurisdictional authority or an exchange on which it is listed instead of those that would otherwise be required by IFRS S2.

BC47 Consistent with the proposed clarification for the jurisdictional relief in paragraph 29(a)(ii) of IFRS S2, the ISSB proposes that the relief be made available if an entity, in whole or in part, is subject to such a requirement by a jurisdictional authority or an exchange on which it is listed. In addition, the ISSB proposes that if an entity were to apply the relief, it would only be applicable to the part of the entity that is subject to such a jurisdictional authority or exchange requirement. The other parts of the entity would be required to use GWP values from the latest IPCC assessment.

## How the proposed amendment would work

BC48 The ISSB observed that IFRS S2 already provides a jurisdictional relief that allows entities to use a measurement method other than the GHG Protocol Corporate Standard for measuring greenhouse gas emissions when that different method is required to be used by a jurisdictional authority or an exchange on which those entities are listed. The proposed amendment would extend the relief to include the use of GWP values specified by a jurisdictional authority or exchange requirement. GWP values are one of the inputs to entities' measurement of greenhouse gas emissions. Consistent with the jurisdictional relief relating to the greenhouse gas emissions measurement method, the proposed amendment is intended to reduce the costs for entities applying IFRS S2, without significantly reducing the usefulness of the information about greenhouse gas emissions for users of general purpose financial reports. In considering the effect on comparability the ISSB does not

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expect the effect of the proposed amendment to be significant, because this is an expansion of an existing relief in IFRS S2.

BC49 The ISSB decided not to propose additional disclosure requirements for entities that apply this proposed additional relief. The ISSB noted that an entity is required to disclose the measurement approach, inputs and assumptions it has used to measure its greenhouse gas emissions in accordance with paragraph 29(a)(iii)(1) of IFRS S2. Therefore, an entity might consider whether information about the GWP values used is relevant to this disclosure. This might include, for example:

(a) a description of the GWP values used; or

(b) an explanation of why the entity has not used the GWP values from the latest IPCC assessment.

## Effective date

BC50 The ISSB proposes setting an effective date such that the amendments would be effective as soon as possible and permit early application to enable an entity to apply the amendments. The reasons for this are:

(a) the nature of the amendments—the amendments are narrow in scope, targeted and directly respond to challenges raised by stakeholders by providing additional relief or clarifying existing relief in IFRS S2.

(b) the urgency of the amendments—many entities and jurisdictions are already in the process of implementing, adopting or otherwise using IFRS S2. These stakeholders might want to apply the amendments at the same time as the implementation and adoption of the Standard.

BC51 The ISSB will decide the effective date of the amendments after considering the feedback on the proposed amendments, when the timing of issuance of any amendments can be more precisely determined.

## Consequential amendments to SASB Standards

BC52 The ISSB made consequential amendments to the climate-related SASB Standards when it issued IFRS S2 to align the financed emissions metrics in SASB Standards with IFRS S2. As a consequence of amending IFRS S2 requirements that are related to financed emissions, the ISSB proposes amending the relevant SASB Standards to maintain this alignment.

## Effects analysis

BC53 The ISSB considered how the proposed amendments to IFRS S2 would likely affect entities that apply the Standard and primary users of general purpose financial reports. The ISSB has concluded that, were the amendments to be made, the benefits would likely exceed the costs—see Table 1 for details.

**Table 1—Likely effects of the proposed amendments to IFRS S2**

| Amendments | Effects on sustainability-related financial disclosures | Cost–benefit analysis |
|---|---|---|
| Permit specific exclusions from Scope 3 Category 15 greenhouse gas emissions | Entities would not be required to measure and disclose some of their Scope 3 Category 15 greenhouse gas emissions as part of their Scope 3 greenhouse gas emissions.<br><br>The relief is expected to be particularly beneficial for entities reporting Scope 3 Category 15 greenhouse gas emissions, and for whom derivatives, investment banking activities or insurance/reinsurance underwriting activities are significant. | *Entities*—The proposed amendment is expected to reduce the complexity of applying IFRS S2. Entities are expected to benefit from more clarity and certainty about what they are required to include in their Scope 3 Category 15 greenhouse gas emissions measurements and disclosures. This proposed amendment is expected to support the consistent application of IFRS S2, reducing diversity in practice.<br><br>The proposed amendment is not expected to result in significant cost to entities applying the requirements because the relief, if applied, would remove a requirement to measure and to disclose specific Scope 3 Category 15 greenhouse gas emissions. The amendment would provide an optional relief; thus, entities would be permitted to continue to provide such information.<br><br>*Primary users*—The amendment might result in some loss of information about Scope 3 Category 15 greenhouse gas emissions. However, in most cases, the potential loss of information is not expected to be significant relative to the information that has been provided. In addition, it is proposed that information be provided about the magnitude of information excluded when the relief is applied. |

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| Amendments | Effects on sustainability-related financial disclosures | Cost–benefit analysis |
|---|---|---|
| Permit use of industry-classification systems other than the Global Industry Classification Standard (GICS) when disaggregating financed emissions information in some circumstances | The relief is expected to be used by entities that do not use GICS to classify their lending or investment activities at the reporting date.<br><br>Such entities would be required to use a different industry classification system rather than GICS when disaggregating specific financed emissions information related to the additional information requirements for Scope 3 Category 15 greenhouse gas emissions in paragraphs B62–B63 of IFRS S2. | *Entities*—The proposed amendment is expected to reduce costs for entities that apply IFRS S2 by reducing the reporting burden associated with applying the requirement. The application challenges are significant and pervasive, particularly for entities that do not use GICS to classify their lending or investment activities.<br><br>*Primary users*—The amendment might result in some loss of comparability in the industry-classification system used in entities' disclosures. However, the proposed amendment is designed to ensure that consistency and comparability would be preserved as much as possible for an entity using GICS at the reporting date. The ISSB does not expect the potential loss of comparability to be significant. |

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| Amendments | Effects on sustainability-related financial disclosures | Cost–benefit analysis |
|---|---|---|
| Clarify that the jurisdictional relief in IFRS S2 applies to an entity in whole or in part | The relief is expected to be used by entities operating in jurisdictions that require greenhouse gas emissions to be measured using a method other than the GHG Protocol Corporate Standard.<br><br>Entities using a measurement method that differs from the GHG Protocol Corporate Standard would be required to provide disaggregated information in accordance with paragraphs B29 and B30 of IFRS S1, if material. | *Entities*—The proposed amendment is expected to reduce the complexity of applying IFRS S2 and reduce the reporting burden and related costs to do so. Given that some jurisdictions require methods for measuring greenhouse gas emissions other than the GHG Protocol Corporate Standard and given the number of entities likely to be subject to multiple jurisdictional or exchange requirements, the proposed amendment is likely to benefit many entities. Furthermore, clarifying the requirements through this proposed amendment would support consistent application of IFRS S2.<br><br>*Primary users*—The amendment might affect international comparability of greenhouse gas emissions. However, it is expected to maintain comparability of information within a jurisdiction where information is provided separately in relation to that jurisdiction (including disaggregation of material information, as a result of applying paragraphs B29 and B30 of IFRS S1). Further, the effect of the clarification is not significantly incremental because IFRS S2 already allows entities subject to such jurisdictional or exchange requirements to use a measurement method other than the GHG Protocol Corporate Standard. |

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| Amendments | Effects on sustainability-related financial disclosures | Cost–benefit analysis |
|---|---|---|
| Extend the jurisdictional relief in IFRS S2 to permit the use of GWP values other than those from the latest IPCC assessment | Entities required by jurisdictional or exchange requirements to use GWP values other than those from the latest IPCC assessment to convert greenhouse gas emissions into a $CO_2$ equivalent value are expected to apply this relief and would not be required to recalculate their GHG emissions using GWP values from the latest IPCC assessment.<br><br>Entities would convert greenhouse gas emissions using GWP values that differ from the latest IPCC assessment, and this might reduce comparability. | *Entities*—The proposed amendment is expected to reduce the complexity, reporting burden and related costs for entities applying IFRS S2 by not requiring them to recalculate their greenhouse gas emissions using GWP values from the latest IPCC assessment if a jurisdictional authority or an exchange requires the use of other GWP values.<br><br>The relief would be optional; thus, the risk of disruption of implementation processes that are already underway is low.<br><br>*Primary users*—The amendment might affect the international comparability of greenhouse gas emissions information. However, it is expected to maintain comparability of information within jurisdictions. In addition, because jurisdictional relief is already provided to allow the use of a measurement method other than the GHG Protocol Corporate Standard for measuring greenhouse gas emissions if such other method is required by a jurisdictional authority or an exchange, this additional relief is not expected to have a significant incremental effect on comparability. |

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