IFRS® Sustainability

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IFRS S2

IFRS® Sustainability Disclosure Standard

Basis for Conclusions on Climate-related Disclosures

International Sustainability Standards Board

Basis for Conclusions on

IFRS S2

Climate-related Disclosures

This Basis for Conclusions accompanies IFRS S2 *Climate-related Disclosures* (published June 2023; see separate booklet) and is issued by the International Sustainability Standards Board (ISSB).

CONTENTS

Basis for Conclusions on IFRS S2 *Climate-related Disclosures*

This Basis for Conclusions accompanies, but is not part of, IFRS S2 Climate-related Disclosures. *It summarises the considerations of the International Sustainability Standards Board (ISSB) in developing IFRS S2. Individual ISSB members gave greater weight to some factors than to others. The ISSB also published an Effects Analysis, which describes the likely costs and benefits of IFRS S2.*

Introduction

BC1 The ISSB developed IFRS S2 *Climate-related Disclosures* (IFRS S2) in response to calls from users of general purpose financial reports (users) for more consistent, complete, comparable and verifiable information about an entity's climate-related risks and opportunities. To meet this demand, IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of IFRS S2, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

Overview

BC2 Climate change is likely to present risks for nearly all entities and economic sectors. It might also create opportunities for entities, including those focused on mitigating climate change and adapting to its effects (see paragraphs BC17–BC25). An entity might be directly exposed to these risks and opportunities, or indirectly exposed through third parties such as suppliers and customers. However, the entity's degree and type of exposure to the effects of climate-related risks and opportunities are likely to vary depending on the entity's sector, industry, location and its specific circumstances. This varied exposure will, in turn, affect the assessment of the entity's overall risk profile carried out by users of general purpose financial reports.

BC3 IFRS S2 sets out the requirements for disclosing information about an entity's climate-related risks and opportunities. In particular, IFRS S2 requires an entity to disclose information that enables users of general purpose financial reports to understand:

(a) the governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities;

(b) the entity's strategy for managing climate-related risks and opportunities, including:

(i) the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;

(ii) the current and anticipated effects of those climate-related risks and opportunities on the entity's business model and value chain;

(iii) the effects of those climate-related risks and opportunities on the entity's strategy and decision-making, including information about its climate-related transition plans;

(iv) the effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and the anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term taking into account how those climate-related risks and opportunities have been factored into the entity's financial planning; and

(v) the climate resilience of the entity's strategy and its business model to climate-related physical risks and climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities;

(c) the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and

(d) the metrics and targets used to understand the entity's performance in relation to its climate-related risks and opportunities, including:

(i) the metrics the entity uses to measure, monitor and manage climate-related risks and opportunities (even if those metrics are not required by IFRS S2);

(ii) the cross-industry and industry-based metrics required by IFRS S2 (even if the entity does not use these metrics in its business); and

(iii) any climate-related target the entity has set, and any targets it is required to meet by law or regulation.

Relationship to other IFRS Sustainability Disclosure Standards

BC4 The ISSB issued IFRS S2 at the same time as IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1). The climate-related disclosure requirements in IFRS S2 are consistent with and complement the requirements in IFRS S1.

BC5 IFRS S1 sets out overarching requirements for an entity to disclose information about sustainability-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity. IFRS S2 sets out supplementary requirements that relate more specifically to climate-related risks and opportunities. If an entity determines that a climate-related risk or opportunity could reasonably be expected to affect its prospects, the entity is

required to apply IFRS S2 in preparing its disclosures about that climate-related risk or opportunity.

BC6 An entity is required to apply IFRS S2 in accordance with the conceptual foundations, general requirements and the requirements related to judgements, uncertainties and errors in IFRS S1. The ISSB has developed these conceptual foundations and requirements to ensure consistency among disclosures prepared in accordance with IFRS Sustainability Disclosure Standards.

Materiality

BC7 Among the conceptual foundations established in IFRS S1 is the concept of materiality. IFRS S1 states that:

> 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.

BC8 Material information about an entity's sustainability-related risks and opportunities enables users of general purpose financial reports to make decisions in relation to providing resources to the entity. In applying IFRS Sustainability Disclosure Standards, including IFRS S2, an entity is required to make materiality judgements and disclose material information about the sustainability-related risks and opportunities, including the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. Requirements in IFRS Sustainability Disclosure Standards, including IFRS S2, only need to be applied if their effect is material to the complete set of the entity's general purpose financial reports. In other words, the entity need not disclose information otherwise required by IFRS S2 if the information is not material.

Background

BC9 IFRS S2 is the result of proposals set out in the Exposure Draft IFRS S2 *Climate-related Disclosures* (Exposure Draft) published in March 2022. The ISSB received 690 comment letters and survey responses about the proposals. The respondents represented a range of stakeholder groups and geographies. The largest number of responses came from preparers. A large number of responses also came from users of general purpose financial reports, including investor associations and individual users. The ISSB also conducted 328 individual and group events before the consultation period ended in July 2022. A further 143 individual and group meetings with stakeholders took place from August to December 2022.

BC10 Most respondents agreed that the majority of the proposals would result in disclosures that will enable users of general purpose financial reports to assess the effects of climate-related risks and opportunities on an entity's cash flows, its access to finance and cost of capital. Almost all respondents agreed with the proposals on governance, strategy, risk management, and the cross-

industry metric categories and targets. Views were mixed on some proposals, including those relating to Scope 3 greenhouse gas emissions, the use of scenario analysis and industry-based disclosures. Although many respondents, most notably users, broadly agreed with these proposals, many other respondents, most notably preparers, commented on operational challenges associated with the proposals.

BC11 In addition to providing feedback on the proposed objective and the specific proposals, respondents noted the urgency of climate-related financial disclosures, citing the significant risks that climate change presents to individual entities, to international capital markets and to the financial stability of the global economy.

BC12 The ISSB considered the feedback on the Exposure Draft, along with the feedback on the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, to determine its approach to redeliberation, the timetable for redeliberation and the specific topics for redeliberation. The ISSB focused its redeliberations on those proposals that received mixed feedback, including suggestions to add to, remove or modify the proposed requirements. The ISSB also considered those proposals for which stakeholders provided new information or emphasised different considerations to those relied on in developing the Exposure Draft. Specifically, the ISSB decided to redeliberate four proposals relating to IFRS S2:

(a) strategy and decision-making, including transition planning, and climate-related targets;

(b) climate resilience;

(c) greenhouse gas emissions; and

(d) industry-based requirements.

BC13 The ISSB also decided to redeliberate one topic and one proposal relating to both IFRS S1 and IFRS S2:

(a) proportionality of the proposals; and

(b) current and anticipated financial effects of sustainability-related and climate-related risks and opportunities on an entity's financial performance, financial position and cash flows.

Proportionality

BC14 Most respondents to the Exposure Draft suggested that the ISSB consider the range of capabilities and preparedness of entities around the world to apply IFRS Sustainability Disclosure Standards. Respondents noted that some entities might be less able than others to comply for a variety of reasons, including:

(a) *resource constraints*—the costs of investing in and operating the systems and processes necessary to enable disclosure are proportionately higher for some entities;

(b) *data availability*—high-quality external data is less available in some markets, industries and parts of the value chain; and

(c) *specialist availability*—skills or expertise are less available to some entities and in some markets.

BC15 The ISSB developed a range of mechanisms to respond to these 'proportionality' challenges, and made a number of decisions intended to support the application of IFRS S2 by a wide range of entities. The proportionality mechanisms were used in requirements that are included in both IFRS S1 and IFRS S2. These requirements include those associated with identification of risks and opportunities, determination of the scope of the value chain, disclosure of current and anticipated financial effects, and other areas such as timing of reporting and providing comparative information in the first year of application. The proportionality mechanisms were also used in specific requirements that are included only in IFRS S2. These requirements are associated with climate-related scenario analysis, measurement of Scope 1, Scope 2 and Scope 3 greenhouse gas emissions, and calculation of metrics in particular cross-industry metric categories. These proportionality mechanisms are summarised in Table 1 and described in more detail in this document.

Table 1—Summary of ISSB decisions that assist with proportionality or in the application of IFRS S2

	Mechanisms to address proportionality challenges			Additional clarifications/ mechanisms to facilitate application	
Area	**Concept of 'reasonable and supportable information… without undue cost or effort'[a]**	**Consideration of skills, capabilities and resources**	**Transition relief**	**Concept of 'unable to do so'[b]**	**Guidance, educational material and other efforts to facilitate application**
Identification of risks and opportunities	X				X
Determination of the scope of the value chain	X				X
Current financial effects				X	X
Anticipated financial effects	X	X		X	X

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Area	Mechanisms to address proportionality challenges		Transition relief	Additional clarifications/ mechanisms to facilitate application	
	Concept of 'reasonable and supportable information… without undue cost or effort'[a]	Consideration of skills, capabilities and resources		Concept of 'unable to do so'[b]	Guidance, educational material and other efforts to facilitate application
Climate-related scenario analysis	X	X			X
Measurement of Scope 1 and Scope 2 greenhouse gas emissions			X		X
Measurement of Scope 3 greenhouse gas emissions	X		X		X
Calculation of metrics in particular cross-industry metric categories	X				X

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Area	Mechanisms to address proportionality challenges		Transition relief	Additional clarifications/ mechanisms to facilitate application	
	Concept of 'reasonable and supportable information... without undue cost or effort'[a]	Consideration of skills, capabilities and resources		Concept of 'unable to do so'[b]	Guidance, educational material and other efforts to facilitate application
Other areas —for example, timing of reporting and providing comparative information in first annual reporting period			X		X

(a) See paragraphs BC10–BC17 of the Basis for Conclusions on IFRS S1 for further information about using 'reasonable and supportable information'.

(b) Although the term 'unable to do so' was used in the Exposure Draft, it is no longer used in IFRS S2; however, this concept is articulated through whether the current or anticipated financial effects are separately identifiable or whether the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

Interoperability

BC16 IFRS Sustainability Disclosure Standards are intended to establish a comprehensive global baseline of sustainability-related financial disclosures to meet the information needs of users of general purpose financial reports and, therefore, of international capital markets. The ISSB recognises that this baseline is likely to be supplemented by entities and jurisdictions with information aimed at meeting the needs of a broader group of stakeholders or to address particular jurisdictional information needs. If an entity discloses information to meet jurisdictional regulatory requirements and public policy objectives in addition to the information required by IFRS Sustainability Disclosure Standards, the Standards require the entity to ensure that this additional information does not obscure the information required by IFRS Sustainability Disclosure Standards. The feedback to the Exposure Draft indicated strong agreement among respondents with pursuing and facilitating interoperability with jurisdictional requirements, and, therefore, the ISSB considered such interoperability in its redeliberation of IFRS S2.

Objective and scope

Climate-related risks and opportunities

BC17 The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity. The requirements in IFRS S2 are intended to elicit decision-useful information from an entity regarding the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

BC18 The climate-related risks to which IFRS S2 applies are physical risks from climate change (climate-related physical risks) and transition risks associated with the transition to a lower-carbon economy (climate-related transition risks). These categories of climate-related risk are consistent with those used in the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

BC19 Climate-related physical risks can be:

(a) *acute*—driven by events such as storms, precipitation or temperatures. For example, extreme temperatures or severe storms can affect an entity's premises, operations, supply chain, transportation needs or employee safety, with resulting effects on the entity's cash flows, its access to finance or cost of capital.

(b) *chronic*—resulting from longer-term factors such as increase in mean temperatures, shifts in precipitation patterns or rising sea levels. Chronic risks could also have longer-term financial consequences for entities. For example, rising sea levels might affect an entity's premises or operations.

BC20 Transition risks are associated with policy, legal, technology and market changes resulting from efforts to limit global warming and move to a lower-carbon economy. Such changes could include new regulations to minimise greenhouse gas emissions, or a shift in market preferences towards lower-carbon products and services. For example, the move to a lower-carbon economy could include the movement away from fossil fuel energy and related physical assets, as well as efforts to reduce costs and increase or accelerate the deployment of cleaner and more energy-efficient technologies. Transition risks might affect an entity to varying extents depending on the nature, speed and focus of the changes that occur.

BC21 An entity might pursue a range of mitigation and adaptation responses to manage physical and transition risks related to climate change. Mitigation efforts, such as those intended to reduce greenhouse gas emissions, are primarily associated with an entity's responses to transition risks. For example, an entity might adopt new technologies or change its business model to introduce new products and services that reduce its greenhouse gas emissions. Adaptation responses are primarily associated with physical risks and involve an entity preparing for both the current and anticipated effects of

climate change. For example, an entity might invest in changes to infrastructure to improve its resilience to physical risks.

BC22 An entity might also take advantage of climate-related opportunities—for example, by developing new products and services that meet shifting consumer needs or preferences and enhance the entity's brand reputation. As with climate-related risks, climate-related opportunities will vary depending on the region, market and industry in which an entity operates.

BC23 Climate-related risks and opportunities are distinct but are not always mutually exclusive. For example, changing consumer preferences towards lower-carbon products might pose a risk to the demand for an entity's products and, at the same time, present an opportunity for the entity to develop an alternative, lower-carbon product line or gain market share if it has such a product line. The ISSB emphasised the importance of this relationship between climate-related risks and opportunities in redeliberating some of the requirements in IFRS S2, such as those related to risk management and strategy, particularly in the areas of climate-related transition plans and climate resilience.

BC24 The impacts of climate change are wide ranging, interrelated and have varied effects on an entity. Therefore, it is impossible to precisely define the full scope of climate-related risks and opportunities that might affect an entity. Consequently, IFRS S2 does not explicitly prescribe what is 'climate-related'. The requirements in IFRS S2 are aligned with the TCFD recommendations and are accompanied by the *Industry-based Guidance on Implementing IFRS S2* (Industry-based Guidance), which is derived from the industry-based requirements in the SASB Standards, in order to provide parameters to help an entity identify risks and opportunities in applying IFRS S2. The Industry-based Guidance is not intended to be comprehensive or interpreted as such.

BC25 Although the requirements in IFRS S2 do not explicitly reference some climate-related matters such as reduced access to fresh water, biodiversity loss, deforestation and climate-related social impacts, disclosures about these and other such matters are required if an entity determines that the information is material for users of general purpose financial reports. For example, if a beverage manufacturer determines it is exposed to short-, medium- or long-term effects of climate change on water availability—especially in water-stressed regions—the entity might determine that information about the implications of reduced water availability for its strategy, operations, capital planning and asset values is material. Therefore, this information would be required by IFRS S2.

Impacts and dependencies

BC26 Climate-related risks and opportunities arise from an entity's impacts and dependencies on natural resources, and the relationships it maintains with its stakeholders, society, the economy and the natural environment.

BC27 Changes in the availability, quality or cost-stability of essential inputs—sometimes called 'dependencies'—could lead to climate-related risk. The climate-related dependencies to which an entity is exposed will vary substantially depending on the entity's business model and activities. For example, a beverage manufacturer might depend on the availability and quality of local water resources, which might be affected by an increase in drought conditions due to climate change, which in turn could affect the manufacturer's operations and its ability to produce its goods (thus presenting a climate-related physical risk).

BC28 An entity's 'impacts' can also affect its cash flows, its access to finance or cost of capital over the short, medium or long term. An entity's impacts on climate change give rise to climate-related risks and opportunities if these impacts affect the resources and relationships on which the entity depends. An entity's greenhouse gas emissions might give rise to climate-related risks, for example, if the entity expects a carbon tax to be introduced in a key jurisdiction in which it operates or if the entity expects a shift in consumer preferences towards lower-carbon alternatives to result in decreased demand for its products. Therefore, IFRS S2 requires an entity to disclose information about its impacts if such information is material.

BC29 The requirements in IFRS S2 reflect the view that, depending on an entity's specific facts and circumstances, information on both impacts and dependencies can be useful to users of general purpose financial reports in understanding the risks and opportunities to which the entity is exposed, and in making decisions relating to providing resources to the entity.

Core content

BC30 The requirements in IFRS S2 are structured around core content related to governance, strategy, risk management, and metrics and targets, following the structure set out in IFRS S1. This core content is aligned with the structure of the widely accepted TCFD recommendations and reflects how entities oversee and manage sustainability-related risks and opportunities, including those related to climate change. The requirements associated with governance, strategy, risk management, and metrics and targets are intended to result in an entity disclosing a complete set of information that enables users of general purpose financial reports to understand the entity's exposure to, and management of, climate-related risks and opportunities. For the avoidance of doubt, IFRS S2 does not prescribe how entities should manage their businesses. Instead, these requirements are intended to ensure that entities are transparent about the climate-related processes and policies they have in place and provide disclosures that meet the information needs of users.

Governance

BC31 Paragraphs 5–7 of IFRS S2 require an entity to disclose information that enables users of general purpose financial reports to understand the governance processes, controls and procedures the entity has used to monitor, manage and oversee climate-related risks and opportunities. To achieve this

objective, IFRS S2 requires an entity to disclose information about the governance body(s) (for example, a board, committee or equivalent body charged with governance) or individual(s) with oversight of climate-related risks and opportunities and to disclose information about management's role in supporting that oversight.

BC32 By design, the governance requirements in IFRS S2 are closely aligned with those in IFRS S1. To ensure consistent and comparable disclosures, and to assist entities in applying IFRS S2, the requirements are set out in both IFRS S1 and IFRS S2 in full. Feedback from stakeholders indicated that many entities structure their governance and management to integrate climate-related risks and opportunities with other sustainability-related risks and opportunities. As a result, IFRS S2 states that if an entity takes an integrated approach to monitor, manage and oversee its sustainability-related risks and opportunities, the entity is required to avoid duplicating its governance disclosure for each sustainability-related risk and opportunity.

Strategy

Climate-related risks and opportunities

BC33 Paragraph 10 of IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. This means that the entity is required to disclose information about such risks and opportunities if they could reasonably be expected to occur over one or more time horizons.

BC34 IFRS S2 distinguishes between two categories of climate-related risks—physical risks and transition risks (see paragraphs BC17–BC25). These categories, which are consistent with those set out in the TCFD recommendations, are widely used.

BC35 The climate-related physical and transition risks to which an entity is exposed are likely to vary depending on the entity's business model, sector, location of operations, the nature of its value chain and other entity-specific circumstances. Therefore, the particular information disclosed in accordance with paragraphs 10–12 of IFRS S2 will also vary by entity. Although the specific details of an entity's disclosures could be tailored to its circumstances, the requirements enable comparability by providing users of general purpose financial reports with information about common elements of a risk or opportunity and how the entity is responding to each risk and opportunity.

BC36 The Exposure Draft proposed industry-based requirements to further enable comparable disclosures among industry peer entities. Although most respondents to the Exposure Draft agreed with the inclusion of industry-based disclosure requirements, feedback was mixed on some aspects of the industry-based proposals, including the ability and appropriateness of applying some of the proposals internationally. The ISSB decided that the industry-based disclosure topics and associated metrics would be published as guidance to accompany IFRS S2. The ISSB decided that an entity is required to refer to and consider the applicability of that guidance.

BC37 The ISSB noted that, in the context of the requirements in paragraphs 10–22 of IFRS S2, the disclosure topics identified and defined in the Industry-based Guidance can serve as a helpful starting point for an entity in considering the risks and opportunities about which it might need to prepare disclosures. These disclosure topics, which are derived from the SASB Standards, set out the climate-related risks and opportunities that are most likely to be associated with particular business models, activities or other common features that characterise participation in an industry. Although an entity is required to refer to and consider the applicability of the Industry-based Guidance, it might determine that the guidance is not applicable. Additionally, the disclosure topics and associated metrics set out in the Industry-based Guidance are not intended to be exhaustive. Accordingly, an entity is required to disclose information about topics that are not included in the Industry-based Guidance if the entity determines that such information is material.

BC38 In describing the risks and opportunities about which an entity should prepare and disclose information, the Exposure Draft referred to 'significant' climate-related risks and opportunities. Many respondents to the Exposure Draft expressed concerns about the use of the term 'significant' because it could be interpreted in various ways. Additionally, some respondents were confused about the distinction and connection between the concepts of 'significant' (which applies to risks and opportunities) and 'material' (which applies to information about those risks and opportunities). The ISSB intended to use the term 'significant' to indicate that, in preparing its disclosures, an entity is not required to consider an exhaustive list of all possible climate-related risks and opportunities, but only those that could reasonably be expected to affect the entity's prospects. Although this intention is unchanged, for the sake of clarity, the ISSB agreed to remove the term 'significant' in relation to the climate-related risks and opportunities to which IFRS S2 applies. The ISSB also agreed to develop guidance as part of IFRS S1 to clarify the distinction between the process of identifying the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and identifying material information to provide about those risks and opportunities.

BC39 Paragraph 10 of IFRS S2 requires an entity to disclose information about the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. In feedback to the ISSB, preparers described challenges in identifying risks and opportunities, such as the breadth of assessments that would be necessary to cover all the climate-related risks and opportunities that might affect the entity. In response, the ISSB introduced the concept of an entity using 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions' when identifying climate-related risks and opportunities. The ISSB noted that introducing this concept clarifies that an entity:

(a) is prohibited from overstating or understating opportunities (or risks) premised on information that is unsupportable or unreasonable;

(b) is required to use all information that is available to the entity at the reporting date (including information about past events, current conditions and forecasts of future conditions);

(c) is not required to use information that was unavailable at the reporting date; and

(d) is not expected to carry out an exhaustive search for information to identify every climate-related risk or opportunity—because such an exhaustive search would represent 'undue cost or effort'.[1]

BC40 IFRS S1 permits an entity, in limited circumstances in which information is commercially sensitive and is not already publicly available, to omit information about a sustainability-related opportunity in accordance with the criteria set out in IFRS S1. The exemption in IFRS S1 applies to the disclosure of information about sustainability-related opportunities and is therefore also applicable to information about climate-related opportunities in IFRS S2 and future IFRS Sustainability Disclosure Standards, unless otherwise stated. These criteria were agreed by the ISSB as a means of identifying information about sustainability-related opportunities considered to be commercially sensitive. If an entity applies the exemption, including for a climate-related opportunity, it is required to apply the additional disclosure requirements associated with the exemption. The ISSB acknowledged that if an entity applies the exemption this might create asymmetry between the disclosure of information about risks and the disclosure of information about opportunities. However, the ISSB observed that many entities already voluntarily report on climate-related opportunities, despite there being no requirement to report this information.

Time horizons

BC41 IFRS S2 requires an entity to disclose information about the time horizons over which the climate-related risks and opportunities could reasonably be expected to occur. A few respondents to the Exposure Draft asked for additional guidance on, or explicit definitions of, the applicable time horizons. However, the ISSB observed that the time horizons (short, medium and long term) vary depending on an entity's particular circumstances. How an entity defines, assesses and plans for the short, medium or long term is the result of many factors, including the industry in which the entity operates and the associated business and investment cycles. Therefore, the ISSB confirmed the approach used in the Exposure Draft and IFRS S2 does not define time horizons. Instead, IFRS S2 requires an entity to disclose how it defines 'short term', 'medium term' and 'long term', and how these definitions are linked to the entity's strategic planning. The ISSB noted that this approach aligns with the TCFD recommendations.

1 See paragraphs BC10–BC17 of the Basis for Conclusions on IFRS S1 for further information about using 'reasonable and supportable information'.

Climate-related risks and opportunities throughout an entity's value chain

BC42 The requirements in paragraph 13 of IFRS S2 are intended to enable users of general purpose financial reports to understand the current and anticipated effects of climate-related risks and opportunities on an entity's business model and value chain. IFRS S1 defines value chain as 'the full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates'. IFRS S1 further clarifies that an entity's value chain includes the activities, resources and relationships the entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life. This definition is intentionally broad. However, the breadth of the definition does not mean that an entity is required to disclose information about every climate-related risk or opportunity that is affecting, or is likely to affect, any part of its value chain. The information required by IFRS S2 about the effects of climate-related risks and opportunities on the entity's value chain is limited to information that is material. For example, an entity might identify a concentration of physical risks in a particular geographical location affecting the supply of a particular resource that is essential in manufacturing a product.

BC43 The ISSB recognised the potential challenges associated with an entity providing disclosures about its value chain, given the potential complexity of the value chain and the various interconnections that might be involved. To address these potential challenges, the ISSB decided that in determining the scope of an entity's value chain, including its breadth and composition, in relation to each climate-related risk or opportunity, the entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The ISSB determined that this approach would assist entities by establishing parameters for the information they consider when preparing disclosures regarding the value chain, including the effort required to obtain such information. This requirement is described in paragraph B6(b) of IFRS S1.

Effects of climate-related risks and opportunities on strategy and decision-making

BC44 Paragraph 14 of IFRS S2 requires an entity to disclose the effects of climate-related risks and opportunities on its strategy and decision-making. Specifically, the entity is required to disclose information about how it has responded to and plans to respond to climate-related risks and opportunities in its strategy and decision-making; information about plans to achieve any climate-related targets it has set and any targets it is required to meet by law or regulation; information about how it is resourcing or plans to resource these activities; and quantitative and qualitative information about the progress of plans it has previously disclosed. Information about the progress of plans that have been previously disclosed relates to any previously disclosed plans that are still relevant. Information about progress might include progress in the current reporting period as well as cumulative progress since the beginning of the earliest period reported or since the last milestone was reached.

BC45 Many respondents to the Exposure Draft said that the proposals related to strategy and decision-making were difficult to understand and therefore would be difficult to apply. The ISSB agreed to clarify the requirements by distinguishing between the requirements related to an entity's overall strategy and decision-making, and the requirements specifically related to the entity's plan to manage the transition to a lower-carbon economy (climate-related transition plan). The ISSB also agreed to move the requirements that relate to climate-related targets to paragraphs 33–36 of IFRS S2 to provide greater clarity.

Climate-related transition plans

BC46 The ISSB decided that if an entity has a particular plan or set of plans to respond to the expected transition to a lower-carbon economy, disclosure of that transition plan will help users of general purpose financial reports assess the effects of climate-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital.

BC47 For some entities, a climate-related transition plan forms part of the overall business strategy because the plan adjusts the entity's business model to respond to climate-related risks and opportunities. For other entities, a climate-related transition plan might apply more narrowly to a particular product line, business unit or set of activities, and sit alongside the entity's overall business strategy. The requirements in IFRS S2 are intended to reflect the fact that the details contained in an entity's disclosure of its climate-related transition plan will reflect the entity's individual circumstances, including any relevant industry-based disclosures.

BC48 Although market perspectives vary on the most useful information an entity could disclose regarding its climate-related transition plan, users of general purpose financial reports said that an entity's climate-related transition plan should not only present its greenhouse gas emission reduction targets, but also provide information about the specific actions it plans to take to achieve those targets, respond to climate-related transition risks, and contribute to and benefit from the expected transition to a lower-carbon economy. Such information might include current or anticipated changes to an entity's business model and strategy, and the performance indicators it uses to measure progress on key drivers of climate-related transition risk.

BC49 The ISSB observed that, in disclosing information about its climate-related transition plan, an entity might refer to information disclosed in accordance with other requirements in IFRS S2. For example, an entity could highlight connections between its disclosure of greenhouse gas emissions (paragraph 29(a) of IFRS S2) and its targets to reduce greenhouse gas emissions (paragraph 36 of IFRS S2). The entity might also refer to its resilience assessment (paragraph 22 of IFRS S2) to the extent that the assessment has informed its climate-related transition plan or related disclosure.

BC50 Respondents to the Exposure Draft commented on the overlap between the proposals associated with climate-related transition plans and those associated with climate-related targets. The ISSB confirmed the requirements to provide such disclosures, but decided to structure them more clearly. Paragraph 33 of

IFRS S2 requires an entity to disclose information relating to the characteristics of its climate-related targets (including greenhouse gas emissions targets), whereas paragraph 36 of IFRS S2 requires an entity to disclose additional information specifically relating to its greenhouse gas emissions targets and how it plans to achieve those targets.

BC51 IFRS S2 differentiates between climate-related targets and greenhouse gas emissions targets. Climate-related targets include any target an entity has set to respond to climate-related risks and opportunities. These targets might refer to the cross-industry metric categories outlined in paragraph 29 of IFRS S2 or to industry-based metrics, such as those included in the Industry-based Guidance. 'Greenhouse gas emissions targets' are a particular example of a climate-related target and specifically refer to the greenhouse gas emissions targets an entity sets or is required to meet. In relation to an entity's climate-related transition plan, greenhouse gas emissions targets provide information about the timing and pathway of the entity's plans to reduce its emissions in anticipation of a lower-carbon economy. IFRS S2 requires that an entity provide information about greenhouse gas emissions targets that it has set as well as those it is required to meet by law or regulation. For the avoidance of doubt, IFRS S2 does not require an entity to set a greenhouse gas emissions target (or other climate-related targets). Rather, it requires the entity to disclose information about its greenhouse gas emissions targets if the entity has set (or is required to meet) such targets and requires that, if an entity has set a net greenhouse gas emissions target, it is required to also disclose a gross greenhouse gas emissions target.

BC52 Respondents to the Exposure Draft said that further requirements were necessary in IFRS S2 to enhance the comparability and consistency of entities' disclosures about their climate-related transition plans. In response to these comments, the ISSB decided to introduce a requirement for an entity to disclose the assumptions it made in developing its climate-related transition plan, and the dependencies on which the plan's achievement relies. An assumption is a belief, expectation, hypothesis or premise that the entity expects will occur and therefore builds into its climate-related transition plan. As such, assumptions are uncertain. Dependencies are critical factors and conditions required for an entity's transition plan to be realised. Examples of assumptions include expectations about regulatory requirements or the ability of an entity to implement planned changes within its value chain. Examples of dependencies include an emission removal technology that is necessary for an entity to meet its greenhouse gas emissions targets, or a minimum level of resource availability that is required for the entity to implement its climate-related transition plan. The ISSB concluded that users of general purpose financial reports need to understand the assumptions and dependencies that underpin an entity's climate-related transition plan in order to assess the credibility of the plan and to be able to make comparisons between entities.

Current and anticipated financial effects

BC53 IFRS S2 requires an entity to disclose the 'current' and 'anticipated' financial effects of its climate-related risks and opportunities:

(a) *current financial effects*—the effects of the entity's climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period; and

(b) *anticipated financial effects*—the effects of the entity's climate-related risks and opportunities on its financial position, financial performance and cash flows over the short, medium and long term, including information about how climate-related risks and opportunities are included in the entity's financial planning.

BC54 IFRS S2 sets out the circumstances in which an entity is not required to provide quantitative information. Although the term 'unable to do so' is not used in IFRS S2, this term is effectively rearticulated through the criteria set out in paragraphs 19–20 of IFRS S2.

BC55 By design, these requirements are closely aligned with those in IFRS S1 requiring an entity to disclose the current and anticipated financial effects of its sustainability-related risks and opportunities. To help entities apply IFRS S2, and to ensure consistent and comparable disclosures, the requirements are set out in both IFRS S1 and IFRS S2 in full.

BC56 The ISSB decided to clarify the relationship between the disclosure requirements for information about climate resilience and the disclosure requirements for information about current and anticipated financial effects. The ISSB noted that the two sets of requirements are distinct and are intended to serve different information needs. The requirements related to the climate resilience of an entity's strategy and business model are intended to inform users of general purpose financial reports about the entity's ability to cope with and withstand the effects of climate-related risks and uncertainties in different scenarios. The requirements related to the current and anticipated financial effects of climate-related risks and opportunities are intended to provide information about the effects of these risks and opportunities on an entity's financial performance, financial position and cash flows. The requirements can be applied independently. However, a resilience assessment can inform the disclosures of current and anticipated financial effects and vice versa.

Climate resilience

BC57 The likelihood, magnitude and timing of climate-related risks and opportunities affecting an entity are often complex and uncertain. As a result, users of general purpose financial reports need information to enable them to understand the resilience of an entity's strategy and business model to climate change. Therefore, paragraph 22 of IFRS S2 requires an entity to disclose information on two distinct aspects of this assessment, including:

(a) information about the entity's climate resilience to enable users to understand key areas of uncertainty, the implications for the entity's strategy and business model, and its adaptive capacity; and

(b) information about how the entity has carried out climate-related scenario analysis to inform its assessment of its climate resilience.

BC58 Paragraph 22 of IFRS S2 requires an entity to disclose information about the resilience of its strategy and business model to climate-related changes, developments and uncertainties. Climate-related changes might include events or changes directly resulting from climate change (for example, pervasive wildfires). Climate-related developments might include evolving macroeconomic factors such as regulatory responses and demographic shifts (for example, regulatory limits on the use of particular fossil fuels). Climate-related uncertainties might include the different confidence intervals associated with climate-related changes and climate-related developments (for example, assumptions about the pervasiveness of wildfires or the stringency of regulation).

BC59 The requirements in IFRS S2 make a distinction between the concepts of 'resilience assessment' and 'scenario analysis'. A resilience assessment is management's assessment of a range of plausible but uncertain climate outcomes, the implications for the entity's business model and strategy and its capacity to adapt or respond. Scenario analysis is the analytical exercise used to inform that assessment. The disclosures required by paragraph 22(b) of IFRS S2 relate to the approach used by the entity to carry out scenario analysis, whereas the requirements in paragraph 22(a) of IFRS S2 specifically refer to disclosures about the assessment of resilience based on that scenario analysis. In making this distinction, the ISSB emphasised that an entity is not required to disclose the results of its scenario analysis, but is instead required to disclose its interpretation of those results.

BC60 Paragraph 22(a) of IFRS S2 requires disclosures related to the significant areas of uncertainty considered in an entity's assessment of its climate resilience. For example, the entity might disclose that its resilience assessment is subject to significant uncertainty arising from the effects of future climate-driven migration, which might affect the stability of its supply chain or the resilience of its assets and operations in particular geographies. As the time horizon considered in the scenario analysis increases, the degree of judgement required to interpret its results also increases.

BC61 Paragraph 22(b)(ii) of IFRS S2 lists particular required disclosures related to the key assumptions an entity made in carrying out its climate-related scenario analysis. Although IFRS S2 requires these specific disclosures, the ISSB observed that an entity might make assumptions in carrying out its climate-related scenario analysis that should be disclosed if material, because the assumptions listed in paragraph 22(b)(ii) of IFRS S2 are not exhaustive. This is reflected in the overarching objective of the disclosures in paragraph 22.

BC62 The Exposure Draft proposed that an entity would be required to use climate-related scenario analysis to assess its climate resilience unless it is 'unable to do so'. This proposed requirement would have allowed an entity to use an alternative method to assess its climate resilience if it is unable to use climate-related scenario analysis. This proposal was designed to respond to concerns that climate-related scenario analysis might be too challenging, especially for an entity that lacks the skills, capabilities and resources to carry out such analysis. Respondents to the Exposure Draft provided mixed feedback on this proposal, including on the effectiveness of the 'unable to do so' wording. Some

respondents were concerned that the wording would allow entities to opt out of using climate-related scenario analysis. Others were unclear about what criteria to consider in determining whether an entity is 'able' or 'unable' to carry out climate-related scenario analysis. Respondents also expressed an array of views on the various methods that might or might not be considered to constitute climate-related scenario analysis.

BC63 The ISSB made several related decisions to reduce confusion, enhance clarity and retain an appropriate degree of proportionality for entities, whose circumstances vary. The ISSB decided to remove the wording 'unable to do so' from the requirements on climate resilience in IFRS S2 and to confirm that an entity is required to use climate-related scenario analysis to assess its climate resilience. The ISSB also decided to clarify that climate-related scenario analysis encompasses a range of practices, from qualitative scenario narratives to sophisticated quantitative modelling. The ISSB also decided that an entity is required to use an approach to climate-related scenario analysis that is commensurate with its circumstances.

BC64 The ISSB recognised a need to provide additional guidance to respond to concerns that scenario analysis might create undue cost or effort, especially for entities with fewer skills, capabilities or resources. Therefore, the ISSB agreed to provide application guidance to accompany IFRS S2, which is designed to support an entity in determining an approach to climate-related scenario analysis that is commensurate with its circumstances. The application guidance (paragraphs B1–B18 of IFRS S2) draws on the range of practice outlined in documents published by the TCFD, including *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities* (2017) and *Guidance on Scenario Analysis for Non-Financial Companies* (2020). The application guidance in IFRS S2 requires an entity to use an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, taking into consideration:

(a) the entity's exposure to climate-related risks and opportunities; and

(b) the skills, capabilities and resources available to the entity to enable it to carry out the climate-related scenario analysis.

BC65 The greater an entity's exposure to climate-related risks and opportunities and the more skills, capabilities and resources available to carry out climate-related scenario analysis, the more sophisticated the form of analysis the entity would be required to use to support its resilience assessment. An entity with fewer resources and relatively low risk exposure might develop a scenario narrative focused on a key product, business unit or operating location. However, a larger entity with high risk exposure and greater analytical experience might carry out sophisticated quantitative modelling using a range of scenarios to capture multiple risk transmission channels across its own operations and throughout its value chain. If an entity does not currently have the skills and capabilities to carry out a more sophisticated form of climate-related scenario analysis but has a high degree of exposure to climate-related risk, the entity might initially use a simpler approach to

climate-related scenario analysis. The ISSB emphasised that if an entity's climate-related risk exposure warrants a more sophisticated approach to scenario analysis, the entity cannot use a lack of skills or capabilities to justify using a less sophisticated approach if it has the resources available to obtain or develop those skills or capabilities. The ISSB expects this guidance will enable entities to develop their skills and capabilities and strengthen their disclosures over time through a process of learning and iteration. For example, as an entity's capabilities develop so will its assessment of what is considered 'undue' in terms of cost or effort.

BC66 The ISSB decided not to specify the particular scenarios that an entity would be required to use in its climate-related scenario analysis because the relevant scenarios would depend on the entity's facts and circumstances, including the nature and location of its operations and the physical and transition risks to which it is exposed. Instead, the ISSB confirmed that an entity is required to explain which climate-related scenarios it has used, including whether they are related to transition or physical risks. IFRS S2 also requires disclosure of whether a diverse range of climate-related scenarios was used in the analysis, meaning entities are required to disclose information such as the number of scenarios used and whether the scenarios cover different outcomes or pathways. For example, if an entity considered both orderly and disorderly transition scenarios, the entity could disclose that fact.

BC67 The ISSB agreed that specifying which scenarios an entity should use would not be practical, might quickly become outdated and could lead to the disclosure of information that does not reflect the entity's specific circumstances or management's view of what is plausible. Therefore, the ISSB decided not to require the use of scenarios consistent with the latest international agreement on climate change or particular science-based scenarios. However, the ISSB also agreed that the scenarios selected by an entity must be relevant to its circumstances in order to provide useful information to users of general purpose financial reports. The ISSB also agreed to consider developing additional educational materials to support entities in selecting relevant scenarios in applying IFRS S2.

BC68 The ISSB decided that an entity would be permitted to carry out scenario analysis to coincide with a multi-year strategic planning cycle rather than updating the analysis at every reporting date. However, the ISSB confirmed that the information required by paragraph 22 of IFRS S2 must be disclosed annually. An entity is required to assess its climate resilience on an annual basis to reflect updated insight into the implications of climate uncertainty for the entity's business model. In this regard, the information required by paragraph 22(a) of IFRS S2 would be updated in each reporting period, whereas the information required by paragraph 22(b) of IFRS S2 might remain unchanged from one reporting period to the next if climate-related scenario analysis has not been carried out.

BC69 The ISSB acknowledged that climate-related scenario analysis can be used to inform a variety of other disclosures required by IFRS S2, including the identification and assessment of risks and opportunities, the anticipated financial effects associated with those risks and opportunities, and the plans

an entity might develop to transition to a lower-carbon economy. However, the use of scenario analysis is required only in the context of the entity's resilience assessment.

Risk management

BC70 Information arising from the application of paragraphs 24–26 of IFRS S2 is intended to enable users of general purpose financial reports to understand the processes an entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities.

BC71 By design, the risk management requirements in IFRS S2 are closely aligned with those in IFRS S1. To help entities apply IFRS S2, and to ensure consistent and comparable disclosures, the requirements are set out in both IFRS S1 and IFRS S2 in full. IFRS S2 requires that an entity avoid unnecessary duplication in its disclosures on risk management. For example, it might be appropriate for an entity to describe its overall approach to risk management for sustainability-related risks and opportunities and to include specific incremental details regarding the approach taken for climate-related risks and opportunities.

BC72 Some respondents to the Exposure Draft suggested that climate-related scenario analysis can provide a useful input to the identification and assessment of climate-related risks and opportunities. The ISSB decided to introduce an additional requirement for an entity to describe whether and how it uses climate-related scenario analysis to inform the process described in paragraphs 24–26 of IFRS S2.

Metrics and targets

BC73 The ISSB received feedback that the drafting of the objective of the 'Metrics and targets' section in the Exposure Draft did not fully reflect the intention of disclosures about metrics and targets. The feedback indicated that some respondents interpreted the objective of these disclosures as being limited to disclosures of the metrics and targets an entity already uses. The ISSB decided that this interpretation could lead to an entity excluding metrics required by IFRS Sustainability Disclosure Standards that were not used by the entity, though information provided by disclosing those metrics is material. The ISSB decided to clarify that the objective is to require an entity to disclose information about the entity's performance against:

(a) the metrics the entity uses to measure and monitor climate-related risks and opportunities (even if those metrics are not required by IFRS S2); and

(b) the metrics explicitly required by IFRS S2 (even if the entity does not use these metrics in its business).

BC74 The ISSB further clarified that its intention in making that decision was not to prescribe how entities should manage their businesses, but instead to clarify the disclosure requirements for metrics and targets. An entity's management is not required to use the metrics set out in IFRS S2 to manage its business.

Rather, the intention is to ensure that users of general purpose financial reports have the information that the ISSB has identified as likely to be useful in assessing an entity's cash flows, its access to finance and cost of capital over the short, medium and long term.

Cross-industry metric categories

BC75 To help users of general purpose financial reports compare an entity's performance in relation to its climate-related risks and opportunities with that of other entities, IFRS S2 (paragraph 29) requires that all entities disclose information in line with seven cross-industry metric categories, which are derived from the TCFD's *Guidance on Metrics, Targets and Transition Plans* (TCFD guidance):

(a) greenhouse gas emissions;

(b) climate-related transition risks;

(c) climate-related physical risks;

(d) climate-related opportunities;

(e) capital deployment;

(f) internal carbon prices; and

(g) remuneration.

These cross-industry metric categories are intended to provide common information to allow users of general purpose financial reports to assess an entity's exposure to and management of climate-related risks and opportunities. The categories are also intended to be indicative of key aspects and drivers of climate-related risks and opportunities and to provide insight into the potential effects of climate change on the entity.

BC76 Most respondents to the Exposure Draft broadly agreed with the seven cross-industry metric categories, particularly their alignment with the TCFD guidance. Respondents also commented that these cross-industry metric categories provide a common set of climate-related disclosures that are applicable to most types of entities and thus enable enhanced comparability of disclosures between industries and between business models. Many respondents to the Exposure Draft also agreed that the seven categories provide adequate cross-industry metrics and emphasised the importance of limiting the number of these metrics to reduce the reporting burden on entities.

BC77 The descriptions of the cross-industry metric categories in IFRS S2 are in most cases intentionally non-specific to enable an entity to identify appropriate metrics. The ISSB took this approach to allow for the likelihood that measurement methodologies and the availability and quality of underlying data might evolve over time.

BC78 To guide entities in applying the cross-industry metric requirements, the *Illustrative Guidance* that accompanies IFRS S2 provides examples of information that could be used to meet the cross-industry metric categories. These examples are based on the TCFD guidance.

Scope 1, Scope 2 and Scope 3 greenhouse gas emissions

BC79 Most respondents to the Exposure Draft agreed with the proposed requirement for an entity to disclose its absolute gross Scope 1, Scope 2 and Scope 3 greenhouse gas emissions generated during the reporting period—expressed as CO_2 equivalent (CO_2e). Respondents said that this information would help users of general purpose financial reports assess an entity's exposure to particular climate-related risks and opportunities, in particular those associated with the expected transition to a lower-carbon economy.

BC80 IFRS S2 defines the three scopes of greenhouse gas emissions from the perspective of the reporting entity, adopting the definitions used in the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (2004) (GHG Protocol Corporate Standard):

(a) *Scope 1 greenhouse gas emissions*—direct greenhouse gas emissions that occur from sources that are owned or controlled by an entity (for example, greenhouse gas emissions from combustion in owned or controlled boilers, furnaces, vehicles or from chemical production in owned or controlled process equipment).

(b) *Scope 2 greenhouse gas emissions*—indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by an entity (for example, greenhouse gas emissions from energy suppliers).

(c) *Scope 3 greenhouse gas emissions*—indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions. Scope 3 greenhouse gas emissions are further divided into 15 categories, eight of which are upstream, and seven of which are downstream from the entity. Scope 3 Category 15 is 'Investments'—those greenhouse gases emitted by a third party to which the reporting entity provides financing. The investment category is a particularly important reporting category for financial institutions because it is often the most significant part of their greenhouse gas emissions inventory (see paragraphs BC122–BC129).

Gross greenhouse gas emissions and emissions intensity

BC81 IFRS S2 requires an entity to disclose its gross greenhouse gas emissions—that is, its greenhouse gas emissions before taking into consideration any removal efforts (for example, from an entity's intended use of carbon credits). The gross greenhouse gas emissions disclosure helps users of general purpose financial reports determine whether the entity is reducing its own greenhouse gas emissions or those in its value chain and, if it is, the extent to which it is doing so.

BC82 The Exposure Draft also proposed that an entity be required to disclose its emissions intensity separately for Scope 1, Scope 2 and Scope 3. Emissions intensity is expressed as metric tonnes of CO_2e per unit of physical or economic output. The ISSB acknowledged that emissions intensity metrics are helpful to users of general purpose financial reports because these metrics normalise an entity's greenhouse gas emissions, enabling users to compare greenhouse gas emissions between different entities. Together with absolute greenhouse gas emissions, emissions intensity metrics help provide a complete picture of an entity's greenhouse gas emissions profile over time. For example, an entity's absolute greenhouse gas emissions could increase if the entity expands its operations, but, at the same time, the emissions intensity could fall because the entity is becoming more efficient. In this example, the disclosure of the entity's absolute greenhouse gas emissions alone might not communicate the greenhouse gas emissions reduction the entity has achieved in its business operations.

BC83 Although emissions intensity metrics are useful, users of general purpose financial reports would be able to compare disclosures between entities only if the entities use the same denominator to calculate emissions intensity. The ISSB observed that it is not appropriate to prescribe a single standardised approach to calculating intensity metrics because the relevant denominator often depends on several factors, including an entity's industry and business model and users' preferences. Therefore, the ISSB decided that although emissions intensity information is useful, IFRS S2 should not explicitly require an entity to disclose its emissions intensity. This decision was informed by the current practice of users, who either calculate an entity's emissions intensity themselves or obtain a calculation from a third-party provider. An entity's disclosure of absolute greenhouse gas emissions in accordance with IFRS S2 would enable users to calculate emissions intensity themselves if this disclosure were combined with other information (including financial data already available in an entity's financial statements).

BC84 The ISSB also confirmed that disclosure of emissions intensity metrics would be required if these metrics are judged to be useful to users of general purpose financial reports, in accordance with paragraph 15(b) of IFRS S1. This provision requires an entity 'to disclose additional information if compliance with the specifically applicable requirements in IFRS Sustainability Disclosure Standards is insufficient to enable *users of general purpose financial reports* to understand the effects of sustainability-related risks and opportunities on the entity's cash flows, its access to finance and cost of capital over the short, medium and long term'. IFRS S2 also requires an entity to disclose metrics used by its governance body or management to measure progress towards any targets. Therefore, an entity is required to disclose an emissions intensity metric if that information is material (in accordance with paragraph 15(b) of IFRS S1) or if the entity's governance body or management uses such a metric to manage the entity's climate-related risks and opportunities (in accordance with paragraph 28(c) of IFRS S2) or both.

BC85 The ISSB also noted that the Industry-based Guidance that accompanies IFRS S2 includes industry-based activity metrics that might help users of general purpose financial reports calculate emissions intensity. For example, an entity in the cruise lines industry might include activity metrics for available lower berth kilometres (ALB-KM) or average passenger cruise days (APCD) as described in Volume 65—Cruise Lines. In determining appropriate industry-specific disclosures, IFRS S2 refers entities to this guidance.

Measurement approach, inputs and assumptions

BC86 The ISSB decided that an entity is required to measure its Scope 1, Scope 2 and Scope 3 greenhouse gas emissions in accordance with the GHG Protocol Corporate Standard. Most respondents to the Exposure Draft agreed with the proposed use of the GHG Protocol Corporate Standard. However, some respondents commented that other methods for measuring greenhouse gas emissions are more commonly used in some jurisdictions (see paragraph BC88). The ISSB decided to reference the GHG Protocol Corporate Standard in IFRS S2 to provide a common basis for measurement. Although various measurement approaches are available within the GHG Protocol Corporate Standard, the ISSB concluded that using this single reference would improve the comparability of entities' disclosures by narrowing the range of permitted measurement approaches. This decision was also informed by the ISSB's understanding that the GHG Protocol Corporate Standard is the predominant method used by entities around the world and in most jurisdictions.

BC87 The requirements in IFRS S2 for measuring greenhouse gas emissions are largely based on the GHG Protocol Corporate Standard because the use of this method for measuring greenhouse gas emissions provides common approaches and principles that:

(a) allow an entity to prepare a greenhouse gas emissions inventory that faithfully represents its greenhouse gas emissions;

(b) align with the predominant corporate practices for compiling a greenhouse gas emissions inventory; and

(c) promote consistency and transparency in greenhouse gas emissions accounting and disclosure between various entities.

Although IFRS S2 refers to the GHG Protocol Corporate Standard as a basis for measurement of greenhouse gas emissions, IFRS S2 also sets out additional requirements, such as the categories that an entity is required to include in its measurement of Scope 3 greenhouse gas emissions and the inputs it is required to use to measure those emissions. The ISSB noted that the specific requirements in IFRS S2 must be applied in the event of any inconsistency with the GHG Protocol Corporate Standard.

BC88 The GHG Protocol Corporate Standard is the most commonly used standard globally for measuring greenhouse gas emissions, and is directly referenced in many jurisdictions, including Brazil, India, Mexico, the Philippines and the UK. However, some jurisdictions require entities to report their emissions in accordance with national measurement schemes. These jurisdictions include

Australia, China, France, Japan, South Korea and Taiwan. Entities in these jurisdictions—and other jurisdictions that require an entity to use other approaches for measuring greenhouse gas emissions—could incur additional costs in meeting the requirements in IFRS S2. To respond to this issue, the ISSB confirmed that if an entity is required by a jurisdictional authority or an exchange on which the entity is listed to use a method of measuring greenhouse gas emissions that differs from the GHG Protocol Corporate Standard, the entity is permitted to use that method. The ISSB agreed to this relief to avoid duplicative reporting and agreed that it only applies if an entity would otherwise be required to use both the GHG Protocol Corporate Standard and another method to measure its greenhouse gas emissions as a result of applying IFRS S2.

BC89 Some entities choose to use other methods for measuring greenhouse gas emissions. Some respondents to the Exposure Draft raised concerns about the cost for these entities if they are required to change the methods they currently use and instead use the GHG Protocol Corporate Standard. These respondents argued that such entities should be allowed to choose their own method for measuring their greenhouse gas emissions. As stated in paragraph BC86, the ISSB concluded that referencing a common framework for measuring greenhouse gas emissions will improve the comparability between entities' disclosures. However, to allay these respondents' concerns, the ISSB has provided relief for a limited period. This relief permits an entity that has used other methods in the annual reporting period immediately preceding the date of its initial application of IFRS S2 to continue using that method in the first year of its application of IFRS S2 (see paragraphs BC166–BC169).

BC90 Some respondents to the Exposure Draft raised concerns about the requirement in IFRS S2 for an entity to use a third-party method, observing that any changes to the method would be outside the ISSB's control and not subject to the IFRS Foundation's due process. The GHG Protocol Corporate Standard was first published in 2001 and is expected to be updated periodically to clarify the method for measuring greenhouse gas emissions. The ISSB considered these respondents' concerns and decided that IFRS S2 refers to the 2004 version of the GHG Protocol Corporate Standard, which was the latest version available when the Exposure Draft was published (31 March 2022). If the GHG Protocol Corporate Standard were to be updated, the ISSB will assess the likely effects of those changes before proposing any changes to IFRS S2 to reflect those updates. The ISSB will update IFRS S2 to include a reference to a modified version of the GHG Protocol Corporate Standard only after it has made this assessment and sought feedback on any proposed change in accordance with the IFRS Foundation's due process.

BC91 The Exposure Draft did not specify the inputs an entity would be required to use to calculate greenhouse gas emissions. Several respondents to the Exposure Draft commented that although the GHG Protocol Corporate Standard is a common basis for measuring greenhouse gas emissions, it allows an entity to choose particular inputs and make specific assumptions when calculating its greenhouse gas emissions. These variables include global

warming potential (GWP) values and emission factors. Variations in entities' use of GWP values and emission factors could compromise the comparability of entities' disclosures.

BC92 GWP values are multipliers applied to seven constituent greenhouse gases (listed in paragraph BC98) to convert them into a standardised metric (CO_2e), which enables an entity to convert and aggregate various greenhouse gases into absolute greenhouse gas emissions data. The most frequently used GWP values are defined by the Intergovernmental Panel on Climate Change (IPCC). These values are refined in periodically published IPCC assessment reports. As of June 2023, the latest GWP values are defined in the IPCC Sixth Assessment Report.[2] The ISSB decided to introduce a requirement in IFRS S2 for an entity to use GWP values based on the latest IPCC assessment report when converting the constituent greenhouse gases into CO_2e. This requirement is intended to enhance the comparability of entities' greenhouse gas emissions disclosures, and to ensure greenhouse gas emissions data reflects the latest scientific knowledge. This approach is consistent with the GHG Protocol Corporate Standard, which recommends the use of the most recent GWP values.

BC93 Although the ISSB requires an entity to use the latest updated GWP values to convert greenhouse gases into CO_2e, the ISSB also recognises that in some cases the GWP values used by an entity might differ depending on the jurisdictions in which the entity operates and the sources of data the entity uses to measure its greenhouse gas emissions. For example, emission factors—used by an entity to convert activity data into greenhouse gas emissions information—often already have the information converted into CO_2e using GWP values that might or might not align with the most recently updated GWP values from the IPCC. If an entity has identified the emission factors that best represent the entity's activities, and these are only available in CO_2e and not based on the most recent GWP values, then the entity is required to use those emission factors. Additionally, an entity is required to disclose information that enables users of general purpose financial reports to understand the measurement approach, inputs and assumptions the entity has used to measure its greenhouse gas emissions and why these measurement approaches, inputs and assumptions are relevant to its greenhouse gas emissions (see paragraph BC95). As part of this disclosure requirement, an entity is required to explain which GWP values it uses and, if necessary, why it has not used the updated GWP values from the latest IPCC report.

BC94 An emission factor is a coefficient that enables an entity to convert quantitative activity data into a measurement of the greenhouse gas emissions resulting from those activities. For example, if an entity is assessing the Scope 1 greenhouse gas emissions from its delivery fleet, the entity might select fuel consumption or the distance travelled by the fleet as the activity data. This

2 Intergovernmental Panel on Climate Change, *Climate Change 2022: Impacts, Adaptation, and Vulnerability*, Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 2022.

data is then converted to greenhouse gas emissions data using emission factors. Emission factors can be estimated from several published sources, such as the International Energy Agency or national sources in jurisdictions where greenhouse gas emissions disclosure is mandatory. The emission factors an entity uses to measure its greenhouse gas emissions are specific to its circumstances. Therefore, the ISSB decided that IFRS S2 would not prescribe or attempt to standardise emission factors. Instead, IFRS S2 requires an entity to select and use the most appropriate emission factors that most specifically represent the activity that is generating the greenhouse gas emissions. To help an entity select the appropriate emission factors to use for measuring its Scope 3 greenhouse gas emissions, IFRS S2 provides a measurement framework. This framework requires an entity to prioritise inputs and assumptions with particular characteristics designed to improve the representational faithfulness of the entity's greenhouse gas emission measurement (paragraphs B38–B54 in IFRS S2).

BC95 Respondents to the Exposure Draft said that, to minimise variation, the ISSB could require an entity to use a standardised measurement approach, inputs and assumptions. Alternatively, respondents suggested that the ISSB could require an entity to disclose the measurement approach, inputs and assumptions that it uses in measuring greenhouse gas emissions. The ISSB decided to introduce a requirement in IFRS S2 to ensure that the inputs and assumptions an entity has used to calculate its greenhouse gas emissions are disclosed to users of general purpose financial reports, especially if those inputs are not prescribed in IFRS S2. An entity is required to disclose information that enables users to understand the measurement approach, inputs and assumptions it has used to measure its greenhouse gas emissions. The entity is also required to disclose its reasoning for why it has chosen the measurement approach, inputs and assumptions it has used to measure its greenhouse gas emissions. The disclosure of this information is required to enable users to understand the emission factors and activity data, and the measurement uncertainty associated with these inputs. For activity data, this disclosure includes information such as whether the data is based on economic or physical outputs and what the data represents (for example, for Scope 3 greenhouse gas emissions Category 1, the data might represent quantities of goods or services bought by the entity). For emission factors, this disclosure includes information such as the source of the data (for example, direct measurement, supplier-specific data or industry-average data) or the level of the data (for example, facility-level or corporate level).

BC96 The requirement for an entity to disclose the measurement approach, inputs and assumptions it has used to measure its greenhouse gas emissions could result in very detailed information, some of which could be immaterial and therefore risk obscuring material information. However, the ISSB observed that this disclosure requirement is subject to paragraphs B29–B30 of IFRS S1, which establishes requirements on the aggregation and disaggregation of information. Rather than disclosing information about every input, an entity is required to disclose information at a sufficient level of detail and aggregation to result in the disclosure of material information. For example, when an entity measures its Scope 3 greenhouse gas emissions, it might use

different emission factors and activity data inputs to capture greenhouse gas emissions for different parts of its value chain. In this circumstance, the entity would be required to only disclose information about inputs that are helpful to users of general purpose financial reports to understand how the entity has measured its greenhouse gas emissions.

BC97 An entity might change its assumptions and inputs over time. The ISSB decided to require an entity to disclose information about, and the reasons for, any changes the entity makes during the reporting period to the measurement approach, inputs or assumptions it uses to measure its greenhouse gas emissions. This requirement is particularly important for Scope 3 greenhouse gas emissions disclosures because measurement techniques are rapidly evolving and therefore the approaches an entity uses are likely to change over time.

Aggregation and disaggregation of greenhouse gas emissions

BC98 IFRS S2 requires an entity to disclose its Scope 1, Scope 2 and Scope 3 greenhouse gas emissions. In disclosing its greenhouse gas emissions, an entity is required to include all seven greenhouse gases identified in the United Nations Framework Convention on Climate Change (UNFCCC) and agreed upon as part of the Kyoto Protocol: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). Each gas contributes to climate change in different ways, and each has a different lifespan. When presenting data on these gases, it is common to convert the data on each gas to a standardised metric, CO_2e, to enable comparison and to determine the gases' individual and total contributions to global warming. An entity uses GWP values to make these conversions and then aggregates all these gases into a single greenhouse gas data point (see paragraph BC92).

BC99 Some respondents to the Exposure Draft suggested that the disaggregation of greenhouse gas emissions by the seven constituent greenhouse gases might provide useful information, especially when information about an entity's non-CO_2 emissions (for example, methane emissions) provides insight into a particular climate-related risk or opportunity. The ISSB observed that although there might be specific situations in which disaggregation by the constituent gases could be important, disaggregation is not relevant in all circumstances. Therefore, the ISSB confirmed that IFRS S2 does not explicitly require an entity to disaggregate its greenhouse gas emissions disclosures by the constituent gases. The ISSB noted that paragraph B30 of IFRS S1 includes requirements on disaggregation that would result in the disclosure of the constituent gases being required if such disaggregation provides material information that would otherwise be obscured if aggregated. The *Illustrative Examples* that accompany IFRS S2 provides some examples that illustrate some considerations in determining whether it is necessary to disaggregate greenhouse gas emissions disclosure.

BC100 The ISSB observed that the Industry-based Guidance that accompanies IFRS S2 might help an entity determine whether greenhouse gas emissions should be disaggregated by constituent gas. For example, for entities in the oil and gas exploration and production industry, the Industry-based Guidance specifies information about methane emissions (Volume 11—Oil & Gas—Exploration & Production), noting that with '… natural gas production from shale resources expanding, the management of the emission of methane, a highly potent greenhouse gas … has emerged as a major operational, reputational, and regulatory risk for companies' in this industry. In this instance, the disaggregation of methane emissions is highlighted as being likely to provide material information.

BC101 The Exposure Draft proposed that an entity be required to disaggregate its Scope 1 and Scope 2 greenhouse gas emissions into those referable to the consolidated accounting group and those referable to other investees excluded from the consolidated accounting group. This disclosure was proposed in the Exposure Draft to facilitate comparability because the GHG Protocol Corporate Standard allows entities to take different measurement approaches to determine which emissions are included in the calculation of Scope 1, Scope 2 and Scope 3 greenhouse gas emissions. For example, an entity can include the emissions of unconsolidated investees using an equity share approach or control approach. These different approaches mean that the way information is provided in an entity's financial statements about its investments in other entities might not align with how its greenhouse gas emissions are calculated. It also means that two entities with identical investments in other entities could report different greenhouse gas emissions in relation to those investments by virtue of choices made in applying the GHG Corporate Protocol Standard.

BC102 Most respondents to the Exposure Draft agreed with this proposal. However, some respondents questioned whether this proposed requirement would override the choices an entity is permitted to make in accordance with the GHG Protocol Corporate Standard. The ISSB clarified the wording of the requirement to confirm that an entity is required to disclose its greenhouse gas emissions measured in accordance with the GHG Protocol Corporate Standard, but the entity is not required to use a particular approach to measure its greenhouse gas emissions (that is, IFRS S2 does not require an entity to use the equity share approach, or either control approach). Rather, IFRS S2 only requires an entity to disaggregate the amount it has measured using its chosen approach. The ISSB confirmed that an entity is required to disaggregate its Scope 1 and Scope 2 greenhouse gas emissions into those referable to the consolidated accounting group and those referable to other investees excluded from the consolidated accounting group. The ISSB also confirmed that an entity is required to disclose the approach it has used to measure its greenhouse gas emissions.

BC103 The ISSB considered how this requirement would be applied by an entity applying IFRS Accounting Standards to a joint arrangement. Applying IFRS 11 *Joint Arrangements*, an entity classifies a joint arrangement as either a joint venture or a joint operation. An entity generally accounts for an investment in

a joint venture using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*. The ISSB noted that an equity method investee is not part of the consolidated accounting group in accordance with IFRS Accounting Standards. Therefore, in relation to a joint venture, paragraph 29(a)(iv)(2) of IFRS S2 applies to any Scope 1 or Scope 2 greenhouse gas emissions. In contrast, in a joint operation, an entity has rights to the assets and obligations for the liabilities related to the arrangement. In accordance with IFRS 11, the entity recognises, in relation to its interest in a joint operation, its share of those assets, liabilities, revenues and expenses, and accounts for each item in accordance with the applicable IFRS Accounting Standard. In other words, the assets, liabilities, revenues and expenses in relation to an interest in a joint operation are accounted for as part of the consolidated accounting group. Consequently, the ISSB noted that paragraph 29(a)(iv)(1) of IFRS S2 applies to any Scope 1 or Scope 2 greenhouse gas emissions in relation to a joint operation.

BC104 In addition, the ISSB observed that, in accordance with other generally accepted accounting principles (GAAP), an entity is permitted to account for an investee by applying proportionate consolidation. In relation to such investees, paragraph 29(a)(iv)(1) of IFRS S2 applies to any Scope 1 or Scope 2 greenhouse gas emissions.

Scope 2 greenhouse gas emissions

BC105 Respondents to the Exposure Draft asked the ISSB to clarify whether an entity is required to disclose its Scope 2 greenhouse gas emissions using a market-based approach, a location-based approach or both approaches. These respondents favoured an entity disclosing its Scope 2 greenhouse gas emissions using both approaches.

BC106 A market-based approach involves an entity measuring the emissions from purchased electricity using source- or supplier-specific emission factors. Electricity suppliers and contractual instruments vary in the greenhouse gas emissions they produce depending on the energy source or technology used. An entity using a location-based approach measures the average emissions intensity of the grids on which energy consumption occurs (most commonly using grid-average emission factor data).

BC107 The ISSB agreed that each approach serves a useful purpose. A location-based approach enables users of general purpose financial reports to understand the risks and opportunities associated with local grid resources and greenhouse gas emissions. A market-based approach enables users to understand the risks and opportunities created by contractual relationships and an entity's procurement actions. In some circumstances, the information provided by the two approaches could differ significantly, for example, if an entity has entered into contractual relationships to source electricity from renewable sources.

BC108 The ISSB agreed that allowing an entity to choose which approach to use would reduce comparability and might result in disclosures weighted towards more positive data that might not faithfully represent the entity's greenhouse gas emissions. This issue could have been addressed by requiring all entities to disclose both market-based and location-based approaches. However, the ISSB

noted that for some entities and jurisdictions such a requirement would introduce a significant change to current practice and it might not always be necessary for both sets of information to be provided. The ISSB decided that an entity is required to disclose Scope 2 greenhouse gas emissions using the location-based approach and provide disclosures to help users of general purpose financial reports understand the contractual instruments into which it has entered.

BC109 The ISSB noted that more detailed information about an entity's contractual instruments could help users of general purpose financial reports better understand the entity's efforts to reduce its Scope 2 greenhouse gas emissions. However, the ISSB decided not to require a market-based approach to measuring Scope 2 greenhouse gas emissions due to the significant variation in mechanisms that an entity could use and depending on the maturity of the market in which it operates and is located. To reflect the challenges associated with a market-based approach, the ISSB decided that an entity is required to disclose information to help users understand any contractual instruments the entity has entered into for the sale and purchase of energy. In fulfilling this requirement, the ISSB noted that information about an entity's market-based Scope 2 greenhouse gas emissions might be included as part of this disclosure.

Scope 3 greenhouse gas emissions

BC110 The ISSB confirmed that IFRS S2 requires all entities to disclose information about their Scope 3 greenhouse gas emissions. This disclosure includes information about which of the 15 categories defined in the *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (2011) (GHG Protocol Value Chain Standard) are included in an entity's emissions measurement. The GHG Protocol Value Chain Standard supplements the GHG Protocol Corporate Standard. The ISSB noted that the categories included in an entity's Scope 3 measurement will depend on the entity's facts and circumstances. An entity is required to consider the relevance of all 15 categories, but might determine that not all categories are applicable to the entity and therefore do not need to be included in the measurement of its Scope 3 greenhouse gas emissions. The ISSB also agreed that for entities engaged in financial activities associated with some industries, information about financed emissions is important. Citing particular considerations associated with the measurement and disclosure of Scope 3 greenhouse gas emissions, the ISSB decided to provide related application guidance in IFRS S2 (see paragraphs BC122–BC129).

BC111 Respondents to the Exposure Draft had mixed views on the proposed requirement for an entity to disclose Scope 3 greenhouse gas emissions. Most users of general purpose financial reports who responded to the Exposure Draft agreed that entities should be required to disclose absolute gross Scope 3 greenhouse gas emissions. These users argued that an entity is exposed to transition risks associated with its greenhouse gas emissions, including those greenhouse gas emissions within its value chain. For example, an increase in carbon price or the introduction of stricter greenhouse gas emissions regulations could lead to higher costs or decreased availability of resources

within an entity's value chain. Users also commented that Scope 3 greenhouse gas emissions disclosures provide them with more complete and comparable information about an entity's greenhouse gas emissions. For example, these disclosures would enable users to understand whether an entity's Scope 1 and Scope 2 greenhouse gas emissions have decreased as a result of structural changes in the entity's operations or the outsourcing of greenhouse gas emissions (thereby increasing its Scope 3 greenhouse gas emissions).

BC112 Many preparers who responded to the Exposure Draft agreed with the proposed disclosure requirement for absolute gross Scope 3 greenhouse gas emissions. However, these preparers also expressed concerns about particular aspects of the requirements, including challenges related to the availability of data, use of estimates, calculation methodologies and other sources of uncertainty. Although greenhouse gas emissions, including Scope 3 greenhouse gas emissions, are well defined in the GHG Protocol Corporate Standard, calculating Scope 3 greenhouse gas emissions is a process that involves data and methodological challenges and is still being refined. Scope 3 greenhouse gas emissions include those arising from activities not under the direct ownership or control of an entity. Therefore, the entity might face challenges related to data availability and quality as well as the associated cost of data collection. These challenges contribute to uncertainty in the measurement of Scope 3 greenhouse gas emissions. Some respondents argued that because of such challenges, IFRS S2 should not require the disclosure of Scope 3 greenhouse gas emissions.

BC113 The ISSB made a number of decisions intended to address the challenges with Scope 3 greenhouse gas emissions that were raised by respondents. Those decisions included:

(a) introducing transition relief to address immediate but temporary challenges associated with implementation and initial application (paragraphs BC170–BC173);

(b) introducing relief to address challenges associated with data from entities in the value chain that use reporting periods that differ from the entity's reporting period, subject to some restrictions (see paragraph BC114); and

(c) introducing a measurement framework to enable entities to prepare Scope 3 greenhouse gas emissions information that is faithfully representative, and associated disclosures to help users of general purpose financial reports understand the characteristics of the information the entity has prioritised in its measurement of those greenhouse gas emissions (see paragraphs BC116–BC121).

BC114 The ISSB acknowledged that if a reporting entity has entities in its value chain with reporting periods that differ from the entity's reporting period, it might be difficult to collect greenhouse gas emissions information that aligns with the timing of the entity's reporting. To provide relief in such circumstances, the ISSB agreed that the entity can use greenhouse gas emissions information from entities in its value chain for a reporting period different from the entity's as long as:

(a) the entity uses the most recent data available from those entities in its value chain without undue cost or effort to measure and disclose its greenhouse gas emissions;

(b) the length of the reporting periods is the same; and

(c) the entity discloses the effects of significant events and changes in circumstances (relevant to its greenhouse gas emissions) that occur between the reporting dates of the entities in its value chain and the date of the entity's general purpose financial reporting.

BC115 The ISSB initially agreed that the relief permitting an entity to use greenhouse gas emissions information from a reporting period that is not aligned with its own reporting period would be available for the measurement of Scope 3 greenhouse gas emissions. However, the ISSB ultimately decided that this relief would also be available for the measurement of Scope 1 and Scope 2 greenhouse gas emissions. The ISSB noted that this relief might also be relevant in other circumstances beyond greenhouse gas emissions disclosures and the ISSB will monitor whether there is a need to expand this relief. The ISSB observed that information about the greenhouse gas emissions referable to an entity's investees might be categorised as Scope 1, Scope 2 or Scope 3 greenhouse gas emissions depending on the measurement approach that the entity uses in applying the GHG Protocol Corporate Standard.

BC116 The ISSB acknowledged the concerns raised by respondents about the measurement of Scope 3 greenhouse gas emissions (see paragraph BC112) and confirmed that these measurements are expected to be imperfect and to rely on estimation. However, the ISSB observed that requiring entities to prioritise the use of measurement approaches, inputs and assumptions that possess particular characteristics would enable entities to faithfully represent their Scope 3 greenhouse gas emissions. Therefore, the ISSB introduced a Scope 3 measurement framework that categorises and prioritises the inputs used to measure Scope 3 greenhouse gas emissions (paragraphs B38–B54 of IFRS S2). This framework is part of the application guidance that accompanies IFRS S2 and is intended to assist entities in measuring Scope 3 greenhouse gas emissions. The guidance is also intended to improve the consistency and comparability of Scope 3 greenhouse gas emissions disclosures, and to reduce measurement uncertainty in the estimation of Scope 3 greenhouse gas emissions.

BC117 Building on the GHG Protocol Value Chain Standard, the measurement framework requires an entity to prioritise particular types of data used to measure Scope 3 greenhouse gas emissions, namely:

(a) data based on direct measurement;

(b) data from specific activities within the entity's value chain;

(c) timely data that faithfully represents the jurisdiction of, and the technology used for, the value chain activity and its greenhouse gas emissions; and

(d) data that has been verified.

In addition to the measurement framework, the ISSB decided that an entity is required to use 'all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort' to measure its Scope 3 greenhouse gas emissions (see paragraph B39 of IFRS S2). The ISSB notes that for the purposes of this measurement framework, reasonable and supportable information might need to include information about past events, current conditions and forecasts of future conditions, depending on the sources of the Scope 3 greenhouse gas emissions.

BC118 The ISSB confirmed that the characteristics in paragraph BC117 are not listed in order of priority. Instead, these are desired characteristics required to be considered when an entity determines which combination of measurement approaches, inputs and assumptions is most appropriate to faithfully represent its value chain activities and greenhouse gas emissions. The ISSB decided that if an entity estimates greenhouse gas emissions rather than using direct measurement information, the entity is required to prioritise information that is as specific as possible and consistent with the activities that occur in the value chain. For example, an entity is required to prioritise information that faithfully represents the technology used for the activity in the value chain and its associated emissions. The ISSB noted that when an entity considers the characteristics set out in the measurement framework, it is required to consider the trade-offs between the characteristics described to determine the best approach to measuring the entity's Scope 3 greenhouse gas emissions. For example, an entity that is estimating its greenhouse gas emissions for the year ending 2023 might use an emission factor that is not timely (for example, the emission factor might be from a research project in 2017). However, this emission factor might best represent the greenhouse gas emissions associated with the technology used in the entity's value chain as at the reporting date.

BC119 As part of the Scope 3 measurement framework, an entity is required to prioritise Scope 3 greenhouse gas emissions data that is verified. The ISSB recognised that verification might be challenging for Scope 3 greenhouse gas emissions data, but also that verification might take place in several ways (for example, internally or externally). Therefore, IFRS S2 does not specify how the information is verified, but requires an entity to disclose the extent to which the entity's Scope 3 greenhouse gas emissions are measured using inputs that are verified (see paragraphs B53–B54 of IFRS S2).

BC120 In addition to applying the requirements in the measurement framework, an entity is required to provide the accompanying disclosures specified in paragraph B56 of IFRS S2. These disclosures are intended to help users of general purpose financial reports understand the characteristics of the data the entity has prioritised in its calculation of Scope 3 greenhouse gas emissions, and therefore to understand the quality of the data that an entity used and the basis for the entity's measurement of these emissions. These disclosures also help an entity communicate to users how the various data sources are used to estimate its Scope 3 greenhouse gas emissions. Users who responded to the Exposure Draft said that measurement that relies on estimates is preferable to having no information about Scope 3 greenhouse gas

emissions at all. These users said estimates are preferable even if that information is subject to considerable measurement uncertainty, provided that entities are transparent about the inputs used and the measurement uncertainties associated with the amount disclosed.

BC121 If an entity determines that it is impracticable to estimate and disclose its Scope 3 greenhouse gas emissions, the entity is required by paragraph B57 of IFRS S2 to disclose information that enables users of general purpose financial reports to understand how it is managing its Scope 3 greenhouse gas emissions. IFRS S2 uses the same definition of 'impracticable' as IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and thus sets a high threshold for how an entity determines whether it is impracticable to meet the requirements. As described in paragraph B57 of IFRS S2, a requirement is impracticable only if the entity cannot apply it after making every reasonable effort to do so. For the avoidance of doubt, this threshold is higher than a cost-benefit threshold.[3] The ISSB noted the non-mandatory guidance on 'impracticable' published by the SME Implementation Group in April 2012,[4] which clarifies that 'impracticable' refers to effort, not cost. In agreeing to include an exemption based on impracticability, the ISSB noted that in practice it expects entities to rarely use the exemption because the measurement framework for Scope 3 greenhouse gas emissions has been designed to be applied by entities with a range of resources and circumstances. The framework also permits the use of estimation, which can be based on third-party information (for example, industry-average information).

Financed emissions (financial sector)

BC122 Financial organisations, including commercial banks, asset managers and insurance companies, are increasingly being asked to disclose the extent of their investment and lending activity associated with sustainability-related risks and opportunities. In relation to climate-related risks and opportunities, such disclosure involves an entity disclosing the greenhouse gas emissions associated with its financial activities. The term 'financed emissions' is often used to refer to the absolute greenhouse gas emissions that banks and investors finance through their loans and investments. IFRS S2 requires entities that engage in such activities to disclose information about financed emissions as an extension of the requirement in paragraph 29(a)(vi) of IFRS S2 for an entity to disclose its Scope 3 greenhouse gas emissions, including Category 15 (investments).

BC123 The application guidance in paragraphs B58–B63 of IFRS S2 sets out requirements for the disclosure of financed emissions by entities engaged in financial activities associated with asset management, commercial banking and insurance. The guidance is based on the proposals for financed emissions that were included in Appendix B to the Exposure Draft.

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3 The International Accounting Standards Board (IASB) considered 'lowering the impracticability threshold to a cost-benefit threshold' as part of amending IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

4 The SME Implementation Group assists the IASB in supporting the implementation of the *IFRS for SMEs* Accounting Standard.

BC124 The ISSB decided to provide the other industry-based materials as guidance accompanying IFRS S2 (see paragraphs BC134–BC138). However, the ISSB determined that requiring entities with activities in asset management, commercial banking and insurance to disclose additional information about financed emissions was appropriate.

BC125 The application guidance is intended to enhance consistent and comparable disclosure of financed emissions information while allowing for innovation. It is also intended to enable the market to converge on measurement methodologies for different asset classes as they emerge and gain acceptance, such as those developed by the Partnership for Carbon Accounting Financials. Although the requirements support the use of different measurement approaches, they also provide users of general purpose financial reports with the information necessary to understand an entity's exposures and the approaches the entity has used to measure its financed emissions.

BC126 The ISSB decided to make targeted amendments to the proposed requirements on financed emissions to improve their clarity. In particular, the ISSB agreed not to proceed with the proposals for entities with activities in commercial banking and insurance to disclose information about the carbon-related industries to which they are exposed. The proposed requirements were intended to help users of general purpose financial reports understand where climate-related transition risk is likely to be concentrated in the entity's portfolio. Although respondents to the Exposure Draft generally agreed with this approach, their feedback suggested a high level of subjectivity surrounding the industries that are—or are not—considered to be carbon-related. The ISSB agreed and concluded that the requirement to disclose information more generally about the industries to which an entity is exposed would enable users to make their own determinations regarding 'carbon-related industries'.

BC127 The ISSB decided to confirm and clarify the proposed requirements for an entity engaged in financial activities associated with commercial banking or insurance to disclose information about its undrawn loan commitments. That is, the entity would be required to disclose separately its financial exposures and its emissions related to those undrawn loan commitments. The ISSB also decided to confirm and clarify the proposed requirement for an entity engaged in financial activities associated with commercial banking to provide disclosures on a gross basis. That is, the entity would be required to provide these disclosures without considering risk mitigation, which the ISSB noted would not affect the greenhouse gas emissions associated with a loan. Additionally, for all financial activities, the ISSB decided to remove the proposal for an entity to include derivatives when calculating its financed emissions, citing the lack of an established methodology for the asset class.

BC128 For entities engaged in financial activities associated with asset management, the ISSB decided to require disclosure at the level of total assets under management (AUM). The ISSB made this decision because the revenue and reputation of these entities would be affected by the fees from and performance of all client portfolios, and also because financed emissions are an indicator of exposure to climate-related risks that can impact investment

performance and fees. The ISSB acknowledged that, in many cases, a more detailed disaggregation of the disclosure—such as by strategy or product—might be likely to provide users of general purpose financial reports with more decision-useful information. The ISSB noted that, in such cases, paragraph B30 of IFRS S1 requires that 'an entity shall not aggregate information if doing so would obscure information that is material'. Therefore, the ISSB emphasised that if an entity determines that disaggregation by strategy, asset class or any other characteristic is necessary to ensure that material information is not obscured, such disaggregation is required. The ISSB stressed that, in such a case, information should be disaggregated if it reveals information that is material in relation to the reporting entity rather than to the underlying investment or portfolio of investments. Finally, the ISSB decided to require the disclosure of AUM for Scope 1, Scope 2 and Scope 3 greenhouse gas emissions because it is likely that some entities will be unable to obtain information about all three scopes of greenhouse gas emissions for every investment.

BC129 The ISSB confirmed that IFRS S2 requires financed emissions disclosure only for insurance-related financial activities associated with an insurer's assets. In other words, IFRS S2 does not require disclosure of the 'associated emissions' of underwriting portfolios in the insurance and reinsurance industries. Similarly, the ISSB decided not to proceed with the proposed requirements for an entity engaged in financial activities associated with investment banking to disclose information about its 'facilitated emissions', citing the lack of established methodology in relation to such emissions.

Internal carbon price

BC130 Paragraph 29(f)(ii) of IFRS S2 requires an entity to disclose the price for each metric tonne of greenhouse gas emissions the entity uses, if any, to measure the cost of its greenhouse gas emissions. IFRS S2 does not specify whether the price for each metric tonne is meant to imply the current price, a shadow price or anything else. The ISSB observed that the entity would provide this information (for example, if the entity uses a shadow price) as part of the required explanation of how the price is used in decision-making. Additionally, if an entity does not maintain internal carbon prices, the ISSB observed that the entity would disclose that fact.

Climate-related transition risks, climate-related physical risks and climate-related opportunities

BC131 Paragraph 29(b)–(d) of IFRS S2 require an entity to disclose the amount and percentage of assets or business activities that are:

(a) vulnerable to climate-related transition risks;

(b) vulnerable to climate-related physical risks; and

(c) aligned with climate-related opportunities.

BC132 Respondents suggested that entities might face challenges in calculating these metric categories, primarily due to the judgement required and measurement uncertainty involved. In response, the ISSB clarified that an entity would be required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort to meet these requirements. The ISSB observed that introducing this concept clarifies that:

(a) undue cost or effort is not required to obtain the information or prepare the disclosures.

(b) an entity is prohibited from overstating or understating assets or business activities aligned with climate-related opportunities (or, conversely, assets or business activities vulnerable to climate-related transition or climate-related physical risks) based on information that is unsupportable or unreasonable, because entities are required to have a sensible basis for information that supports disclosure.

(c) in determining the appropriate information to consider, an entity would include information that is historical, current and forward-looking and is available at the reporting date. For example, consideration of past occurrences such as extreme weather events and their impact on assets may be included as part of the information considered, to the extent that such information is available at the reporting date without undue cost or effort.

BC133 When preparing the disclosures required by paragraph 29(b)–(d) of IFRS S2, an entity is required to consider the linkages between the amounts disclosed and the amounts recognised and disclosed in the related financial statements. The ISSB observed that explaining connections between disclosures can be achieved without duplication. For example, an entity might consider providing information in its climate-related financial disclosures by cross-referencing information that is already included in its related financial statements.

Industry-based metrics

BC134 IFRS S2 requires an entity to disclose industry-based metrics that would enable users of general purpose financial reports to understand the entity's exposure to and management of climate-related risks and opportunities that are associated with particular business models, activities or other common features that characterise participation in an industry.

BC135 The Exposure Draft proposed that an entity be required to disclose industry-based metrics. These industry-based metrics were derived from the SASB Standards following proposed targeted amendments, including the proposed introduction of disclosure requirements on financed and facilitated emissions for entities engaged in particular financial activities. The proposed amendments also include the enhancements to the international applicability of a subset of requirements in the SASB Standards. The ISSB decided to confirm and clarify the proposals on financed emissions and not to proceed with the requirements proposed on facilitated emissions (see paragraphs BC122–BC129).

BC136 Although respondents to the Exposure Draft generally agreed with using industry-based metrics, the ISSB received mixed views from respondents on some of the industry-based proposals. Users of general purpose financial reports who responded to the Exposure Draft said that industry-based disclosures enable better industry comparison between entities. Some preparers who responded to the Exposure Draft said that industry-based disclosures prepared in accordance with the SASB Standards are cost-effective. However, some preparers and some regulators questioned the completeness of the proposed disclosure topics and metrics, and whether some of the proposals would be relevant or applicable internationally.

BC137 As a result, the ISSB decided not to proceed with the specific industry-based disclosure topics and associated metrics proposed in the Exposure Draft as required disclosures (except for the requirements on financed emissions, see paragraphs BC122–BC129), and instead to provide those materials as the Industry-based Guidance that accompanies IFRS S2. Therefore, IFRS S2 requires that an entity discloses industry-based metrics, but the entity is not required to apply the particular metrics included in the guidance. However, the entity is required to refer to and consider the applicability of these industry-based materials. This approach is consistent with IFRS S1 and its requirements for an entity to refer to and consider the applicability of the SASB Standards in identifying sustainability-related risks and opportunities. Such consideration applies to sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects and the disclosure of information about those risks and opportunities, including metrics.

BC138 The ISSB also signalled its intention that disclosures based on the Industry-based Guidance should at a future date become required disclosures, pending necessary amendments and subject to public consultation in accordance with the IFRS Foundation's due process.

Climate-related targets

BC139 Paragraph 33 of IFRS S2 requires an entity to disclose the quantitative or qualitative climate-related targets it has set, and any target it is required to meet by law or regulation, including information about the characteristics of the targets, how the entity sets and reviews the targets, how it monitors the targets and its performance against each target. Paragraph 33 of IFRS S2 requires an entity to disclose the characteristics of these targets, including whether the target applies to the entity in its entirety or to only a part of the entity. For example, an entity might disclose that a target relates only to its operations or value chain partners in some jurisdictions, or disclose that a target relates only to a particular product or category of products.

BC140 As explained in paragraph BC51, IFRS S2 differentiates between climate-related targets and greenhouse gas emissions targets. A climate-related target can be any target an entity has set to respond to climate-related risks and opportunities. A greenhouse gas emissions target is an example of a climate-related target. Paragraphs 33–35 of IFRS S2 outline the requirements that

relate to all climate-related targets, whereas paragraph 36 of IFRS S2 focuses on requirements specifically relating to greenhouse gas emissions targets.

BC141 IFRS S2 requires an entity to disclose information about the climate-related targets it has set or is required to meet by law or regulation. For the avoidance of doubt, IFRS S2 does not require an entity to have climate-related targets (including greenhouse gas emissions targets). However, when an entity has climate-related targets, IFRS S2 requires the entity to disclose information about these targets. IFRS S2 also requires that if an entity discloses a net greenhouse gas emissions target, the entity is required to separately disclose its associated gross greenhouse gas emissions target. In particular, if the entity has a net greenhouse gas emissions target, the entity's disclosure must clearly explain the extent to which and how carbon credits are used to achieve its net greenhouse gas emissions targets. This approach reflects the ISSB's role in ensuring transparency about climate-related targets, including greenhouse gas emissions targets, if that information is material.

Latest international agreement on climate change

BC142 Paragraph 33(h) of IFRS S2 requires an entity to explain how the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed any climate-related targets. This requirement is intended to help users of general purpose financial reports understand how an entity is considering its exposure to risks and opportunities associated with the latest international agreement on climate change, including its exposure to risks and opportunities associated with jurisdictional commitments that arise from that agreement. Additionally, this requirement is designed to help users understand whether the entity's planned activities are consistent with the most up-to-date scientific consensus. For example, an entity might set a target to halve its Scope 1, Scope 2 and Scope 3 greenhouse gas emissions by a particular date because this reflects what the latest climate science deems necessary to meet the goals of the Paris Agreement, which the entity must meet to comply with the local laws and regulations set out by the jurisdiction in which the entity is based. In this example, the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the amount by which the entity aims to reduce its greenhouse gas emissions, the emissions scopes included in the greenhouse gas emissions target and the time frame over which the target applies.

BC143 The Exposure Draft proposed a requirement for an entity to disclose how its climate-related targets compare with the latest international agreement on climate change. The word 'compare' was intended to avoid a simple binary response that the target aligns with, or does not align with, the latest international agreement on climate change. However, some respondents to the Exposure Draft suggested that many entities would in fact be likely to respond to the wording by disclosing a binary response. Respondents were also unclear about what disclosure was required in determining how a target 'compares' with the latest international agreement on climate change. Finally, users of general purpose financial reports questioned whether a binary response would result in useful information about how a climate-related

target compares with the latest international agreement on climate change. Therefore, the ISSB agreed to amend the wording of the requirement so that an entity is required to describe how any climate-related target is informed by the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement.

BC144 IFRS S2 does not require an entity to align its climate-related targets with the latest international agreement on climate change, including with the jurisdictional commitments that arise from that agreement. Rather, IFRS S2 requires an entity to disclose information about how the target is informed by the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement. This information helps users of general purpose financial reports understand whether and why the entity's climate-related targets deviate from international consensus. For example, entities in particular sectors might not be able to align their climate-related targets with the latest international agreement. In this example, it would be helpful to users to understand why the climate-related targets deviate from the latest international agreement on climate change. In contrast, if an entity has established targets consistent with the latest international agreement on climate change (for example, as a result of regulations that apply to the entity's operations) the disclosures provided would reflect that alignment.

BC145 The 'latest international agreement on climate change' is defined as the latest agreement between members of the UNFCCC, which sets norms and targets for a reduction in greenhouse gases. At the time IFRS S2 was issued, the latest such agreement was the Paris Agreement (April 2016) according to which signatories agreed to limit the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels.

BC146 The ISSB confirmed that when an entity discloses how its climate-related targets are informed by the latest international agreement, that description is also required to include consideration of applicable jurisdictional commitments that arise from that agreement. For example, an entity would consider nationally determined contributions (NDCs), which are a central element of the Paris Agreement. NDCs represent efforts by each country to reduce national greenhouse gas emissions and adapt to the effects of climate change.

BC147 Until the Paris Agreement is replaced, an entity is required to reference the objectives set out in the Paris Agreement when disclosing how the entity's own targets are informed by the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement. However, if the Paris Agreement is replaced, an entity would be required to disclose information about how its targets are informed by that new international agreement.

BC148 The requirement to explain how the latest international agreement on climate change has informed any climate-related targets applies to all relevant climate-related targets, not only greenhouse gas emissions targets. Although the latest international agreement on climate change—the Paris Agreement—primarily focuses on greenhouse gas emissions reduction, it also includes other objectives related to climate change that support greenhouse gas emissions reduction targets. For example, it includes goals related to adaptation to the adverse impacts of climate change and goals to increase finance flows consistent with a pathway towards lower greenhouse gas emissions. An entity might set climate-related targets that are informed by different aspects of the international agreement on climate change, which should be described in the entity's disclosures. For example, an entity in the agriculture sector might have specific climate-related targets (for example, intermittent aeration) that are informed by its jurisdiction's NDC measures for its agriculture sector.

Validated targets

BC149 Paragraph 34(a) of IFRS S2 requires an entity to explain whether a third party has validated the climate-related target it has set, or is required to meet by law or regulation, and the methodology for setting the target. The ISSB noted that 'validation' is a common term used in disclosing climate-related targets, especially in referring to whether the climate-related target is 'science-based'. In other words, whether the climate-related target is in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement. For example, the Science-based Targets Initiative (SBTi) provides a 'target validation service' for an entity to validate its greenhouse gas emissions reduction targets, as described in the SBTi's *Target Validation Protocol for Near-term Targets* (Version 3.0, 2021). However, the ISSB recognised that 'validation' is a technical term in some industries and has a number of different meanings. For example, in the banking industry, validation relates to models and to specific procedures or applications, often carried out by third parties. For the avoidance of doubt, the ISSB confirmed that the use of the term 'validation' in IFRS S2 is only in reference to whether and how a climate-related target has been tested and confirmed—by a third party—in relation to the latest climate science. Additionally, IFRS S2 does not require an entity to obtain third-party validation for its climate-related targets. Instead, IFRS S2 requires the entity to disclose whether its climate-related targets have been validated by a third party.

Sectoral decarbonisation approach

BC150 Paragraph 36(d) of IFRS S2 requires an entity to disclose whether a climate-related target was derived using a sectoral decarbonisation approach. A sectoral decarbonisation approach, which is used by initiatives such as the SBTi, recognises that entities in different sectors will have specific challenges associated with the transition to a lower-carbon economy (for example, where greenhouse gas emissions are concentrated in the value chain will vary by sector). Therefore, a sectoral decarbonisation approach to setting greenhouse gas emissions targets takes a sector-by-sector approach to translate greenhouse gas emissions targets made at the international level (for example,

established through the latest international agreement on climate change) into sector-based benchmarks, against which the performance of individual entities can be compared.

Carbon credits

BC151 Stakeholders are increasingly focusing on entities' transition plans and greenhouse gas emissions targets. Many entities set net greenhouse gas emissions targets and use carbon credits to fulfil their commitments. IFRS S2 is not designed to express a view on whether it is appropriate for an entity to use carbon credits in setting its greenhouse gas emissions targets or as part of its transition plans. The requirements set out in IFRS S2 are designed to provide transparency about an entity's planned use of carbon credits and information about those carbon credits.

BC152 The Exposure Draft used the term 'carbon offset' which has been amended to 'carbon credit'. The ISSB decided to use the term 'carbon credit' in IFRS S2 in the context of offsetting greenhouse gas emissions. A carbon credit is an instrument generated or bought by an entity to offset its greenhouse gas emissions. The ISSB noted that this term was more consistent with the language used by others, including in jurisdictional standards, and therefore agreed that changing the term would facilitate interoperability.

BC153 Many respondents to the Exposure Draft agreed that an entity should be required to disclose its intended use of carbon credits if that disclosure does not obscure information about the entity's planned efforts to reduce greenhouse gas emissions. Therefore, many respondents requested that an entity's planned use of carbon credits, as part of meeting any net greenhouse gas emissions target, is clearly distinguished from efforts to achieve the entity's gross greenhouse gas emissions targets. The requirements in paragraph 36(e) of IFRS S2 reflect users' need to gain insight into an entity's approach to reducing greenhouse gas emissions and the role of carbon credits in the entity's net greenhouse gas emissions targets.

BC154 Users of general purpose financial reports said that they need information about an entity's reliance on carbon credits, its approach to generating credits, and the credibility and integrity of the scheme from which the entity obtains the credits. This information is important to users because additional climate-related risks and opportunities arise from uncertainty about the suitability of some schemes, the available technology and future prices of carbon credits. For example, carbon capture and storage technology might prove ineffective, or regulations might change to discourage or ban entities from using specified carbon credit schemes in response to associated food shortage issues, regime changes or climate activism efforts. Therefore, IFRS S2 includes requirements that enable users to understand an entity's plan for reducing greenhouse gas emissions, whether and how the entity plans to use carbon credits and the quality of those credits.

BC155 If an entity discloses information about its planned use of carbon credits, IFRS S2 requires the entity to provide information about the type of credit, including whether the credit is nature-based or based on technological carbon removals. Disclosure about which method is associated with the carbon credit

helps users of general purpose financial reports understand an entity's risk profile. For example, many technological solutions are currently uneconomical at commercial scales and will likely require substantial investment to be viable in the future. In contrast, nature-based approaches aim to enhance natural carbon sinks, such as through afforestation, soil-based carbon sequestration and the use of other biomass stores. Nature-based approaches are often more cost-effective than technological solutions, but might prompt concerns about 'permanence' and 'additionality' (these terms are explained in paragraph BC156), and about their secondary effects on other social and environmental issues, such as food production.

BC156 Stakeholder feedback identified 'permanence' and 'additionality' as two essential features for assessing the quality of carbon offset schemes. 'Permanence' refers to how long the greenhouse gas emissions will be safely removed from the atmosphere, and 'additionality' refers to whether any new climate benefits have been brought about by a particular investment that would not have occurred anyway. Although these metrics can be useful, assessing permanence and additionality is complex. Therefore, instead of requiring an entity to disclose its assessment of permanence and additionality, IFRS S2 requires the entity to disclose information about any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the credits the entity plans to use. This requirement was included to elicit information to enable users to assess additionality and permanence.

Effective date

BC157 In determining the effective date of IFRS S2, the ISSB considered feedback on the Exposure Draft. Most respondents provided suggestions on the effective date:

(a) some respondents suggested that IFRS S2 should be effective as soon as possible or within one year of being issued;

(b) many respondents suggested an effective date of two or more years after issuance; and

(c) some respondents suggested an effective date of three or more years after issuance.

BC158 A few users of general purpose financial reports asked for effective dates for IFRS S1 and IFRS S2 of no more than 12 months after issuance, noting that the proposed requirements build on well-established standards and frameworks. Many respondents commented on the urgency of creating a global baseline of sustainability-related financial disclosures, as well as the need for interoperability with similar proposals developed by the European Financial Reporting Advisory Group (EFRAG) and the US Securities and Exchange Commission (US SEC).

BC159 Respondents to the Exposure Draft also commented on the effective date of IFRS S1 relative to the effective date of IFRS S2. Most respondents said that IFRS S2 should have the same effective date as IFRS S1. Most respondents emphasised that to apply the requirements in IFRS S2, it is necessary to apply those requirements at the same time as the requirements set out in IFRS S1.

BC160 The International Accounting Standards Board (IASB) generally has had a practice of allowing a period of 12–18 months between the issuance of a new Standard and its effective date. The ISSB observed that in the IASB's early standard-setting work, the period between the issuance of a new IFRS Accounting Standard and its effective date was 6–12 months. The IASB's most recent IFRS Accounting Standards had periods of up to three years between issuance and the effective date.

BC161 However, the situation is different for the IASB and the ISSB. If the IASB sets an effective date for a new IFRS Accounting Standard, that date is relevant to those entities already applying IFRS Accounting Standards because—to continue to assert compliance with IFRS Accounting Standards—an entity must apply the IFRS Accounting Standards in accordance with the effective date requirements established by the IASB. Typically, jurisdictions applying IFRS Accounting Standards use the same effective dates as those set by the IASB. However, because the ISSB is issuing its first Standards, there will be a range of dates over which jurisdictions will adopt the IFRS Sustainability Disclosure Standards for the first time and regulators will subsequently require entities to apply the Standards.

BC162 The ISSB noted the importance of taking into account the preparedness of entities when setting the effective date for IFRS S1 and IFRS S2. The requirements will be new, and entities will need time to create or adjust internal systems, processes and controls to prepare the disclosures required by IFRS Sustainability Disclosure Standards. The length of this adoption period will depend, among other things, on an entity's current approach to sustainability-related and climate-related risks and opportunities and the reporting of these, as well as on the entity's circumstances, for example, its size and the requirements or regulations that apply. The ISSB has made a number of decisions, in particular introducing transition relief (see paragraphs C3–C5 of IFRS S2), to help preparers apply the requirements and comply with IFRS S2 at an earlier date than would otherwise be the case. Additionally, IFRS S2 is built on well-established standards and frameworks, which many entities will be familiar with and will have applied.

BC163 The ISSB decided that setting an effective date for annual reporting periods beginning on or after 1 January 2024 is consistent with the ISSB's current pace in meeting users' urgent need for sustainability-related and climate-related financial disclosures. The ISSB also decided to permit early application of IFRS S2, but clarified that early application is allowed only for entities applying both IFRS S1 and IFRS S2 at the same time. The ISSB decided that if an entity applies the Standards early, it is required to disclose that fact.

BC164 The ISSB expects there will be a learning curve for many entities when they apply IFRS S2 for the first time. The ISSB agreed that on balance the potential risk of lower quality disclosures in the first years of application should not discourage entities from disclosing climate-related financial disclosures because of the urgent need for such disclosures. The ISSB noted that in order to assert compliance, an entity must comply with all requirements of the IFRS Sustainability Disclosure Standards. A qualified statement of compliance with the IFRS Sustainability Disclosure Standards is prohibited if an entity only applies some aspects of the Standards. The requirement for an entity to comply with all requirements in the IFRS Sustainability Disclosure Standards reflects the importance of communicating to users of general purpose financial reports whether the entity has been selective in its approach to reporting sustainability-related financial information or whether the entity has applied all of the requirements. However, the ISSB noted that as long as compliance with the Standards is not asserted, an entity could start applying some aspects of IFRS S2 to provide more limited disclosures.

Transition

Comparative information

BC165 The ISSB decided to provide relief for an entity from the requirement to disclose comparative information in the first annual reporting period in which it applies IFRS S2. Permitting an entity to report on only that period enables it to provide users of general purpose financial reports with the information they need sooner. This relief therefore allows the requirements to become effective sooner than if comparative information were required.

Method for measuring greenhouse gas emissions

BC166 The Exposure Draft proposed that an entity disclose its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the GHG Protocol Corporate Standard. In response to the Exposure Draft, most respondents agreed with this proposed requirement. Some respondents raised concerns about requiring greenhouse gas emissions to be measured in accordance with the GHG Protocol Corporate Standard partly because some entities already use other methods for measuring greenhouse gas emissions. Respondents to the Exposure Draft stated that in these cases there could be a cost burden for an entity applying the proposals in the Exposure Draft if the entity was already using a method that is different from the GHG Protocol Corporate Standard.

BC167 Therefore, the ISSB decided to introduce a relief available to an entity if it has been using a method for measuring greenhouse gas emissions that is different from the GHG Protocol Corporate Standard in the annual reporting period immediately preceding the date of the entity's initial application of IFRS S2. In those cases, the entity need not use the GHG Protocol Corporate Standard in the first annual reporting period in which it applies IFRS S2. This relief is available to an entity using a method other than the GHG Protocol Corporate Standard, even if the entity is not required to use that method by a

jurisdictional authority. For the avoidance of doubt, this relief is temporary and available only in the first annual reporting period in which an entity applies IFRS S2. In other words, if an entity uses a method for measuring its greenhouse gas emissions that is different from the GHG Protocol Corporate Standard in the annual reporting period immediately preceding the entity's date of initial application of IFRS S2, it is permitted to continue using its existing method for the first annual reporting period in which the entity applies IFRS S2.

BC168 If an entity takes advantage of this relief, the entity is permitted to continue to use that relief for the purposes of presenting that information as comparative information in subsequent reporting periods. For example, if an entity's date of initial application is 1 January 2024 and it measures its greenhouse gas emissions using a method other than the GHG Protocol Corporate Standard, the entity is permitted to use this method in its annual reporting period ending on 31 December 2024. For the period ending on 31 December 2025 (the following year):

(a) the entity should disclose its measurement of greenhouse gas emissions for the period ending on 31 December 2024 using the method other than the GHG Protocol Corporate Standard (meaning the entity does not need to recalculate its 2024 greenhouse gas emissions using the GHG Protocol Corporate Standard);

(b) for the avoidance of doubt, the entity should disclose its measurement of greenhouse gas emissions for the period ending on 31 December 2025 using the GHG Protocol Corporate Standard; and

(c) as required in paragraph 29(a)(iii) of IFRS S2, the entity should disclose the approach it uses to measure its greenhouse gas emissions (noting the different approaches used in 2024 and 2025).

BC169 For the avoidance of doubt, the relief described in paragraphs BC166–BC168 is separate from the relief provided for an entity that is required by a jurisdictional authority to use a method that is different from the GHG Protocol Corporate Standard (see paragraph BC88).

Scope 3 greenhouse gas emissions

BC170 In their comments on the Exposure Draft, most users of general purpose financial reports and respondents from multilateral organisations agreed with the proposal to require all entities to disclose absolute gross Scope 3 greenhouse gas emissions. Many preparers also broadly agreed with the proposal. However, they and other respondents expressed a range of concerns about particular aspects of the proposed requirements. The feedback indicated:

(a) data availability challenges, including concerns raised by respondents that, for example, an entity might be unable to collect data because it does not control the entities in its value chain and therefore is unable to obtain the greenhouse gas emissions data that is required; and

(b) data quality challenges, including concerns raised by respondents that, for example, an entity might be unable to report greenhouse gas emissions data of a sufficient quality to provide decision-useful information to users because measurement methods used by entities are still developing, which means the data disclosed might not be accurate or consistent between entities.

BC171 Although the ISSB decided to proceed with requiring the disclosure of Scope 3 greenhouse gas emissions, it decided to provide temporary relief to entities. In doing so, the ISSB decided that an entity need not disclose its Scope 3 greenhouse gas emissions as part of its sustainability-related financial disclosures in the first annual reporting period in which the entity applies IFRS S2. The temporary relief is granted in response to data availability challenges highlighted by respondents in the public consultation. The ISSB noted that by requiring disclosure of Scope 1 and Scope 2 greenhouse gas emissions earlier than Scope 3 greenhouse gas emissions, the temporary data availability challenge will be addressed to a significant degree. The ISSB noted this partly because some entities in a reporting entity's supply chain will be subject to the proposed requirement to disclose their Scope 1 and Scope 2 greenhouse gas emissions, and partly because the relief will give a reporting entity more time to work with the entities in its value chain to estimate its Scope 3 greenhouse gas emissions.

BC172 A later effective date for this information is consistent with the proposed rules on climate-related disclosures in the US SEC Climate proposal, which proposes an additional year before the rules mandate reporting of Scope 3 greenhouse gas emissions. The later effective date is also consistent with the Aotearoa New Zealand Climate Standards, which provide an exemption from Scope 3 greenhouse gas emissions disclosures in an entity's first reporting period (although disclosure in the interim is encouraged).

BC173 If an entity takes advantage of the Scope 3 greenhouse gas emissions relief, the entity is permitted to continue to use that relief for the purposes of presenting that information as comparative information in subsequent reporting periods. For example, if an entity's date of initial application is 1 January 2024 and it does not disclose its Scope 3 greenhouse gas emissions in its annual reporting period ending on 31 December 2024, then the entity is not required to disclose that information as comparative information in its annual reporting period ending on 31 December 2025.

Other transition considerations

BC174 The reliefs permit, but do not require, an entity to take advantage of the reliefs provided. In other words, in the first annual reporting period in which an entity applies IFRS S2, the entity is not prevented from:

(a) disclosing comparative information;

(b) measuring its greenhouse gas emissions in accordance with the GHG Protocol Corporate Standard, even if the entity has not used the GHG Protocol Corporate Standard as a method for measuring its greenhouse gas emissions prior to the issuance of IFRS S2; and

(c) disclosing its Scope 3 greenhouse gas emissions.

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